

# OPEN MEETING ITEM



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## ORIGINAL



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

### ARIZONA CORPORATION COMMISSION

22

DATE: October 3, 2005  
DOCKET NO: W-02368A-05-0419  
TO ALL PARTIES:

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

#### MIRABELL 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:

OCTOBER 12, 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:

OCTOBER 18 AND 19, 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.

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AZ CORP COMMISSION  
DOCUMENT CONTROL

BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

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 MIRABELL WATER COMPANY FOR A RATE  
10 INCREASE.

DOCKET NO. W-02368A-05-0419

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

**ORDER**

11 Open Meeting  
12 October 18 & 19, 2005  
13 Phoenix, Arizona

14 **BY THE COMMISSION:**

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

17 \* \* \* \* \*

18 **FINDINGS OF FACT**

19 1. On June 7, 2005, Mirabell Water Company ("Mirabell" or "Company"), filed an  
20 application with the Commission for a permanent rate increase.

21 2. On July 5, 2005, Commission Utility Division Staff ("Staff") filed notification that the  
22 application was sufficient and classified the Company as a Class E Utility.

23 3. On September 2, 2005, Staff filed a Staff Report recommending alternative rates to  
24 those proposed by the Company.

25 4. Mirabell mailed notice of the application to its customers on June 2, 2005. The  
26 Commission received three customer protests to the proposed rate increase.

27 5. Mirabell provides water utility service to approximately 62 customers in the "three  
28 points" area of Pima County, approximately 25 southwest of Tucson.

6. The Company's current rates were authorized in Decision No. 62977 (November 2,  
2000).

7. In its application, the Company utilized a Test Year of December 31, 2004.

1 8. The average and median usage on the 3/4 inch meters during the Test Year were 9,171  
2 and 6,583 gallons per month, respectively.

3 9. In the Test Year, as adjusted by Staff, Mirabell had Total Operating Revenue of  
4 \$37,056 and an Operating Income of \$2,169, on a Staff-adjusted Original Cost Rate Base ("OCRB")  
5 of \$20,362, for a 10.65 percent rate of return.

6 10. Mirabell proposed rates that would produce Total Operating Revenues of \$44,467 and  
7 Operating Income of \$3,475 (based on the Company's proposed operating expenses) for a 19.27  
8 percent rate of return on a Company-proposed OCRB of \$18,036.

9 11. Staff recommends rates that would produce Total Operating Revenue of \$40,911, an  
10 increase of \$3,855, or 10.4 percent, above adjusted Test Year Revenue. Staff's recommended  
11 revenue and operating expenses would provide Operating Income of \$8,280, for a 40.66 percent rate  
12 of return on adjusted OCRB of \$20,362.

13 12. The rates and charges for Mirabell at present, as proposed in the application, and as  
14 recommended by the Staff are as follows:

	<u>Present Rates</u>	<u>Proposed Company</u>	<u>Proposed Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$20.00	N/A	N/A
3/4" Meter	20.00	\$25.50	\$22.00
1" Meter	32.00	38.50	35.00
1 1/2" Meter	60.00	0.00	62.00
2" Meter	100.00	0.00	105.00
<u>COMMODITY CHARGE</u>			
<u>3/4 inch Meters</u>			
(Per 1,000 Gallons)			
0 to 10,000 gallons	\$2.25	N/A	N/A
0 to 8,000 gallons	N/A	\$2.75	N/A
0 to 4,000 gallons	N/A	N/A	\$2.00
Over 10,000 gallons	3.21	N/A	N/A
Over 8,000 gallons	N/A	3.85	N/A
4,001 - 12,000 gallons	N/A	N/A	2.75
Over 12,000 gallons	N/A	N/A	3.50

1	<u>1 inch Meters</u>			
	(Per 1,000 Gallons)			
2	0 to 10,000 gallons	\$2.25	N/A	N/A
3	0 to 8,000 gallons	N/A	\$2.75	N/A
	0 to 12,000 gallons	N/A	N/A	\$2.75
4	Over 10,000 gallons	\$3.21	N/A	N/A
	Over 8,000 gallons	N/A	\$3.85	N/A
5	Over 12,000 gallons	N/A	N/A	\$3.50

