

OPEN MEETING ITEM
ORIGINAL



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COMMISSIONERS
JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES



ARIZONA CORPORATION COMMISSION

DATE: July 18, 2005
DOCKET NO: W-01717A-04-0825
TO ALL PARTIES:

Enclosed please find the recommendation of Assistant Chief Administrative Law Judge Dwight D. Nodes. The recommendation has been filed in the form of an Order on:

PONDEROSA UTILITY CORPORATION
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

July 27, 2005

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Open Meeting to be held on:

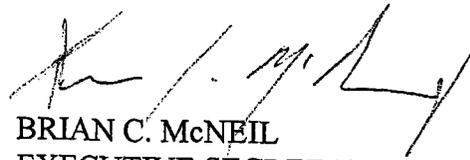
August 9 and 10, 2005

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Secretary's Office at (602) 542-3931

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BRIAN C. McNEIL
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
PONDEROSA UTILITY CORPORATION FOR A
RATE INCREASE.

DOCKET NO. W-01717A-04-0825

DECISION NO. _____

ORDER

Open Meeting
August 9 and 10, 2005
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

* * * * *

FINDINGS OF FACT

1. Ponderosa Utility Corporation (“Ponderosa” or Company”) is an Arizona public service corporation that provides water utility service to approximately 526 residential customers in the communities of Mountaineer and Highland Meadows, near Flagstaff, in Yavapai County, Arizona. Growth on the Ponderosa system is expected to occur at approximately two percent per year.

2. On November 15, 2004, as amended on November 22 and 23, 2004, Ponderosa filed with the Arizona Corporation Commission (“Commission”) an application requesting authority to increase its rates and charges.

3. The Company notified customers of the application for a rate increase by mailing sent to each customer on November 17, 2004. A notarized affidavit of mailing was filed on March 1, 2005.

4. On December 15, 2004, the Commission’s Utilities Division Staff (“Staff”) filed a

1 letter notifying the Company that its application was deficient and attached a number of areas of
2 deficiency.

3 5. On December 30, 2004, the Company filed information in response to the Deficiency
4 Letter. Additional information was filed by Ponderosa on January 13, 2005.

5 6. On February 14, 2005, Staff notified the Company that its application, as amended,
6 was sufficient pursuant to Arizona Administrative Code ("A.A.C.") R14-2-103, and classified
7 Ponderosa as a Class D Utility.

8 7. On May 2, 2005, Staff filed its Staff Report, recommending approval of the
9 application subject to certain modifications and conditions set forth in the Staff Report.

10 8. On May 11, 2005 Staff filed an Addendum to the Staff Report. On May 23, 2005,
11 Staff filed a Second Addendum to the Staff Report.

12 9. The Commission approved the Company's present rates and charges for water
13 service in Decision No. 60343 (July 31, 1997).

14 10. The average and median usage on 5/8 inch x 3/4 inch customer meters during the test
15 year ending January 31, 2004 were 3,371 and 2,459 gallons per month, respectively.

16 11. In the test year, as adjusted by Staff, Ponderosa had total operating revenues of
17 \$216,157, which, with adjusted operating expenses of \$231,546, produced an operating loss of
18 \$15,389. Based on a Staff adjusted original cost rate base ("OCRB") of \$231,115, Ponderosa
19 experienced a negative 6.66 percent rate of return during the test year.

20 12. Ponderosa proposed rates that would produce total operating revenues of \$248,234
21 and total operating expenses of \$244,284, for net operating income of \$3,950. The Company's
22 proposed rates would produce a rate of return of 2.06 percent on its proposed OCRB of \$191,975.

23 13. Staff recommends rates that would produce total operating revenues of \$248,234 and
24 total operating expenses of \$232,541, for a net operating income of \$15,693. Staff's recommended
25 \$15,693 net operating income would provide Ponderosa with a rate of return of 6.79 percent on
26 Staff's recommended OCRB of \$231,115.

