

OPEN MEETING ITEM



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

ORIGINAL



ARIZONA CORPORATION COMMISSION

DATE: June 24, 2005

DOCKET NO: W-03936A-04-0840

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Marc E. Stern. The recommendation has been filed in the form of an Opinion and Order on:

EAGLETAIL WATER COMPANY, L.C.
(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 6, 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 Open Meeting to be held on:

July 12 and 13, 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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AZ CORP COMMISSION
DOCUMENT CONTROL

BRIAN C. McNEIL
EXECUTIVE SECRETARY, Arizona Corporation Commission

DOCKETED

JUN 24 2005

DOCKETED BY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 JEFF HATCH-MILLER, Chairman
4 WILLIAM A. MUNDELL
5 MARC SPITZER
6 MIKE GLEASON
7 KRISTIN K. MAYES

8 IN THE MATTER OF THE APPLICATION OF
9 EAGLETAIL WATER COMPANY, L.C. FOR A
10 RATE ADJUSTMENT.

DOCKET NO. W-03936A-04-0840

11 DECISION NO. _____

12 ORDER

13 Open Meeting
14 July 12 and 13, 2005
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 On November 22, 2004, Eagletail Water Company, L.C. ("Applicant" or "Company") filed
18 with the Arizona Corporation Commission ("Commission") an application for a permanent rate
19 increase in its water rates and charges.

20 On December 22, 2004, pursuant to A.A.C. R14-2-103, the Commission's Utilities Division
21 ("Staff") issued a notice of deficiency with respect to the Company's rate application.

22 On January 31, 2005, pursuant to A.A.C. R14-2-103, Staff issued a notice of sufficiency and
23 classified the Company as a Class E utility.

24 On December 27, 2004, and January 3, 2005, the Company filed amendments to its rate
25 application.

26 On April 1, 2005, Staff filed a Staff Report, recommending that the rates proposed by Staff be
27 approved.¹

28 * * * * *

¹ At the Commission's Open Meeting on May 24, 2005, the Company waived the time frame established by A.A.C. R14-2-103(B), to allow Staff time to file a Revised Staff Report on June 13, 2005, wherein Staff made revisions to its recommendations after a review of documented and updated expenses which were subsequently provided by the Company after the Open Meeting.

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

3
4 **FINDINGS OF FACT**

5 1. Pursuant to authority granted by the Commission, Applicant is an Arizona limited
6 liability company engaged in the business of providing water service in the Harquahala Valley in an
7 area approximately 64 miles west of Phoenix and 15 miles south of Interstate 10 in western Maricopa
8 County, Arizona.²

9 2. Applicant's present rates and charges for water were approved in Decision No. 64743
10 (April 17, 2002).

11 3. On November 22, 2004, the Company filed an application requesting authority to
12 increase its rates and charges for water service.

13 4. Concurrently with the filing of the application herein, Applicant provided notice to its
14 customers of its proposed rate increase by first class U.S. mail and, in response thereto, one written
15 protest and a five signature petition have been received by the Commission opposing Applicant's
16 proposed increase.

17 5. On January 31, 2005, Staff filed notice that the Company's rate application had met
18 the Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

19 6. During the test year ended December 31, 2003 ("TY"), Applicant served 54 metered
20 customers, the majority (38) of which are residential users who are served by 3/4" meters.

21 7. Average and median meter usage on the 3/4" meters during the TY were 8,045 and
22 3,618 gallons per month, respectively.

23 8. Staff conducted an investigation of Applicant's proposed rates and charges for water
24

25 ² Prior to January 2000, the utility assets of what was then the Eagle Water Company ("Eagle") were owned by
26 four different individuals or entities. In January 2000, the utility assets of Eagle were abandoned and sold at a sheriff's
27 auction to Mr. Randolph Brownell, owner of Sunup Water Company, L.C., doing business as Eagle. The assets were
28 purchased for \$80,000 in May 2000 by a group of approximately 20 individuals who formed Applicant. On May 24,
2001, In Decision No. 63684, the Commission approved the issuance of a Certificate of Convenience and Necessity
("Certificate") and a transfer of assets from Mr. Brownell to the Company. Staff indicated in its report that although the
Company's present official name is designated as "L.C.", in the future, Applicant will change its official name to reflect
an "L.L.C." designation since it is a limited liability company.