6

7 SERVICE LINE AND METER INSTALLATION CHARGES:

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

8		Present	Proposed	Proposed
		<u>Rates</u>	<u>Company</u>	<u>Staff</u>
9				
10	5/8" x 3/4" Meter	\$400.00	\$480.00	N/A
	3/4" Meter	400.00	480.00	\$480.00
11	1" Meter	470.00	575.00	575.00
	1 1/2" Meter	780.00	N/A	780.00
12	2" Meter	1,340.00	N/A	1,340.00

13

14 SERVICE CHARGE:

15	Establishment	\$25.00	\$25.00	\$25.00
16	Establishment (After Hours)	35.00	40.00	35.00
	Reconnection (Delinquent)	25.00	25.00	25.00
17	Meter Test (If Correct)	40.00	40.00	40.00
	Deposit	*	*	*
	Deposit Interest	*	*	*
18	Reestablishment (Within 12 Months)	**	**	**
	NSF Check	25.00	25.00	25.00
19	Deferred Payment	0.00%	1.00%	1.00%
20	Meter Reread (If Correct)	15.00	15.00	15.00

21

22

23 \* Per Commission rule A.A.C. R-14-2-403(B).  
 24 \*\* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

25 13. Staff recommends a rate base of \$20,362, which is \$2,326 greater than the \$18,036  
 26 proposed by the Company. Staff's adjustments increased plant in service and accumulated  
 27 depreciation by a net of \$3,556 to reflect the depreciation expense approved in the last rate case and  
 28 plant retirements; increased meter deposits by \$255 which were not included in the application; and

1 decreased the allowance for working capital by \$876 to reflect Staff's recommended operating  
2 expenses. Staff's adjustments as reflected in the Staff Report, are reasonable and should be adopted.  
3 Thus, Mirabell's OCRB is determined to be \$20,362, which is the same as its fair value rate base  
4 ("FVRB").

5 14. Staff made no adjustment to the Test Year operating revenue of \$37,056.

6 15. Staff's adjustments to Operating Expenses resulted in a net decrease of \$6,105, from  
7 \$40,992 to \$34,887. The most significant adjustments involved increasing Salaries and Wages  
8 Expense by \$2,340 to reflect the correct clerical salary expense; increasing Water Testing Expense by  
9 \$1,397 to reflect the Staff Engineer's recommended expense level; decreasing Transportation  
10 Expense by \$6,713 to remove the lease of a SAAB vehicle not necessary to Mirabell providing  
11 utility service, and other unsubstantiated expenditures; decreasing Insurance Expense to remove two  
12 years of insurance on the leased SAAB; and increasing Depreciation Expense by \$2,587 to reflect  
13 Staff's recommended Depreciation Expenses.

14 16. Staff recommends that Mirabell adopt the depreciation rates contained in Exhibit 4 of  
15 the Engineering Report attached to the Staff Report which are based on individual components rather  
16 than a composite basis.

17 17. Staff's adjustments to Operating Expenses, as set forth in the Staff Report, are  
18 reasonable and should be adopted.

19 18. Mirabell's current rate structure consists of two inverted block tiers with no gallons  
20 included in the monthly minimum. The current break point for the tiers is at 10,000 gallons. The  
21 Company proposed to maintain a two tier inverted block, but changing the break point from 10,000  
22 gallons to 8,000 gallons.

23 19. Mirabell currently serves two types of residential customers. The first, comprising 39  
24 connections, is served by a  $\frac{3}{4}$  inch meter; the second, comprising 23 connections, is served by a 1  
25 inch meter and typically represents a small ranch or horse property. The  $\frac{3}{4}$  inch meter customers  
26 utilized 58 percent of the total water sold, while the 1 inch customers accounted for 42 percent of the  
27 water sold. Staff's recommended rate structure was designed to implement a three tier structure for  
28

1 the ¾ inch meter customers, and a two tier block for the 1 inch meter customers. Staff's  
2 recommended first tier for the ¾ inch meter customers has its first break at 4,000 gallons and its  
3 second break at 12,000 gallons. Staff proposed two tiers for the 1 inch meter class, with the break at  
4 12,000 gallons.