1 14. The rates and charges for Ponderosa at present, as proposed by the Company, and as
2 recommended by Staff are as follows:

	<u>Present Rates</u>	<u>Proposed Company</u>	<u>Rates Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$21.00	\$24.41	\$24.25
3/4" Meter	31.50	36.62	36.00
1" Meter	52.50	61.03	60.00
1 1/2" Meter	105.00	122.06	120.00
2" Meter	168.00	195.30	192.00
3" Meter	315.00	366.19	360.00
4" Meter	525.00	610.31	600.00
6" Meter	1,050.00	1,220.63	1,200.00
<u>COMMODITY CHARGES:</u>			
Gallons included in minimum	0	0	0
Excess of Minimum – per 1,000 gallons	\$3.30	n/a	n/a
<u>For 5/8-inch and 3/4 inch meter sizes</u>			
Tier one – zero to 3,000 gallons	n/a	\$3.55	n/a
Tier two – 3,001 to 5,000 gallons	n/a	3.75	n/a
Tier three – All gallons over 5,000	n/a	4.10	n/a
<u>For 5/8-inch and 3/4 inch meter sizes</u>			
Tier one – zero to 2,500 gallons	n/a	n/a	\$3.45
Tier two – 2,501 to 8,000 gallons	n/a	n/a	4.00
Tier Three – all gallons over 8,000	n/a	n/a	4.25
<u>For One-Inch meter sizes</u>			
Tier one – zero to 15,000 gallons	n/a	\$3.55	\$3.45
Tier two – 15,001 to 25,000 gallons	n/a	3.75	4.00
Tier three – All gallons over 25,000	n/a	4.10	4.25
<u>For One-and-one-half inch meter</u>			
Tier one – zero to 25,000 gallons	n/a	\$3.55	\$3.45
Tier two – 25,001 to 35,000 gallons	n/a	3.75	4.00
Tier three – All gallons over 35,000	n/a	4.10	4.25
<u>For Two Inch meter sizes</u>			
Tier one – zero to 40,000 gallons	n/a	\$3.55	\$3.45
Tier two – 40,001 to 60,000 gallons	n/a	3.75	4.00
Tier three – All gallons over 60,000	n/a	4.10	4.25

1	<u>For Three-Inch meter sizes</u>			
2	Tier one – zero to 80,000 gallons	n/a	\$3.55	\$3.45
3	Tier two – 80,001 to 125,000 gallons	n/a	3.75	4.00
4	Tier three – All gallons over 125,000	n/a	4.10	4.25
5	<u>For Four-Inch meter sizes</u>			
6	Tier one – zero to 125,000 gallons	n/a	\$3.55	\$3.45
7	Tier two – 125,001 to 200,000 gallons	n/a	3.75	4.00
8	Tier three – All gallons over 200,000	n/a	4.10	4.25
9	<u>For Six-Inch meter sizes</u>			
10	Tier one – zero to 250,000 gallons	n/a	\$3.55	\$3.45
11	Tier two – 250,001 to 450,000 gallons	n/a	3.75	4.00
12	Tier three – All gallons over 450,000	n/a	4.10	4.25
13	<u>Standpipe Rate Per 1,000 gallons</u>	\$5.70	\$5.70	\$5.70
14	<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
15	5/8" x 3/4" Meter	\$400.00	\$400.00	\$400.00
16	3/4" Meter	440.00	440.00	440.00
17	1" Meter	500.00	500.00	500.00
18	1 1/2" Meter	715.00	715.00	715.00
19	2" Meter Turbo	1,170.00	1,170.00	1,170.00
20	2" Meter Compound	1,700.00	1,700.00	1,700.00
21	3" Meter Turbo	1,585.00	1,585.00	1,585.00
22	3" Meter Compound	2,190.00	2,190.00	2,190.00
23	4" Meter Turbo	2,540.00	2,540.00	2,540.00
24	4" Meter Compound	3,215.00	3,215.00	3,215.00
25	6" Meter Turbo	4,815.00	4,815.00	4,815.00
26	6" Meter Compound	6,270.00	6,270.00	6,270.00
27	<u>SERVICE CHARGES:</u>			
28	Establishment	\$25.00	\$25.00	\$25.00
29	Establishment (After Hours)	40.00	40.00	40.00
30	Reconnection (Delinquent)	15.00	15.00	15.00
31	Reconnection (Delinquent) after hours	n/a	25.00	25.00
32	Meter Test (If Correct)	25.00	25.00	25.00
33	Deposit	*	*	*
34	Deposit Interest	6.00%	*	*
35	Reestablishment (Within 12 Months)	**	**	**
36	NSF Check	10.00	25.00	25.00
37	Deferred Payment	***	***	***
38	Meter Reread (If Correct)	10.00	25.00	25.00
39	Late Payment Penalty	1.50%	1.50%	1.50%

