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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

Arizona Corporation Commission

DOCKETED

AUG 17 2005

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION OF  
TONGO VILLAGE WATER COMPANY, INC.  
FOR A RATE INCREASE.

DOCKET NO. W-01580A-04-0672

DECISION NO. 68066

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. Tonto Village Water Company ("Company" or "Tonto Village") is an Arizona corporation engaged in the business of providing water utility service to approximately 190 customers in a portion of Gila County, Arizona, approximately 15 miles east of Payson and two miles west of Kohl's Ranch. Tonto Village's customers are primarily residential, although the Company also serves a charter school, a church and a restaurant. Tonto Village experiences growth at a rate of approximately three customers per year.

2. On September 16, 2004, as amended on November 22, 2004 and February 22, 2005, Tonto Village 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 September 15, 2004. A notarized affidavit of mailing was filed on September 16, 2004.

1           4.     On October 18, 2004, the Commission's Utilities Division Staff ("Staff") filed a letter  
2 notifying the Company that its application was deficient and attached a number of areas of  
3 deficiency. Subsequent Deficiency Letters were filed by Staff on December 7, 2004 and February 7,  
4 2005.

5           5.     On February 22, 2005, the Company filed information in response to the third  
6 Deficiency Letter.

7           6.     On March 24, 2005, Staff notified the Company that its application, as amended, was  
8 sufficient pursuant to Arizona Administrative Code ("A.A.C.") R14-2-103, and classified Tonto  
9 Village as a Class D Utility.

10          7.     On June 7, 2005, Staff filed its Staff Report, recommending approval of the  
11 application subject to certain modifications and conditions set forth in the Staff Report.

12          8.     The Commission approved the Company's present rates and charges for water service  
13 in Decision No. 56671 (October 25, 1989).

14          9.     The average and median usage on 5/8 inch x 3/4 inch customer meters during the test  
15 year ending December 31, 2003 were 3,649 and 1,702 gallons per month, respectively.

16          10.    In the test year, as adjusted by Staff, Tonto Village had total operating revenues of  
17 \$20,619 which, with adjusted operating expenses of \$31,717, produced an operating loss of \$11,098.  
18 Based on a Staff adjusted original cost rate base ("OCRB") of \$26,439, Tonto Village experienced a  
19 negative 41.98 percent rate of return during the test year.

20          11.    Tonto Village proposed rates that would produce total operating revenues of \$57,363  
21 and total operating expenses of \$29,437, for net operating income of \$27,926. The Company's  
22 proposed rates would produce a rate of return of 112.53 percent on its proposed OCRB of \$24,816.

23          12.    Staff recommends rates that would produce total operating revenues of \$39,880 and  
24 total operating expenses of \$33,389, for a net operating income of \$6,491. Staff's recommended  
25 \$6,491 net operating income would provide Tonto Village with an operating margin of 16.28 percent  
26 and a rate of return of 24.55 percent on Staff's recommended OCRB of \$26,439.

13. The rates and charges for Tonto Village at present, as proposed by the Company, and as recommended by Staff are as follows:

	<u>Present Rates</u>	<u>Proposed Rates Company</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter Residential	\$6.00	\$19.00	\$10.00
5/8 x 3/4" Meter Non-residential	6.00	35.00	n/a
3/4" Meter	6.00	19.00	12.00
1" Meter	15.00	38.00	20.00
1 1/2" Meter	30.00	76.00	40.00
2" Meter	48.00	100.00	65.00
3" Meter	90.00	250.00	120.00
4" Meter	150.00	350.00	200.00
6" Meter	n/a	n/a	400.00
<u>COMMODITY CHARGES:</u>			
Excess of Minimum – Per 1,000 Gallons	\$1.05	n/a	n/a
Gallons included in minimum	1,000	0	0
<u>For 5/8" meter and larger</u>			
Tier One – 0 to 5,000 gallons		\$1.00	n/a
Tier Two – 5,001 to 10,000 gallons		1.50	n/a
Tier Three – all gallons over 10,000		3.00	n/a
Tier One – 0 to 3,000 gallons			\$1.05
Tier Two – 3,001 to 7,000 gallons			2.15
Tier Three – all gallons over 7,000			3.50
<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
5/8" x 3/4" Meter	\$275.00	\$375.00	\$375.00
3/4" Meter	300.00	425.00	425.00
1" Meter	325.00	500.00	500.00
1 1/2" Meter	475.00	675.00	675.00
2" Meter	650.00	900.00	900.00
3" Meter	850.00	1,300.00	1,300.00
4" Meter	1,050.00	1,800.00	1,800.00
6" Meter	0.00	0.00	0.00

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1 SERVICE CHARGES:

2	Establishment	\$10.00	\$25.00	\$25.00
3	Establishment (After Hours)	10.00	40.00	40.00
4	Reconnection (Delinquent)	10.00	25.00	25.00
5	Reconnection (Delinquent) after hours	10.00	40.00	40.00
6	Meter Test (If Correct)	n/a	50.00	25.00
7	Meter Deposit	*	*	*
8	Deposit Interest	*	1.00%	*
9	Reestablishment (Within 12 Months)	**	**	**
10	NSF Check	15.00	25.00	25.00
11	Deferred Payment		1.50%	***
12	Meter Reread (If Correct)	n/a	25.00	15.00
13	Late Payment Penalty	n/a	1.50%	1.50%

- \* 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 (A.A.C. R14-2-409.G(6)).

