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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

MARC SPITZER, Chairman
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON

MAR 20 2003

DOCKETED BY *NAE*

IN THE MATTER OF THE APPLICATION OF
STRATMAN WATER COMPANY FOR A RATE
INCREASE.

DOCKET NO. W-03474A-02-0673

DECISION NO. 65756

ORDER

Open Meeting
March 11 and 12, 2003
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

1. On September 6, 2002, Stratman Water Company ("Stratman" or "Company") filed an application for a permanent rate increase.
2. Stratman's present rates have been in effect since the Company received its Certificate of Convenience and Necessity ("CC&N") on September 14, 1977.
3. Stratman is located south of the community of St. David, which is approximately 10 miles south of the Town of Benson in Cochise County.
4. Stratman's current owner, Mr. E.H. "Buck" Lewis, purchased the Company in 2000. The Commission approved the transfer of the CC&N in Decision No. 63314 (January 11, 2001). After acquiring the Company, Mr. Lewis had an additional well drilled, which was placed into service in July 2002. The well was added to meet Arizona Department of Environmental Quality ("ADEQ") requirements for production and storage.
5. In the test year ended December 31, 2001, the Company provided water utility service to 34 customers.
6. On October 7, 2002, the Commission Utilities Division Staff ("Staff") notified the

1 Company that its application met sufficiency requirements, and classified the Company as a Class E
2 utility.

3 7. The Company mailed notice of its application to its customers on September 27, 2002.

4 8. As a result of the application, the Commission received two petitions, containing 27
5 signatures, against the proposed rate increase.

6 9. On December 6, 2002, Staff filed its Staff Report, recommending rates different than
7 those proposed by the Company be adopted without a hearing.

8 10. On December 16, 2002, the Commission conducted a Public Comment meeting on the
9 rate application in Benson, Arizona. Stratman's customers expressed great concern about the effect
10 the Company's requested increase will have on ratepayers, a good number of whom are retired and
11 on fixed incomes.

12 11. On January 15, 2003, Karen Hady, a customer of Stratman, filed a request to intervene
13 and comments to the Staff Report. Ms. Hady's exceptions state that contrary to Staff's assumptions
14 that all customers utilized 5/8 x 3/4 inch meters, she believed there were customers with 1 inch meters.
15 In addition, she questions Staff recalculating plant and depreciation as reported in the Staff Report
16 and takes issue with any notion that the customers "got away" with low rates for a long time. Ms.
17 Hady states that the original owner kept rates low to attract land buyers and that service and
18 maintenance were poor during his tenure. She also disagrees with the Staff proposed three-tier rate
19 structure and the elimination of the gallons included in the monthly minimum charge. She requests
20 that a statement be provided to each customer with the new rates and a toll free telephone number of
21 who to contact concerning Lifeline rates.

22 12. By Procedural Order dated January 27, 2003, the Administrative Law Judge granted
23 intervention to Ms. Hady.

24 13. On January 30, 2003, Staff filed a Response to Ms. Hady's comments.

25 14. On February 20, 2003, Ms. Hady filed a Reply to Staff's Response to her comments.

26 15. Based on test year results, as adjusted by Staff, Stratman realized total revenue of
27 \$8,215, producing an operating loss of \$7,844 on an adjusted Original Cost Rate Base ("OCRB") of
28 \$77,142.

1 16. Stratman proposed rates that would produce Operating Revenues of \$30,254, and
 2 Operating Income of \$10,575, for a 39.39 percent rate of return on its proposed OCRB of \$26,849.
 3 The Company's requested revenues represent a 268.3 percent increase over test year revenues.

4 17. Staff recommends rates that produce Operating Revenues of \$23,569 and Operating
 5 Income of \$4,244, for a 5.50 percent rate of return on an OCRB of \$77,142. Staff's recommended
 6 revenue level is a 186.9 percent increase over test year revenues.