MONTHLY SERVICE CHARGE FOR
FIRE SPRINKLERS:

4" or Smaller	****	****	****
6"	****	****	****
8"	****	****	****
10"	****	****	****
Larger than 10"	N/A	****	****

- * Per Commission rule A.A.C. R-14-2-403(B).
- ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).
- *** Per Commission Rules (R14-2-409.G(6))
- **** 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

16. As set forth in the Staff Report, Staff accepted Ponderosa's proposed plant in service amount of \$813,364. However, Staff made \$39,140 in adjustments to the proposed rate base to reflect a decrease in accumulated depreciation in the amount of \$2,038; removal of plant advances in the amount of \$15,521; and inclusion of the formula method for the cash working capital component of the working capital allowance in the amount of \$21,581. In accordance with Staff's recommendation, Ponderosa's OCRB is determined to be \$231,115, which is the same as its fair value rate base ("FVRB").

17. Staff made no adjustments to the Company's proposed test year operating revenues. Accordingly, test year revenues are determined to be \$216,157.

18. Staff's recommended adjustments to test year operating expenses would result in a net decrease of the Company's proposed expenses of \$11,693, from \$243,239 to \$231,546. Staff's recommended adjustments are the result decreasing depreciation expense by \$6,714 to reflect depreciation rates on a going forward basis and amortization of contributions in aid of construction; decreasing water testing expense by \$696 to reflect Staff's recommended expense level; decreasing office supplies expense by \$1,984 to reflect the amount of a journal entry made to reconcile the Company's checking account; and decreasing purchased power expense by \$2,349 to reflect the amount Staff determined to be a non-recurring expense.

19. Ponderosa's proposed rate schedule would increase the average monthly 5/8 x 3/4 inch

1 meter customer bill by \$4.33, or 13.5 percent, from \$32.12 to \$36.45, and the median monthly
2 customer bill by \$4.02, or 13.8 percent, from \$29.12 to \$33.14.

3 20. Staff's recommended rates would increase the average monthly 5/8 x 3/4 inch meter
4 customer bill by \$4.24, or 13.2 percent, from \$32.12 to \$36.36, and the median monthly customer bill
5 by \$3.61, or 12.4 percent, from \$29.12 to \$32.73.

6 21. Staff's proposed adjustments and recommended rates are reasonable and should be
7 adopted.

8 22. Ponderosa currently has a flat rate structure whereby all water usage is billed at \$3.30
9 per thousand gallons. Both the Company and Staff have proposed implementing an inverted three-
10 tier rate structure, although at different break points. Ponderosa proposed usage break points at 3,000
11 and 5,000 gallons for 5/8 x 3/4 inch meter customers, whereas Staff's recommendation would set the
12 tier break points at 2,500 and 8,000 gallons for 5/8 x 3/4 inch meter customers. We believe Staff's
13 recommended rate design is an appropriate means of encouraging water conservation and it should
14 therefore be adopted.

15 23. Ponderosa's water system consists of two wells, storage tanks, and booster pumps,
16 which serve the two interconnected communities of Mountaineer and Highland Meadows.
17 According to Staff Engineers, a well meter was broken during part of the test year (2003) and
18 production readings were erratic and unreliable as a result. After repairs were made to the well
19 meter, the non-account water was calculated at around 2 percent at the end of 2003, and an average of
20 approximately 7 percent for 2004. Staff states that these levels are within acceptable limits, but
21 Ponderosa plans to reduce non-account water further by replacing meters in the system.

22 24. Staff stated that Ponderosa currently does not have a curtailment tariff in place, but the
23 Company has proposed to implement such a tariff in this proceeding. Staff reviewed the Company's
24 proposed tariff and found that it satisfies Staff's recommended language and conditions. Staff
25 recommends approval of the proposed curtailment tariff subject to the Company's filing of the final
26 tariff within 45 days after the effective date of this Decision.

27 25. Staff Engineering also stated that it could not find a current backflow prevention tariff
28

1 on file in Ponderosa's tariffs. Staff recommended that Ponderosa be required to file such a tariff
2 within 45 days of the effective date of this Decision in conformance with the sample backflow
3 prevention tariff posted on the Commission's website, or available upon request from Staff.

