

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

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2005 SEP 13 P 1:46

DATE: September 13, 2005

DOCKET NO: W-02091A-05-0172

AZ CORP COMMISSION  
DOCUMENT CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Chief Administrative Law Judge Lyn Farmer. The recommendation has been filed in the form of an Order on:

PINECREST WATER COMPANY  
(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:

SEPTEMBER 22, 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 Commission's Open Meeting to be held on:

September 27 AND 28, 2005

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

BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

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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  
PINECREST WATER COMPANY FOR A  
PERMANENT RATE INCREASE.

DOCKET NO. W-02091A-05-0172

DECISION NO. \_\_\_\_\_

ORDER

Open Meeting  
September 27 and 28, 2005  
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. Pinecrest Water Company ("Pinecrest" or "Company") is an Arizona Corporation engaged in the business of providing water utility service to the public pursuant to authority granted by the Commission in Decision No. 40521 (February 25, 1970).

2. Pinecrest is located near Nutrioso, Apache County, Arizona, and provides service to approximately 41 residential customers. The Commission authorized Pinecrest's current rates in Decision No. 58422 (November 1, 1993).

3. On March 9, 2005, Pinecrest filed with the Commission an application for a permanent rate increase.

4. The Company mailed notice of its rate application to its customers on March 8, 2005.<sup>1</sup> There has been one customer response objecting to the proposed rate increase.

5. On April 8, 2005, the Commission's Utilities Division Staff ("Staff") filed an insufficiency letter.

<sup>1</sup> The notice indicated that the rates adopted by the Commission may be higher or lower than those requested by the Company.

- 1           6.     On May 17, 2005, the Company supplemented its application.
- 2           7.     On June 13, 2005, Staff filed its sufficiency letter and classified Pinecrest as a Class E
- 3 utility.
- 4           8.     On August 12, 2005, Staff filed its Staff Report recommending approval of the
- 5 application subject to certain modifications and conditions set forth in the Staff Report.
- 6           9.     The average and median usage on 5/8 x 3/4 inch customer meters during the test year
- 7 ending December 31, 2003 were 2,663 and 1,167 gallons per month ("gpm"), respectively.
- 8           10.    In the test year, as adjusted by Staff, Pinecrest realized an operating loss of \$6,910 on
- 9 an Original Cost Rate Base ("OCRB") of \$26,278.
- 10          11.    The Company proposed a revenue level of \$19,850 and operating income of \$8,093,
- 11 for a rate of return of 56.21 percent on an OCRB of \$14,397.
- 12          12.    Staff recommended a revenue level of \$20,400, resulting in an operating income of
- 13 \$2,606, for a rate of return of 9.92 percent on Staff's adjusted OCRB of \$26,278.
- 14          13.    Pinecrest's present and proposed rates and charges, as well as Staff's recommended
- 15 rates and charges, are as follows:

	Present Rates	Proposed Rates	
		<u>Company</u>	<u>Staff</u>
17	<u>MONTHLY USAGE CHARGE:</u>		
18	5/8" x 3/4" Meter	\$8.50	\$30.00
19	3/4" Meter	12.75	30.00
	1" Meter	21.25	30.00
20	1 1/2" Meter	42.50	0.00
	2" Meter	68.00	0.00
21	3" Meter	127.50	0.00
	4" Meter	212.50	0.00
22	6" Meter	425.00	0.00
23			1,500.00
24	<u>Gallonage Charge - per 1,000 Gallons</u>		
	<u>For 5/8" x 3/4" inch and 3/4" meters</u>		
25	Tier one from zero gallons to 3,500 gallons	2.75	
	Tier two all gallons over 3,500 gallons	3.25	
26	Tier one from zero gallons to 4,000 gallons		3.00
	Tier two all gallons over 4,000 gallons		3.75
27	Tier one from zero gallons to 3,000 gallons		3.25
28	Tier two all gallons over 3,000 gallons		5.50

