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BEFORE THE ARIZONA CORPORATION

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WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

SEP 04 2001

DOCKETED BY	VL
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IN THE MATTER OF THE APPLICATION OF
ROCKY LAKE WATER COMPANY FOR A
PERMANENT RATE INCREASE.

DOCKET NO. W-01498A-01-0223

DECISION NO. 64009

ORDER

Open Meeting
August 28 and 29, 2001
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:

DISCUSSION

On March 14, 2001, Rocky Lake Water Company ("Rocky Lake" or "Company") filed with the Commission an application for a permanent rate increase. On March 12, 2001, the Company provided notice of the requested rate increase to its customers by first-class mail. On June 27, 2001, the Commission's Utilities Division Staff ("Staff") filed its Staff Report recommending approval of rates and charges, many of which differ from those proposed by the Company. On August 6, 2001, the Company filed a Reply to the Staff Report.

The Company's current rate design and the rate design it originally proposed are single block rate structures. In its Reply, the Company stated it accepts Staff's proposed adjustment to rate base, operating revenues, operating expenses and rate of return. However, the Company disagreed with Staff's proposed rate design, and filed an alternative three-tiered inverted block rate structure ("Reply Rates"). It also disagreed with Staff's recommendation regarding service line and installation

1 charges.

2 Staff's recommended rate design is composed of a three-tiered inverted block rate structure.
3 This type of rate structure results in a higher cost for water as usage increases. Staff believes that its
4 recommended rate design is more compatible with conservation efforts and should be adopted.

5 The Company argues that if Staff's proposed rates are approved, water consumption and sales
6 will decrease due to conservation. As water sales decrease, the Company argues it will not earn the
7 rate of return proposed by Staff. The Company further argues that it does not have the growth¹ to
8 overcome revenue deficiencies from conservation.
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10 The Company states that a higher minimum Monthly Usage Charge combined with its Reply
11 Rates will ensure that conservation will have less impact on the Company's cash flow and earnings in
12 the future.

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14 The Commission has considered the Company's Reply Rates and understands the concerns
15 raised by the Company. However, we believe it is appropriate to approve Staff's proposed rates,
16 which allow for an increase in the Minimum Monthly Usage Charge and which should help alleviate
17 some of the Company's revenue concerns. Moreover, the Company will generate additional revenues
18 as it will charge its customers for the first 1,000 gallons used, which previously had been included as
19 part of the minimum Monthly Usage Charge. Furthermore, Staff's proposal promotes conservation,
20 while the Company's, for the most part, does not.

21
22 Currently, all of the Company's customers are 5/8 x 3/4-inch meter customers. The Company
23 charges those customers a minimum Monthly Usage Charge of \$8.60, which includes the first 1,000
24 gallons of water used, and then a flat rate of \$1.20 per 1,000 gallons for any amount of water used
25 over the initial 1,000 gallons.

26 Under the Company's Reply Rates, those same customers would pay the same \$1.20 per
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28 ¹ The Company added only 16 new customers in the Test Year.

1 thousand gallons for water usage from 0 to 7,000 gallons. Since the median usage in the community
2 is 6,574 gallons, the average customer's water usage will not be curbed, as they are not affected by
3 the Company's new proposed three-tiered inverted block rate structure. While the Company has
4 proposed a three-tiered inverted block rate structure that in theory should promote conservation, the
5 tiers, as designed, do not encourage most customers to conserve water. This is demonstrated by the
6 fact that the typical residential bill for a 5/8 x 3/4-inch meter customer having a median usage of
7 6,574 gallons increases by \$3.25. That increase is explained by the increase in the Monthly Usage
8 Charge of \$2.05 (\$10.65 minus \$8.60) and \$1.20 which is the \$1.20 per thousand gallons for the first
9 1,000 gallons used, which previously was included as part of the minimum Monthly Usage Charge.
10 The net result is that the typical residential bill increases due to increased flat rate charges and not
11 due to a higher cost for water as usage increases.
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14 In its Reply, the Company also raised the issue of service line and meter installation charges.
15 The Staff Report states the Company is not requesting service line and meter installation charges.
16 The Company indicates it wants continue to charge customers for those services, but that it is not
17 requesting an increase. Therefore, those charges should remain at the current level. The Commission
18 finds that the Company should continue to charge its customers for service line and meter installation
19 charges at the current rates.
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21 We find Staff's recommended rates to be reasonable, with the exception that the Company
22 should continue to charge its customers for service line and meter installation charges at the current
23 rates.

24 FINDINGS OF FACT

- 25 1. Rocky Lake Water Company is a C Corporation that was incorporated in Arizona in
26 1968.
27 2. On March 14, 2001, Rocky Lake Water Company filed with the Commission an
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1 application for a permanent rate increase.

2 3. On April 17, 2001, Staff notified the Company that its application was sufficient and
3 classified the Company as a Class D utility.

4 4. On June 27, 2001, Staff filed its Staff Report recommending approval of rates and
5 charges, many of which differ from those proposed by the Company.

6 5. On August 6, 2001, Rocky Lake filed a Reply to the Staff Report.

7 6. The Company's service area is 10 miles south of Safford, Arizona.

8 7. Rocky Lake's current rates and charges were authorized in Decision No. 55452
9 (March 4, 1987).

10 8. The Company provided notice of the requested rate increase to its customers by first-
11 class mail on March 12, 2001.

12 9. The Commission has received six comments and no written correspondence opposing
13 the amount of the rate increase. One of those comments was in support of a rate increase, but
14 opposed the increase that is currently proposed.