7 18. Stratman's present and proposed rates and charges, as well as Staff's proposed rates
 8 and charges are as follows:

	<u>Present</u> <u>Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$12.00	\$23.00	\$15.00
3/4" Meter	0.00	36.00	22.50
1" Meter	0.00	49.00	37.50
1 1/2" Meter	0.00	87.00	75.00
2" Meter	0.00	180.00	120.00
3" Meter	0.00	195.00	225.00
4" Meter	0.00	225.00	375.00
6" Meter	0.00	300.00	750.00
Gallons included in minimum	5,000	0	0
Commodity Charge:			
Excess of minimum – per 1,000 Gallons	\$1.00	N/A	N/A
From 0 to 10,000 Gallons	\$0.00	\$2.75	N/A
Over 10,000 Gallons	\$0.00	\$5.75	N/A
From 0 to 6,000 Gallons	\$0.00	N/A	\$2.65
From 6,001 to 12,000	\$0.00	N/A	\$3.20
In excess of 12,000 Gallons	\$0.00	N/A	\$4.45
Standpipe Charge per 1,000 gallons	\$0.00	\$7.50	\$5.00
<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
(Refundable pursuant to A.A.C. R14-2-405)			
5/8" x 3/4" Meter	\$100.00	\$480.00	\$480.00
3/4" Meter	120.00	550.00	550.00
1" Meter	160.00	630.00	630.00
1 1/2" Meter	300.00	785.00	785.00

1	2" Meter	400.00	1,375.00	1,375.00
	3" Meter	0.00	1,975.00	1,975.00
2	4" Meter	0.00	3,090.00	3,090.00
3	6" Meter	0.00	5,635.00	5,635.00
4	<u>SERVICE CHARGE:</u>			
5	Establishment	\$0.00	\$35.00	\$25.00
6	Establishment (After Hours)	0.00	55.00	37.50
	Reconnection (Delinquent)	5.00	35.00	25.00
7	Meter Test (If Correct)	0.00	45.00	30.00
	Deposit	0.00	*	*
8	Deposit Interest	0.00%	0.00%	*
9	Reestablishment (Within 12 Months)	25.00	**	**
	NSF Check	0.00	25.00	15.00
10	Deferred Payment	0.00%	1.5%	1.5%
	Meter Reread (If Correct)	2.50	30.00	20.00
11	Late Payment Penalty (per month)	0.00%	0.00%	1.5%
12	Monthly Service Charge for Fire Sprinkler:			
13	4" or smaller	N/A	N/A	***
	6"	N/A	N/A	***
14	8"	N/A	N/A	***
	10"	N/A	N/A	***
15	Larger than 10"	N/A	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).

*** 1.00% of the Monthly Minimum for a 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.

19. Staff recommends a rate base of \$77,142, which is an increase of \$50,293 over the Company's proposed rate base of \$26,849. Staff increased plant by \$3,361, decreased accumulated depreciation by \$47,438 and decreased cash working capital by \$506. The adjustment to plant reflects reclassifying \$3,361 in operating expenses to Plant-in-Service for initial water quality tests associated with Well No. 2. Staff calculated the Accumulated Depreciation for each year from the time the plant was put in service in 1977 to the current year, which resulted in a decrease of \$47,438 over the Company-reported level.

20. In her comments, Ms. Hady indicated that Staff had depreciated plant that was already

1 fully depreciated. Staff responds that it did not depreciate plant already fully depreciated by the prior
2 owner. Staff states that an OCRB has not been established because the Company has not sought a
3 rate increase since its CC&N was issued in 1977, and that Staff depreciated plant from the time that it
4 was first devoted to public service through the test year dated December 31, 2001. In its Engineering
5 Report, Staff notes that invoices for plant additions made prior to the test year were not available, and
6 that the Company requested that Staff reconstruct these plant costs. Staff used reconstruction cost
7 new ("RCN") methods to develop its cost estimates.

8 21. There is no evidence that the plant balances as reflected in the Staff Report are not an
9 accurate representation of actual plant values. Staff's adjustments to rate base, as set forth in the
10 Staff Report, are reasonable and should be adopted. Thus, we find the Company's Fair Value Rate
11 Base ("FVRB") to be \$77,142 which is the same as its OCRB.

12 22. Staff did not adjust test year revenues. Staff's adjustments to Operating Expenses
13 resulted in a decrease of \$3,620, from \$19,679 to \$16,059. Staff reclassified \$224 to Repairs and
14 Maintenance from Outside Services, and decreased Water Testing by \$4,040, by reclassifying \$3,361
15 to Plant-in-Service and reducing Water Testing by \$679 to reflect Staff's recommended expense level
16 of \$1,204. Finally, Staff increased Depreciation Expense by \$420 based on Commission approved
17 depreciation rates. Staff's adjustments to Operating Expenses, as reflected in the Staff Report are
18 reasonable and should be adopted.