SERVICE LINE AND METER INSTALLATION CHARGES:

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

5/8" x 3/4" Meter	\$285.00	\$625.00	\$625.00
3/4" Meter	320.00	675.00	675.00
1" Meter	360.00	810.00	810.00
1 1/2" Meter	545.00	n/a	n/a
2" Meter	915.00	n/a	n/a
3" Meter	1,150.00	n/a	n/a
4" Meter	1,885.00	n/a	n/a
6" Meter	3,780.00	n/a	n/a

SERVICE CHARGES:

Establishment	\$20.00	\$35.00	\$35.00
Establishment (After Hours)	30.00	40.00	40.00
Reconnection (Delinquent)	30.00	50.00	40.00
Reconnection (Delinquent) after hours	0.00	50.00	45.00
Meter Test (If Correct)	10.00	12.00	12.00
Deposit	*	*	*
Deposit Interest	*	*	*
Reestablishment (Within 12 Months)	**	**	**
NSF Check	12.00	25.00	25.00
Deferred Payment (per month)	18.00%	18.00%	***
Meter Re-Read (If Correct)	10.00	12.00	12.00
Late Fee	n/a	n/a	n/a

Monthly Service Charge for Fire Sprinkler

4" or Smaller	***	***	***
6"	***	***	***
8"	***	***	***
10"	***	***	***
Larger than 10"	***	***	***

\* 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 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.

14. In its Staff Report, Staff made adjustments that increased the Company's proposed rate base of \$14,397 to \$26,278. The increase of \$11,881 is attributable to Staff's adjustment to plant-in-service; cash working capital; accumulated depreciation; and customer deposits. Staff's adjustments to rate base, as reflected in the Staff Report, are reasonable and should be adopted.

1 Consequently, Pinecrest's Fair Value Rate Base ("FVRB") is determined to be \$26,278. The  
2 Company's FVRB is the same as its OCRB.

3 15. Staff adjusted the Company's operating expenses by \$5,398 to include payment for  
4 services to a certified operator; to increase water testing expenses; and to make minor adjustments to  
5 miscellaneous expense, postage, depreciation, and taxes other than income; for a total operating  
6 expense of \$17,155. Staff's adjustments to operating expenses, as reflected in the Staff Report, are  
7 reasonable and should be adopted.

8 16. The Company is currently utilizing a two-tier structure for water usage. Staff is  
9 recommending a continuation of the inverted block two-tier structure, instead of its usual three-tier  
10 rate design, due to the Company's small size and the already low customer consumption levels  
11 (average 2,663 gpm; median 1,167 gpm).

12 17. The Company's proposed rate schedule would increase the average monthly 5/8 x 3/4  
13 inch meter customer bill by \$17.92, or 89.3 percent, from \$20.07 to \$37.99, and the median monthly  
14 customer bill by \$17.54, or 109.0 percent, from \$15.96 to \$33.50.

15 18. Staff's recommended rates would increase the average monthly 5/8 x 3/4 inch meter  
16 customer bill by \$18.58, or 92.6 percent, from \$20.07 to \$38.65, and the median monthly customer  
17 bill by \$17.83, or 111.7 percent, from \$15.96 to \$33.79.

18 19. In its application, the Company stated that the revenue increase was necessary  
19 because the Company is served by unpaid volunteers and will need to consider compensating their  
20 operator and also because costs have continued to increase due to inflation, testing requirements, and  
21 repairs.

22 20. According to the Staff Report, a review of the Commission's records indicates that  
23 there were no complaints against the Company from 2002 to 2005.

24 21. The Company is current on all property and sales taxes and is in good standing with  
25 the Corporations Division of the Commission.

26 22. The Company is not located in an active management area and is not subject to  
27 conservation and monitoring requirements.

28 23. The Arizona Department of Environmental Quality ("ADEQ") reported that Pinecrest

1 is delivering water that meets the water quality standards required under Title 18, Chapter 4, of the  
2 Arizona Administrative Code.