1 service and filed its initial Staff Report on the Company's rate application request on April 1, 2005,
2 which Staff subsequently amended by filing a Revised Staff Report on June 13, 2005, wherein Staff
3 allowed for additional Company expenses of \$4,383.

4 9. The water and rates and charges for Applicant at present, as proposed in the
5 Application and as recommended by Staff are as follows:

	Present Rates	Company	Proposed Rates	
			Staff Initial	Staff Revised
<u>MONTHLY USAGE CHARGE:</u>				
5/8" x 3/4" Meter	\$21.00	\$27.00	\$25.50	\$27.00
3/4" Meter	22.00	30.00	26.50	30.00
1" Meter	37.00	45.00	42.00	45.00
1 1/2" Meter	41.00	50.00	45.00	50.00
2" Meter	51.00	61.00	56.00	61.00
3" Meter	88.00	105.00	204.00	204.00
4" Meter	124.00	135.00	637.00	637.00
6" Meter	208.00	220.00	1,275.00	1,275.00
Gallons Included in Minimum	0	0	0	0
<u>Gallonage Charge</u>				
Per 1,000 gallons	2.30	3.50	n/a	N/A
<u>Gallonage Charge Per 1,000 Gallons</u>				
Tier one - 0 to 3,000 gallons	N/A	N/A	1.00	3.20
Tier two - 3,001 to 8,000 gallons	N/A	N/A	2.80	4.25
Tier three - In excess of 8,000 gallons	N/A	N/A	3.85	4.85
<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>				
(Refundable pursuant to A.A.C. R14-2-405)				
5/8" x 3/4" Meter	\$440.00	\$440.00	440.00	\$440.00
3/4" Meter	510.00	510.00	510.00	510.00
1" Meter	590.00	590.00	590.00	590.00
1 1/2" Meter	825.00	825.00	825.00	825.00
2" Meter	1,415.00	1,415.00	1,415.00	1,415.00
3" Meter	2,105.00	2,105.00	2,105.00	2,105.00
4" Meter	3,120.00	3,120.00	3,120.00	3,120.00
6" Meter	5,715.00	5,715.00	5,715.00	5,715.00

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SERVICE CHARGES:

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Establishment	\$30.00	\$40.00	30.00	\$30.00
Establishment (After Hours)	45.00	55.00	45.00	45.00
Reconnection (Delinquent)	25.00	35.00	25.00	25.00
Reconnection (Delinquent) after hours		60.00	45.00	45.00
Meter Test (If Correct)	30.00	30.00	30.00	30.00
Deposit	Per ACC	Per ACC	*	*
Deposit Interest	Per ACC	Per ACC	*	*
Reestablishment (Within 12 Months)	Per ACC	Per ACC	**	**
NSF Check	0.00	29.00	25.00	25.00
Deferred Payment (Per Month)	1.50%	1.50%	***	***
Meter Reread (If Correct)	20.00	25.00	20.00	20.00
Late Fee (Per Month)	1.50%	1.50%	1.50%	1.50%
<u>Monthly Service Charge for Fire Sprinklers</u>				
4" or Small	0	0	****	****
6"	0	0	****	****
8"	0	0	****	****
10"	0	0	****	****
Larger than 10"	0	0	****	****

- * Per Commission rule A.A.C. R-14-2-403(B).
- ** Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).
- *** Per Commission rule A.A.C. R14-2-409(G).
- **** 1.00% of Monthly Minimum for Comparable Sized 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.

10. Pursuant to the Revised Staff Report, Applicant's fair value rate base ("FVRB") is determined to be \$90,557 which is the same as its original cost rate base. The Company's FVRB reflects a \$9,495 increase by Staff of Applicant's proposed FVRB due in large part to a decrease in Applicant's accumulated depreciation and the inclusion of an increase in working capital.