5 20. Mirabell's proposed rate schedule would increase the average monthly ¾ inch meter  
6 customer bill by \$11.38, or 28.0 percent, from \$40.63 to \$52.01, and the median monthly customer  
7 bill by \$8.79, or 25.3 percent, from \$34.81 to \$43.60.

8 21. Staff's recommended rates would increase the average monthly ¾ inch meter  
9 customer bill by \$3.59, or 8.8 percent, from \$40.63 to \$44.22, and the median monthly customer bill  
10 by \$2.29, or 6.6 percent, from \$34.81 to \$37.10.

11 22. Staff's recommended rate structure encourages conservation and attempts to minimize  
12 the impact of the rate increase on low volume users.

13 23. Staff's recommended revenue and rate design are reasonable and should be adopted.

14 24. In Decision No. 62977, the Company's last rate case, the Commission ordered it to  
15 maintain its records in compliance with NARUC Uniform System of Accounts ("USOA"). Staff's  
16 audit in connection with the pending application indicated that the Company has failed to comply  
17 with this provision of Decision No. 62977. Staff recommends that within 120 days of the effective  
18 date of this Decision that the Company file an affidavit attesting to its completion of the altering its  
19 accounting system to be in compliance with NARUC USOA.

20 25. Mirabell is current on its sales and property tax payments.

21 26. The system is located within the Tucson Active Management Area. Because the  
22 Company has fewer than 500 customers and pumps less than 100 acre-feet per year, it is considered a  
23 "small provider" and not subject to the gallons per capita per day limit and conservation rules. The  
24 Company is only required to monitor and report water use. The Arizona Department of Water  
25 Resources ("ADWR") indicates that the Company is in compliance with its monitoring and reporting  
26 requirements.

1 27. Mirabell does not have an approved curtailment tariff. A curtailment tariff is an  
2 effective tool to allow a water company to manage its resources during periods of shortages due to  
3 pump breakdowns, droughts, or other unforeseen events. Staff recommends that within 45 days of  
4 the effective date of this Order, that the Company docket a curtailment tariff.

5 28. Staff's investigation indicates that in the Test Year the Company experienced a water  
6 loss of 11.3 percent. Staff recommends that within 120 days of a Decision in this case, the Company  
7 docket a detailed plan demonstrating how the Company will reduce its water loss to less than 10  
8 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-  
9 effective, the Company's filing should include a detailed cost analysis and explanation for why a  
10 water loss reduction to less than 10 percent is not cost-effective.

11 29. The U. S. Environmental Protection Agency announced that the arsenic standard for  
12 drinking water will be reduced from 50 parts per billion (ppb) to 10 ppb by 2006. The most recent  
13 analysis of the Company's well showed an arsenic level of 5.3 ppb. Based on these concentrations,  
14 the Company is currently in compliance with the new arsenic maximum containment level. In  
15 addition, the Arizona Department of Environmental Quality ("ADEQ") has determined that this  
16 system is currently delivering water that meets water quality standards required by Arizona  
17 Administrative Code, Title 18, Chapter 4.

18 30. Because an allowance for the property tax expense of Mirabell is included in the  
19 Company's rates and will be collected from its customers, the Commission seeks assurances from the  
20 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing  
21 authority. It has come to the Commission's attention that a number of water companies have been  
22 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,  
23 some for as many as twenty years. It is reasonable, therefore, that as a preventative measure Mirabell  
24 annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the  
25 company is current in paying its property taxes in Arizona.

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31. Staff further recommends:

- a. Mirabell file with Docket Control a tariff schedule that reflects Staff's recommended rates and charges within 30 days of the effective date of this Decision.
- b. That in addition to the collection of the Company's regular rates and charges, the Company shall collect from its customers their proportionate share of any privilege, sales or use taxes as provided for in A.A.C. R14-2-409(D).

**CONCLUSIONS OF LAW**

- 1. Mirabell 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 Mirabell and of the subject matter of the application.
- 3. Notice of the application was provided in the manner prescribed by law.
- 4. The rates and charges authorized hereinbelow are just and reasonable and should be approved without a hearing.
- 5. Staff's recommendations, as set forth in Findings of Fact Nos. 16, 24, 27, 28, 30 and 31, are reasonable and should be adopted.