19 23. Staff's recommended rates and charges are based on a 5.5 percent return on OCRB,
20 and provide the Company with an expected \$8,725 in cash flow. Staff agreed with the Company that
21 it needs to increase rates, but believes that its recommended revenue increase was the most the
22 Company could support at this time given the length of time that the Company's current rates have
23 been in effect. Staff recommends that the Company should periodically review its rates.

24 24. Although the Company's application stated that all customers were receiving service
25 through 5/8 x 3/4 inch meters, a field inspection conducted on January 24, 2003, confirmed that one
26 customer is being served with a 1 inch meter. The Company has offered to replace the 1 inch meter
27 with a 5/8 inch meter free of charge. If the customer elects to retain the 1 inch meter, the Company
28 would realize a \$270 annual increase in revenues (the difference between the 1 inch meter rate of

1 \$37.50 and the 5/8 inch rate of \$15.00 times 12 months). Staff believes that increased revenue of this
2 magnitude is not material to change Staff's recommended rates.

3 25. In the test year Stratman's customers had an average monthly usage of 12,301 gallons
4 and a median monthly usage of 6,580 gallons.

5 26. The Company's proposed rates would increase the bill of a customer with median
6 usage by 202.7 percent, or \$27.52, from \$13.58 to \$41.10. and the bill of a customer with average
7 usage by 230.2 percent, or \$44.43, from \$19.30 to \$63.73.

8 27. Staff's proposed rates would increase the bill of a customer with median usage by
9 141.2 percent, or \$19.18, from \$13.58 to \$32.76, and the bill of a customer with average usage by
10 166.5 percent, or \$32.14, from \$19.30 to \$51.44.

11 28. The current rate structure includes 5,000 gallons in the monthly minimum and a single
12 commodity rate. Staff recommends a three tier rate structure instead of the Company's proposed two
13 tier structure to provide added incentive for customers to conserve. Both Staff and the Company
14 proposed eliminating the gallonage included in the monthly minimum.

15 29. Stratman is current on its property and sales tax payments.

16 30. ADEQ has determined that the system is currently delivering water than meets the
17 quality standards required by A.A.C., Title 18, Chapter 4.

18 31. Stratman's arsenic levels are within current standards, but at the time of the Staff
19 Report testing indicated that they exceed the new 10 ppb standards that will be enforced in 2006.¹

20 32. Staff reports that non-account water could not be calculated because the Company
21 does not have a well meter on Well No. 1 and the necessary data is not available.

22 33. Stratman is not within any Active Management Area ("AMA") and is not subject to
23 the Arizona Department of Water Resources ("DWR") monitoring and reporting requirements or
24 water conservation limits.

25 34. Staff further recommends:

26 (a) that the Company file, with the Director of the Utilities Division, a curtailment
27

28 ¹ Testing on November 25, 2001 indicates that the Company's arsenic level is less than 5 ppb.

1 tariff within 90 days after the effective date of this Decision, which tariff should comply with the
2 form outlined in the Engineering Report attached to the Staff Report;

3 (b) the Company adopt the depreciation rates set forth in Exhibit 6 of the Engineering
4 Report;

5 (c) that the Company install a well meter on Well No. 1 within 90 days of the
6 Effective Date of this Order and that the Company conduct monthly water loss monitoring, and
7 collect at least 12 months of water loss data prior to filing its next rate case;

8 (d) if the 12 months of water loss monitoring indicates that the annual water loss
9 exceeds 15 percent, Stratman should implement a water loss reduction plan immediately;

10 (e) that the Company submit an arsenic reduction removal plan to the Director of the
11 Utilities Division by December 31, 2004; and

12 (f) in addition to the collection of the Company's regular rates and charges, Stratman
13 collect from its customers their proportionate share of any Privilege, Sales or Use Tax as provided for
14 in A.A.C. R14-409.D.

15 (g) that the Commission order the Company to file for rate review no later than three
16 years from the effective date of the Decision if the Company has not filed a full rate case by that date.