14. As set forth in the Staff Report, Staff accepted the Company's proposed plant in service amount of \$111,982. However, Staff made \$1,623 in adjustments to the proposed rate base to reflect removal of advances in aid of construction of \$550 and meter deposits of \$620, and inclusion of the formula method for the cash working capital component of the working capital allowance in the amount of \$2,793. In accordance with Staff's recommendation, the Company's OCRB is determined to be \$26,439, which is the same as its fair value rate base ("FVRB").

15. Staff made no adjustments to the Company's proposed metered test year operating revenues. Staff adjusted other water revenues by \$1,170 due to reclassification of \$550 to advances in aid of construction and \$620 to meter deposits. Accordingly, test year revenues are determined to be \$20,619.

16. Staff's adjustments to test year operating expenses would result in a net increase of the Company's proposed expenses of \$2,280, from \$29,437 to \$31,717. Staff's adjustments are the result of decreasing depreciation expense by \$625 to reflect depreciation rates on a going forward basis; increasing water testing expense by \$1,105 to reflect Staff's recommended expense level; and increasing outside services expense by \$1,800 to reflect the amount Staff determined was paid to a certified operator.

1           17.     The Company's proposed rate schedule would increase the average monthly 5/8 x 3/4  
2 inch meter customer bill by \$13.87, or 158 percent, from \$8.78 to \$22.65, and the median monthly  
3 customer bill by \$13.96, or 207 percent, from \$6.74 to \$20.70.

4           18.     Staff's recommended rates would increase the average monthly 5/8 x 3/4 inch meter  
5 customer bill by \$5.77, or 65.7 percent, from \$8.78 to \$14.55, and the median monthly customer bill  
6 by \$5.05, or 74.9 percent, from \$6.74 to \$11.79.

7           19.     Staff's proposed adjustments and recommended rates are reasonable and should be  
8 adopted.

9           20.     Tonto Village currently has a flat rate structure whereby all water usage is billed at  
10 \$1.05 per thousand gallons. Both the Company and Staff have proposed implementing an inverted  
11 three-tier rate structure, although at different break points. Tonto Village proposed usage break  
12 points at 5,000 and 10,000 gallons for 5/8 x 3/4 inch meter customers, whereas Staff's  
13 recommendation would set the tier break points at 3,000 and 7,000 gallons for 5/8 x 3/4 inch meter  
14 customers. We believe Staff's recommended rate design is an appropriate means of encouraging  
15 water conservation and it should therefore be adopted.

16           21.     The Company's water system consists of three well sites, each of which has a well, a  
17 storage tank and booster pumping system. Well No. 1 has been dry and out of service since June  
18 2004. No fire flow is included on the Tonto Village system. During a site inspection, Staff  
19 Engineering found that the storage tank at Well Site No. 2 had a severe leak, and the pressure tank  
20 was also leaking. Staff recommends that both leaks be repaired immediately and the Company be  
21 required to file within 30 days of the effective date of the Decision documentation showing that the  
22 necessary repairs have been made. Despite these leaks, Staff calculated the Company's non-account  
23 water in 2003 to be 7.27 percent, which Staff considers to be within acceptable limits.

24           22.     Staff Engineering indicated that, because Well No. 1 is no longer producing water, the  
25 system does not have adequate production to serve the existing customer base. The Company  
26 informed Staff that it originally planned to either deepen Well No. 1 or install a new well on the site.  
27 However, ADEQ setback requirements precluded those plans and the Company now intends to drill a  
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1 new well at Well Site No. 2, at a cost of approximately \$35,000. Staff recommends that Tonto  
2 Village be required to file in this docket, by June 30, 2006, a copy of the ADEQ Approval of  
3 Construction for the proposed new well.

4 23. According to the Staff Report, in 2002 and 2003, there were no complaints, inquiries  
5 or opinions filed with the Commission's Consumer Services Division. In 2004, there were two  
6 resolved complaints regarding an outage and repairs; one resolved billing inquiry; and four opinions  
7 regarding the proposed rate increase (three opposed and one in support of the increase). In 2005  
8 there has been one quality of service complaint that was resolved. According to Staff, Tonto Village  
9 has no current compliance issues on file with the Commission's Consumer Services Division and the  
10 Company is in good standing with the Commission's Corporations Division.