4 26. Ponderosa has not requested any changes to its current meter and service line charges,
5 which are listed above. Staff indicated that the Company's meter and service line charges are
6 considered totally refundable advances, and the existing charges are within Staff's parameters of
7 reasonable and customary charges. Therefore, Staff recommends approval of the proposed meter and
8 service line charges.

9 27. According to the Staff Report, in 2002 and 2003, there were no complaints, inquiries
10 or opinions filed with the Commission's Consumer Services Division. In 2004, one customer inquiry
11 regarding an upgrade of a 2-inch main to a 6-inch main was resolved. Consumer Services also
12 received one customer opinion in opposition to the proposed rate increase. In 2005, one customer
13 complained about a service outage and restoration of service. Another customer complaint about a
14 service outage due to a water main break was resolved. According to Staff, Ponderosa has no current
15 compliance issues on file with the Commission's Consumer Services Division and the Company is in
16 good standing with the Commission's Corporations Division.

17 28. Ponderosa is current in its sales and property tax payments.

18 29. The Arizona Department of Environmental Quality ("ADEQ") reported that
19 Ponderosa is delivering water that meets the water quality standards required under Title 18, Chapter
20 4, of the Arizona Administrative Code and is in compliance with all other requirements.

21 30. Ponderosa is not within an Active Management Area and therefore is not subject to
22 reporting and conservation rules.

23 31. The U.S. Environmental Protection Agency ("EPA") has reduced the maximum
24 contaminant level ("MCL") for arsenic in drinking water from 50 parts per billion ("ppb") to 10 ppb,
25 effective January 26, 2006. According to the Staff Report, laboratory analyses from ADEQ show
26 arsenic levels in the Company's wells to be 1.7 ppb and 5 ppb. Ponderosa's wells are therefore in full
27 compliance with the EPA's new arsenic standards.
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32. Based on its investigation, Staff made the following recommendations:

- (a) that Staff's recommended rates and charges be approved and that the Company may collect from its customers a proportionate share of any privilege, sales or use tax;
- (b) that the Company docket with the Commission a schedule of its approved rates and charges within 30 days of this Decision;
- (c) that the Company adopt the specific depreciation rates by category found in Exhibit 3 of the Staff Engineering Report;
- (d) that the Company's proposed curtailment tariff be adopted and that the Company be required to file with Docket Control its proposed curtailment tariff coincident with the ordered rate tariffs in this rate proceeding or, as an alternative, to file the curtailment tariff within 45 days of the effective date of this Decision; and
- (e) that the Company file a backflow tariff coincident with the ordered rate tariffs in this proceeding or, as an alternative, within 45 days of the effective date of this Decision.

33. Staff's recommendations are reasonable and should be adopted as described herein.

CONCLUSIONS OF LAW

1. Ponderosa Utility Corporation is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over the Company and the subject matter of the application.

3. Notice of the application was given in the manner prescribed by law.

4. The rates and charges authorized herein are just and reasonable and should be approved without a hearing.

5. Staff's recommendations are reasonable and should be adopted without a hearing.

ORDER

IT IS THEREFORE ORDERED that Ponderosa Utility Corporation shall file, by August 31, 2005, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGES:

5/8" x 3/4" Meter	\$24.25
3/4" Meter	36.00
1" Meter	60.00

1	1 ½" Meter	120.00
2	2" Meter	192.00
3	3" Meter	360.00
4	4" Meter	600.00
5	6" Meter	1,200.00

COMMODITY CHARGES: (per 1,000 gallons)

For 5/8-inch x ¾-inch meter sizes

6	Tier one – zero to 2,500 gallons	\$3.45
7	Tier two – 2,501 to 8,000 gallons	4.00
8	Tier Three – all gallons over 8,000	4.25

For one-inch meter sizes

9	Tier one – zero to 15,000 gallons	\$3.45
10	Tier two – 15,001 to 25,000 gallons	4.00
11	Tier three – All gallons over 25,000	4.25

For one-and-one-half inch meter sizes

12	Tier one – zero to 25,000 gallons	\$3.45
13	Tier two – 25,001 to 35,000 gallons	4.00
14	Tier three – All gallons over 35,000	4.25

For two-inch meter sizes

15	Tier one – zero to 40,000 gallons	\$3.45
16	Tier two – 40,001 to 60,000 gallons	4.00
17	Tier three – All gallons over 60,000	4.25