17 35. In its Response to Ms. Hady's exceptions, Staff notes that as a result of the
18 Commission's Decision in this matter, each customer will receive notice of the newly approved rates.
19 Staff notes further that there are no Lifeline programs established for low income customers to apply
20 for reduced rates.

21 36. We find that Staff's recommended rates and charges are not necessarily unreasonable,
22 but that they result in too great a rate increase for customers. Although it is not the current owner's
23 fault that this Company has not sought regular rate increases, Mr. Lewis, knew, or should have
24 known, at the time he acquired the Company about the Company's current rate structure and its need
25 for capital improvements. We find that under the circumstances of this case, a revenue level of
26 \$22,750 is more reasonable. Based on the adjusted rate base and Operating Expenses approved
27 herein, our approved revenue level will result in Operating Income of \$3,425, a rate of return of 4.4
28 percent on FVRB, and provide an annual cash flow of \$7,906. We find that Staff's proposed monthly

1 minimum charge, the removal of all gallonage from the monthly minimum and a tiered rate structure
2 is reasonable and should be adopted. We direct the company to work with Staff to develop a rate
3 schedule that would produce our approved revenue level, and believe that most of the decrease from
4 Staff's proposed rates approved herein, should be made to the first tier of the commodity rates.
5 Staff's other recommended charges are reasonable and should be adopted. We believe that the
6 customer base of this company is too small to support a special Lifeline Rate for low income
7 customers.

8 CONCLUSIONS OF LAW

9 1. Stratman is a public service corporation within the meaning of Article XV of the
10 Arizona Constitution and A.R.S. §§ 40-250, 40-251, and 40-252.

11 2. The Commission has jurisdiction over Stratman and of the subject matter of the
12 application.

13 3. Notice of the application was given in accordance with the law.

14 4. The revenue requirement approved in Finding of Fact No. 36 is reasonable and should
15 be approved without a hearing.

16 5. The recommendations set forth in Findings of Fact No. 34 are reasonable and should
17 be adopted.

18 ORDER

19 IT IS THEREFORE ORDERED that Stratman Water Company is hereby authorized and
20 directed to file with the Commission on or before March 31, 2003, a new schedule of rates and
21 charges that complies with our findings in Findings of Fact No. 36.

22 IT IS FURTHER ORDERED that the new rates and charges shall be effective for all service
23 provided on and after April 1, 2003.

24 IT IS FURTHER ORDERED that Stratman Water Company, Inc. shall notify its customers of
25 the rates and charges authorized herein and the effective date of same by means of an insert in its
26 regular monthly bill.

27 IT IS FURTHER ORDERED that Stratman Water Company, Inc. shall file with the
28 Commission within 30 days from the date mailed to customers, a copy of the notice it provides its

1 customers of the new rates and charges.

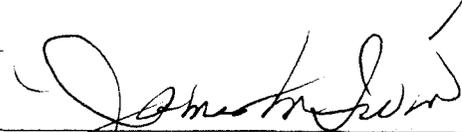
2 IT IS THEREFORE ORDERED that Stratman Water Company shall file for rate review no
3 later than three years from the effective date of the Decision if the Company has not filed a full rate
4 case by that date.

5 IT IS FURTHER ORDERED that Stratman Water Company, Inc. shall comply with the
6 recommendations set forth in Findings of Fact No. 34.

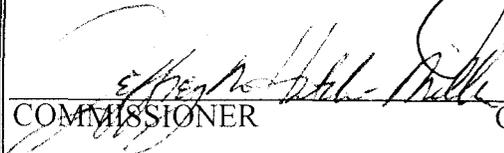
7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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10   
 CHAIRMAN COMMISSIONER COMMISSIONER

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12  
 COMMISSIONER COMMISSIONER

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15 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
16 Secretary of the Arizona Corporation Commission, have
17 hereunto set my hand and caused the official seal of the
18 Commission to be affixed at the Capitol, in the City of Phoenix,
19 this 20th day of MARCH, 2003.

20 
BRIAN C. McNEIL
EXECUTIVE SECRETARY

21 DISSENT _____

22 DISSENT _____

23 JR:

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1 SERVICE LIST FOR: STRATMAN WATER COMPANY

2 DOCKET NO.: W-03474A-02-0673

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