11 24. Tonto Village is current in its sales and property tax payments.

12 25. The Arizona Department of Environmental Quality ("ADEQ") reported that Tonto  
13 Village is delivering water that meets the water quality standards required under Title 18, Chapter 4,  
14 of the Arizona Administrative Code and is in compliance with all other requirements.

15 26. Tonto Village is not within an Active Management Area and therefore is not subject to  
16 reporting and conservation rules.

17 27. The U.S. Environmental Protection Agency ("EPA") has reduced the maximum  
18 contaminant level ("MCL") for arsenic in drinking water from 50 parts per billion ("ppb") to 10 ppb,  
19 effective January 26, 2006. According to the Staff Report, laboratory analyses from ADEQ show  
20 arsenic levels in the Company's wells to be between 4.0 ppb and 4.5 ppb. The Company's wells are  
21 therefore in full compliance with the EPA's new arsenic standards.

22 28. Based on its investigation, Staff made the following recommendations:

- 23
- 24 a. that Staff's recommended rates and charges be approved and that the  
25 Company may collect from its customers a proportionate share of any  
26 privilege, sales or use tax;
  - 27 b. that the Company docket with the Commission a schedule of its  
28 approved rates and charges within 30 days of this Decision;
  - 29 c. that the Company adopt the specific depreciation rates by category  
found in Exhibit 6 of the Staff Engineering Report;
  - 30 d. that, due to lack of adequate production and storage capacity, the

1 Company should install its planned water source by June 30, 2006 and  
2 file a copy of its ADEQ Approval of Construction with Docket  
Control by June 30, 2006; and

3 e. that the Company immediately fix the leakage found on the pressure  
4 tank and the 34,000 gallon storage tank at Well Site No. 2, and file  
documentation with Docket Control within 30 days of this Decision  
5 showing that the leakage has been repaired.

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

7 **CONCLUSIONS OF LAW**

8 1. Tonto Village Water Company, Inc. is a public service corporation within the meaning of  
9 Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

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

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

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

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

16 **ORDER**

17 IT IS THEREFORE ORDERED that Tonto Village Water Company, Inc. is hereby directed  
18 to file on or before August 31, 2005, revised rate schedules setting forth the following rates and  
19 charges:

20 **MONTHLY USAGE CHARGE:**

21	5/8" x 3/4" Meter	\$10.00
22	3/4" Meter	12.00
	1" Meter	20.00
23	1 1/2" Meter	40.00
	2" Meter	65.00
24	3" Meter	120.00
	4" Meter	200.00
25	6" Meter	400.00

26 **COMMODITY CHARGES** (per 1,000 gallons):

27	5/8" x 3/4" Meter	
28	Tier One - 0 to 3,000 gallons	\$1.05

1 Tier Two – 3,001 to 7,000 gallons 2.15  
 2 Tier Three – all gallons over 7,000 3.50

3 SERVICE LINE AND METER INSTALLATION CHARGES:

4 5/8" x 3/4" Meter \$ 375.00  
 5 3/4" Meter 425.00  
 6 1" Meter 500.00  
 7 1 1/2" Meter 675.00  
 8 2" Meter 900.00  
 9 3" Meter 1,300.00  
 4" Meter 1,800.00  
 6" Meter 0.00

10 SERVICE CHARGES:

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

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

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

20 \*\*\* Per Commission Rules (A.A.C. R14-2-409.G(6)).

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

23 IT IS FURTHER ORDERED that Tonto Village Water Company, Inc. shall notify its  
 24 customers of the revised rates and charges authorized herein, and their effective date, in a form  
 25 acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly  
 26 scheduled billing.

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IT IS FURTHER ORDERED that Tonto Village Water Company, Inc. 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 Tonto Village Water Company, Inc. shall adopt the specific depreciation rates by category found in the Staff Engineering Report.

IT IS FURTHER ORDERED that Tonto Village Water Company, Inc. shall install its planned new water source by June 30, 2006 and file a copy of its ADEQ Approval of Construction with Docket Control by June 30, 2006.

IT IS FURTHER ORDERED that Tonto Village Water Company, Inc. shall immediately fix the leakage found on the pressure tank and the 34,000 gallon storage tank at Well site No. 2, and file documentation with Docket Control within 30 days of this Decision showing that the leakage has been repaired.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

  
CHAIRMAN

  
COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 17<sup>th</sup> day of Aug., 2005.

  
BRIAN C. McNEIL  
EXECUTIVE SECRETARY

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

DDN:mj

1 SERVICE LIST FOR: TONTO VILLAGE WATER COMPANY, INC.

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