**ORDER**

IT IS THEREFORE ORDERED that Mirabell Water Company is hereby directed to file on or before October 31, 2005, revised rate schedules setting forth the following rates and charges:

**MONTHLY USAGE CHARGE:**

¾" Meter	\$22.00
1" Meter	35.00
1 ½" Meter	62.00
2" Meter	105.00

**COMMODITY CHARGE**

¾ inch Meters (Per 1,000 Gallons)	
0 to 4,000 gallons	\$2.00
4,001 – 12,000 gallons	2.75
Over 12,000 gallons	3.50

1	<u>1 inch Meters</u>	
	(Per 1,000 Gallons)	
2	0 to 12,000 gallons	\$2.75
3	Over 12,000 gallons	\$3.50

4

5 SERVICE AND METER INSTALLAION CHARGES:  
 (Refundable pursuant to A.A.C. R14-2-405)

6	3/4" Meter	480.00
	1" Meter	575.00
7	1 1/2" Meter	780.00
	2" Meter	1,340.00

8

9 SERVICE CHARGES:

9	Establishment	\$25.00
10	Establishment (After Hours)	35.00
	Reconnection (Delinquent)	25.00
11	Meter Test (If Correct)	40.00
	Deposit	*
12	Deposit Interest	*
	Reestablishment (Within 12 Months)	**
13	NSF Check	25.00
14	Deferred Payment	1.00%
	Meter Reread (If Correct)	15.00

15

16

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

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

19

20 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service

21 provided on and after November 1, 2005.

22 IT IS FURTHER ORDERED that Mirabell Water Company shall notify its customers of the

23 rates and charges authorized hereinabove and the effective date of same by means of an insert in its

24 next regular monthly billing in a form and manner acceptable to the Commission's Utilities Division

25 Staff.

26 IT IS FURTHER ORDERED Mirabell Water Company shall on a going forward basis utilize

27 the depreciation rates contained in Exhibit 4 to the Engineering Report attached to the Staff Report.

28

1 IT IS FURTHER ORDERED that Mirabell Water Company shall maintain its books and  
2 records in accordance with NARUC Uniform System of Accounts, and shall file with Docket  
3 Control, within 120 days of the effective date of this Order, an affidavit attesting to its completion of  
4 the conversion of its accounting system to be in compliance with NARUC USOA.

5 IT IS FURTHER ORDERED that Mirabell Water Company shall file with Docket Control  
6 within 45 days of the effective date of this Decision, a Curtailment Plan Tariff that conforms to the  
7 form of tariff attached to the Staff Report for Staff's review and certification.

8 IT IS FURTHER ORDERED that Mirabell Water Company shall annually file as part of its  
9 annual report, an affidavit with the Utilities Division attesting that the Company is current in paying  
10 its property taxes in Arizona.

11 IT IS FURTHER ORDERED that Mirabell Water Company shall comply with the  
12 recommendations contained in Finding of Fact No. 31.

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

14 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

15  
16  
17 CHAIRMAN

COMMISSIONER

18  
19 COMMISSIONER

COMMISSIONER

COMMISSIONER

20 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
21 Director of the Arizona Corporation Commission, have  
22 hereunto set my hand and caused the official seal of the  
23 Commission to be affixed at the Capitol, in the City of Phoenix,  
24 this \_\_\_\_ day of \_\_\_\_\_, 2005.

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

26 DISSENT \_\_\_\_\_

27  
28 DISSENT \_\_\_\_\_

1 SERVICE LIST FOR: MIRABELLWATER COMPANY

2 DOCKET NO. W-02368A-05-0419

3  
4 Morton Friedman  
5 Mirabell Water Company  
6 1037 South Alvernon #250  
7 Tucson, Arizona 85711

8 Christopher Kempley, Chief Counsel  
9 Legal Division  
10 ARIZONA CORPORATION COMMISSION  
11 1200 W. Washington Street  
12 Phoenix, Arizona 85007

13 Ernest Johnson, Director  
14 Utilities Division  
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16 1200 W. Washington Street  
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