3 24. The U.S. Environmental Protection Agency ("EPA") has reduced the maximum  
4 contaminant level ("MCL") for arsenic in drinking water from 50 parts per billion ("ppb") to 10 ppb,  
5 effective January 26, 2006. According to the Staff Report, the most recent laboratory analysis  
6 indicated that the arsenic level in the Company's source supply is 2.9 micrograms per liter. Based  
7 on this arsenic concentration, the Company is in compliance with the EPA's new arsenic standards.

8 25. Staff recommends that its proposed rates and charges be approved without a hearing.

9 26. Staff further recommends that:

10 (a) The Company may collect from its customers a proportionate share of any  
11 privilege, sales or use tax per Commission Rule A.A.C. 14-2-409(D)(5).

12 (b) The Company docket with the Commission a schedule of its approved rates and  
13 charges within 30 days after the Decision in this matter is issued.

14 (c) The Company be ordered to use the depreciation rates delineated in Exhibit 4 of  
15 the Engineering Report on a going forward basis.

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

17 **CONCLUSIONS OF LAW**

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

20 2. The Commission has jurisdiction over Pinecrest and of the subject matter of the  
21 application.

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

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

25 5. Staff's recommendations set forth in Findings of Fact Nos. 25 and 26 are reasonable  
26 and should be adopted.

27 **ORDER**

28 IT IS THEREFORE ORDERED that Pinecrest Water Company shall file with the

1 Commission's Docket Control Center, on or before September 30, 2005, the following schedule of  
 2 rates and charges:

3  
 4 MONTHLY USAGE CHARGE:

5	5/8" x 3/4" Meter	\$30.00
	3/4" Meter	30.00
6	1" Meter	75.00
7	1 1/2" Meter	150.00
	2" Meter	240.00
8	3" Meter	450.00
	4" Meter	750.00
9	6" Meter	1,500.00

10 Gallonage Charge- per 1,000 Gallons

11 For 5/8" x 3/4" inch and 3/4" meters

11	Tier one from zero gallons to 3,000 gallons	3.25
12	Tier two all gallons over 3,000 gallons	5.50

13  
 14 SERVICE LINE AND METER INSTALLATION CHARGES:

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

15	5/8" x 3/4" Meter	\$625.00
16	3/4" Meter	675.00
	1" Meter	810.00

17 SERVICE CHARGES:

18	Establishment	\$35.00
19	Establishment (After Hours)	40.00
	Reconnection (Delinquent)	40.00
20	Reconnection (Delinquent) after hours	45.00
	Meter Test (If Correct)	12.00
21	Deposit	*
	Deposit Interest	*
22	Reestablishment (Within 12 Months)	**
	NSF Check	25.00
23	Deferred Payment (per month)	***
24	Meter Re-Read (If Correct)	12.00
	<u>Monthly Service Charge for Fire Sprinkler</u>	
25	4" or Smaller	***
	6"	***
26	8"	***
	10"	***
27	Larger than 10"	***

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- \* 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 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.

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

IT IS FURTHER ORDERED that Pinecrest Water Company shall notify its customers of 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 Pinecrest Water Company shall file with the Commission's Docket Control a copy of the notice it sends to its customers within 60 days of the effective date of this Decision.

IT IS FURTHER ORDERED that Pinecrest Water Company is authorized to collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409(D)(5).

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

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 Director 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 \_\_\_\_ day of \_\_\_\_\_, 2005.

\_\_\_\_\_  
BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

LF:mj

1 SERVICE LIST FOR:

PINECREST WATER COMPANY

2 DOCKET NO.:

W-02091A-05-0172

3  
4 Nathan Castillo  
Pinecrest Water Company, Inc.  
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5 Nutrioso, AZ 85932

6 Christopher Kempley, Chief Counsel  
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