11. Staff, in the Revised Staff Report, reduced Applicant's proposed operating expenses by \$16,856 primarily due to adjustments which decrease the following Company expenses: \$3,966 for repairs and maintenance; \$9,299 for outside services; \$1,150 for transportation; \$7,685 for miscellaneous; and \$2,113 for depreciation.³

12. Applicant's present water rates and charges produced operating revenues of \$28,481

³ Significant portions of the reduced expenses were either not verified or non-recurring.

1 and adjusted operating expenses of \$28,158 which resulted in operating income of \$323 during the
2 TY or a .36 percent rate of return on FVRB.

3 13. The water rates and charges Applicant proposed would produce operating revenues of
4 \$40,481 and adjusted operating expenses of \$28,158 resulting in net operating income of \$12,323 or
5 a 13.6 percent rate of return on FVRB.

6 14. The water rates and charges Staff recommended would produce operating revenues of
7 \$40,481 and adjusted operating expenses of \$28,158, resulting in net operating income of \$12,323 or
8 a 13.6 percent rate of return on FVRB.

9 15. Applicant's proposed rate schedule would increase the average monthly customer
10 water bill by 43.6 percent, from \$40.50 to \$58.16, and the median monthly customer water bill by
11 40.7 percent, from \$30.32 to \$42.66.

12 16. Staff's recommended rates would increase the average monthly customer water bill by
13 43.2 percent, from \$40.50 to \$58.01, and increase the median monthly customer water bill by 38.0
14 percent, from \$30.32 to \$41.85.

15 17. According to the Revised Staff Report, Applicant is in compliance with its
16 Commission compliance action filings and prior Commission Orders. Additionally, according to
17 Staff, Applicant is current on the payment of its property taxes and its sales taxes, and is providing
18 water which meets the requirements of the Safe Drinking Water Act.

19 18. Applicant's well produces water which meets the requirements of the Federal
20 Environmental Protection Agency's new arsenic maximum contaminant level, which becomes
21 effective January 23, 2006.

22 19. During Staff's review of the water rate request, Staff found that Applicant is
23 experiencing excessive water loss of over 53 percent which is substantially higher than the 10 percent
24 loss that Staff considers reasonable. To address this problem, Staff is recommending that \$.60 per
25 1,000 gallons of water sold and collected from the upper two tiers of Staff's proposed commodity
26 charge be deposited into a separate interest bearing account from which funds could only be used to
27 pay for leak repairs. Staff believes that Applicant should generate approximately \$2,500 per year for
28 the leak repair fund if funds are set aside in this manner.

1 20. Staff additionally recommended that the Commission order the following:
2

- 3 • that Applicant notify its customers of the water rates and charges approved hereinafter
4 and their effective date by means of an insert in its next monthly billing and file a copy
5 of the notice sent to its customers with the Compliance Section of the Utilities
6 Division ("Compliance Section");
- 7 • that Applicant file, within 30 days of the effective date of this Decision, with the
8 Commission's Docket Control, a copy of the schedule of its approved rates and
9 charges;
- 10 • that Applicant adopt the depreciation rate table as set forth in Exhibit 4 to the
11 Engineering Report attached to the Staff Report;
- 12 • that Applicant file, annually after the effective date of this Decision, yearly reports
13 within 30 days of the end of each calendar year, with the Commission's Docket
14 Control, which indicate the quantity of water pumped and sold each month during the
15 year and the efforts taken to reduce water loss, such as number of leaks repaired;
- 16 • that the Company develop a plan to reduce water loss to less than 10 percent before its
17 next rate case;
- 18 • that Applicant be ordered to segregate \$.60 per 1,000 gallons of usage included in the
19 commodity charge of the two upper tiers and deposit these funds into a separate
20 interest-bearing account from which funds can only be expended for leak repairs;
- 21 • that Applicant file quarterly reports with the Commission's Docket Control listing the
22 revenue collected and all disbursements made from the leak repair fund and the type
23 of repairs completed. The first report shall be due for the first calendar quarter after
24 the rates go into effect and filed within 30 days after the end of each calendar quarter
25 thereafter;
- 26 • that the Company implement and maintain its records in accordance with the NARUC
27 Uniform System of Accounts and within 60 days of the effective date of this Decision,
28 file an affidavit with the Commission's Docket Control indicating compliance with the
 requirement to use NARUC standards; and
- that Applicant, in addition to the collection of its regular rates and charges, collect
 from its customers their proportionate share of any privilege, sales, or use tax as
 provided for in A.A.C. R14-2-409(D).