For three-inch meter sizes

18	Tier one – zero to 80,000 gallons	\$3.45
19	Tier two – 80,001 to 125,000 gallons	4.00
20	Tier three – All gallons over 125,000	4.25

For four-inch meter sizes

21	Tier one – zero to 125,000 gallons	\$3.45
22	Tier two – 125,001 to 200,000 gallons	4.00
23	Tier three – All gallons over 200,000	4.25

For six-inch meter sizes

24	Tier one – zero to 250,000 gallons	\$3.45
25	Tier two – 250,001 to 450,000 gallons	4.00
26	Tier three – All gallons over 450,000	4.25

Standpipe Rate Per 1,000 gallons \$5.70

SERVICE LINE AND METER

INSTALLATION CHARGES:

28	5/8" x ¾" Meter	\$400.00
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1	¾" Meter	440.00
2	1" Meter	500.00
2	1 ½" Meter	715.00
3	2" Meter Turbo	1,170.00
3	2" Meter Compound	1,700.00
4	3" Meter Turbo	1,585.00
4	3" Meter Compound	2,190.00
5	4" Meter Turbo	2,540.00
5	4" Meter Compound	3,215.00
6	6" Meter Turbo	4,815.00
6	6" Meter Compound	6,270.00

8 SERVICE CHARGES:

9	Establishment	\$25.00
9	Establishment (After Hours)	40.00
10	Reconnection (Delinquent)	15.00
10	Reconnection (Delinquent) after hours	25.00
11	Meter Test (If Correct)	25.00
11	Deposit	*
11	Deposit Interest	*
12	Reestablishment (Within 12 Months)	**
12	NSF Check	25.00
13	Deferred Payment	***
13	Meter Reread (If Correct)	25.00
14	Late Payment Penalty	1.50%

16 Monthly Service Charge for Fire

17 Sprinkler:

17	4" or Smaller	****
18	6"	****
18	8"	****
19	10"	****
19	Larger than 10"	****

21 * Per Commission rule A.A.C. R-14-2-403(B).

22 ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

23 *** Per Commission Rules (R14-2-409.G(6))

23 **** 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

25 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
26 provided on and after September 1, 2005.

27 IT IS FURTHER ORDERED that Ponderosa Utility Corporation shall notify its customers of
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the revised rates and charges authorized herein, and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing.

IT IS FURTHER ORDERED that Ponderosa Utility Corporation shall file with the Commission a schedule of its approved rates and charges within 30 days of the effective date of this Decision.

IT IS FURTHER ORDERED that Ponderosa Utility Corporation shall adopt the specific depreciation rates by category found in Exhibit 3 of the Staff Engineering Report.

IT IS FURTHER ORDERED that Ponderosa Utility Corporation's proposed curtailment tariff shall be adopted and the Company shall file with Docket Control its proposed curtailment tariff coincident with the above-ordered rate tariffs approved herein, but no later than 45 days from the effective date of this Decision.

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1 IT IS FURTHER ORDERED that Ponderosa Utility Corporation shall file a backflow tariff
2 coincident with the above-ordered rate tariffs approved herein, but no later than 45 days from the
3 effective date of this Decision.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
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9 CHAIRMAN

COMMISSIONER

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11 COMMISSIONER

COMMISSIONER

COMMISSIONER
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14 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
15 Secretary of the Arizona Corporation Commission, have
16 hereunto set my hand and caused the official seal of the
17 Commission to be affixed at the Capitol, in the City of Phoenix,
18 this ____ day of _____, 2005.

19 BRIAN C. McNEIL
EXECUTIVE SECRETARY

20
21 DISSENT _____

22
23 DISSENT _____

24 DDN:mj
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1 SERVICE LIST FOR:

PONDEROSA UTILITY COMPANY

2 DOCKET NO.

W-01717A-04-0825

3 Sue Ten Pass
Ponderosa Utility Company
4 3A W. Osage Street
Flagstaff, AZ 86001

5 Christopher Kempley, Chief Counsel
6 Legal Division
ARIZONA CORPORATION COMMISSION
7 1200 West Washington Street
Phoenix, AZ 85007

8 Ernest G. Johnson, Director
9 Utilities Division
ARIZONA CORPORATION COMMISSION
10 1200 West Washington Street
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