21. We find that Applicant must charge rates that allow it to operate in a viable fashion in
order to be able to provide reliable service to its customers. We agree with Staff's recommendations

1 and find that Staff's revised proposed rates which are projected to provide a rate of return of
2 approximately 13.6 percent are just and reasonable under the circumstances described herein.

3
4 **CONCLUSIONS OF LAW**

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

7 2. The Commission has jurisdiction over Applicant and the subject matter of the
8 application.

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

10 4. Under the circumstances discussed herein, the rates and charges for Applicant as
11 authorized hereinafter are just and reasonable and should be approved without a hearing.

12 5. Staff's recommendations, as set forth in Findings of Fact No. 20 are reasonable and
13 should be adopted.

14 6. Based on our findings and in light of Staff's recommendations, no hearing is
15 necessary.

16 **ORDER**

17 IT IS THEREFORE ORDERED the Eagletail Water Company, L.C. is hereby directed to file
18 on or before August 1, 2005, revised rate schedules setting forth the following rates and charges:

19
20 **MONTHLY USAGE CHARGE:**

21	5/8" x 3/4" Meter	\$27.00
	3/4" Meter	30.00
22	1" Meter	45.00
	1 1/2" Meter	50.00
23	2" Meter	61.00
	3" Meter	204.00
24	4" Meter	637.50
25	6" Meter	1,275.00

26 **Gallonage Charge Per 1,000 Gallons**

27	Tier One - 0 to 3,000 gallons	\$3.20
	Tier Two - 3,001 to 8,000 gallons	4.25
28	Tier Three - In excess of 8,000 gallons	4.85

1 SERVICE LINE AND METER INSTALLATION CHARGES:

2 (Refundable pursuant to A.A.C. R14-2-405)

3	5/8" x 3/4" Meter	\$440.00
	3/4" Meter	510.00
4	1" Meter	590.00
5	1 1/2" Meter	825.00
	2" Meter	1,415.00
6	3" Meter	2,105.00
	4" Meter	3,120.00
7	6" Meter	5,715.00

8 SERVICE CHARGE:

9	Establishment	\$30.00
10	Establishment (After Hours)	45.00
	Reconnection (Delinquent)	25.00
11	Reconnection (Delinquent) after hours	45.00
	Meter Test (If Correct)	30.00
12	Deposit	*
	Deposit Interest	*
13	Reestablishment (Within 12 Months)	**
14	NSF Check	25.00
	Deferred Payment (Per Month)	***
15	Meter Reread (If Correct)	20.00
16	Late Fee (Per Month)	1.50%

17 Monthly Service Charge for Fire Sprinklers

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

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

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

23 *** Per Commission rule A.A.C. R14-2-205(G).

24 **** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less
25 than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for
26 service lines separate and distinct from the primary water service line.

26 IT IS FURTHER ORDERED that Eagletail Water Company, L.C. notify its customers of the
27 water rates and charges approved hereinafter and their effective date by means of an insert in its next
28 monthly billing and file a copy of the notice when sent to its customers with the Compliance Section

1 of the Utilities Division.

2 IT IS FURTHER ORDERED that the above water rates and charges shall be effective for all
3 service provided after August 1, 2005.

4 IT IS FURTHER ORDERED that Eagletail Water Company, L.C. shall comply with Staff's
5 recommendations as set forth in Findings of Fact No. 20.

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

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

8
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10 CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

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 DISSENT _____

21
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23 DISSENT _____

1 SERVICE LIST FOR: EAGLETAIL WATER COMPANY, L.L.C.

2 DOCKET NO.: W-03936A-04-0840

3

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