15 10. The Company had approximately 407 customers at the end of the 2000 Test Year. All
16 customers are served by 5/8 x 3/4-inch meters.

17 11. The median monthly usage for 5/8 x 3/4-inch meter customers is 6,574 gallons.

18 12. Based on the 2000 Test Year results, as adjusted by Staff, Rocky Lake realized an
19 operating loss of (\$464) on an adjusted Original Cost Rate Base ("OCRB") of \$32,142 resulting in no
20 rate of return.

21 13. In its original application, Rocky Lake requested total operating revenue of \$115,760,
22 which based on Company-adjusted expenses of \$109,430, would result in an operating income of
23 \$6,330 resulting in a 19.69 percent rate of return on adjusted OCRB.

24 14. In the Staff Report, Staff recommended rates that produce operating revenue of
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1 \$116,201, which based on Staff-adjusted expenses of \$109,411, yields an operating income of
 2 \$6,790, resulting in a 21.13 percent rate of return on adjusted OCRB.

3 15. Rocky Lake's present, proposed and Reply rates, as well as Staff's proposed rates, are
 4 as follows:

	Present Rates	Proposed Rates Company	Staff	Company Reply Rates
<u>Monthly Usage Charges</u>				
5/8" x 3/4" Meter	\$8.60	\$11.00	\$9.00	\$10.65
3/4" Meter	0.00	16.50	13.50	16.00
1" Meter	0.00	27.50	22.50	26.60
1 1/2" Meter	0.00	55.00	45.00	53.25
2" Meter	0.00	88.00	72.00	85.20
3" Meter	0.00	165.00	135.00	159.75
4" Meter	0.00	275.00	225.00	266.00
6" Meter	0.00	714.00	450.00	532.00
Gallons Included in Minimum	1,000	0	0	0
Excess of Minimum – per 1,000 gallons (0-5,000 gallons)	\$1.20	\$1.25	\$1.35	
5,001-20,000 gallons	\$1.20	\$1.25	\$1.50	
over 20,000 gallons	\$1.20	\$1.25	\$1.65	
Excess of Minimum – per 1,000 gallons (0 to 7,000 gallons)				\$1.20
7,001 to 25,000 gallons				\$1.35
over 25,000 gallons				\$1.55
<u>Service Line and Meter Installation Charges</u>				
5/8" x 3/4" Meter	\$500.00	\$0.00	\$0.00	\$500.00
3/4" Meter	535.00	0.00	0.00	535.00
1" Meter	660.00	0.00	0.00	660.00
1 1/2" Meter	1,025.00	0.00	0.00	1,025.00
2" Meter	1,315.00	0.00	0.00	1,315.00
3" Meter	0.00	0.00	0.00	0.00
4" Meter	0.00	0.00	0.00	0.00
6" Meter	0.00	0.00	0.00	0.00
<u>Service Charges</u>				
Establishment	\$10.00	\$30.00	\$30.00	\$30.00
Establishment (After Hours)	10.00	40.00	40.00	40.00
Reconnection (Delinquent)	10.00	30.00	30.00	30.00

1	Meter Test (If Correct)	20.00	45.00	45.00	45.00
	Deposit	*	*		*
2	Deposit Interest	*	*		*
3	Re-Establishment (Within 12 Months)	**	**		**
4	NSF Check	\$10.00	\$15.00	\$15.00	\$15.00
	Deferred Payment	1.50%	1.50%	****	****
5	Meter Re-Read (if correct)	\$0.00	\$5.00	\$5.00	\$5.00
6	Late Payment (per month)	0.00	0.00	1.50%	1.50%
7	<u>Monthly Service Charge for Fire Sprinkler</u>				
8	4" or smaller	\$0.00	\$0.00	***	***
	6"	0.00	0.00	***	***
9	8"	0.00	0.00	***	***
	10"	0.00	0.00	***	***
10	Larger than 10"	0.00	0.00	***	***

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12 * Per Commission Rules (R14-2-403.B).

13 ** Months off system times the minimum (R14-2-403.D)

14 *** 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.

15 **** 1.50 percent of the unpaid monthly balance.

16 16. Staff's adjustments increased the Company-proposed rate base by \$14,866, from
 17 \$17,276 to \$32,142. Staff's primary rate base adjustments are for decreased accumulated
 18 depreciation and decreased contributions in aid of construction. Staff's adjustments to rate base, as
 19 reflected in the Staff Report, are reasonable and should be adopted. Rocky Lake Water Company's
 20 Fair Value Rate Base ("FVRB") is determined to be \$32,142. The Company's FVRB is the same as
 21 its OCRB.
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23 17. Staff's adjustments to Operating Expenses resulted in a decrease of \$7,278, from
 24 \$109,430 to \$102,152. Staff recommended depreciation rates for individual plant categories. Staff's
 25 adjustments to revenues and expenses, as reflected in the Staff Report, are reasonable.

26 18. Based on the original rates proposed by the Company, the typical residential bill for a
 27 5/8 x 3/4-inch meter with a median usage of 6,574 gallons would increase from \$15.29 to \$19.22 for
 28

1 an increase of \$3.93, or 25.70 percent.

2 19. Based on the rates proposed by Staff, the typical residential bill for a 5/8 x 3/4-inch
3 meter with a median usage of 6,574 gallons would increase from \$15.29 to \$18.11 for an increase of
4 \$2.82, or 18.44 percent.

5 20. Based on the Company's proposed Reply Rates, the typical residential bill for a 5/8 x
6 3/4-inch meter customer having a median usage of 6,574 gallons would increase from \$15.29 to
7 \$18.54 for an increase of \$3.25, or 21.26 percent.

8 21. Staff recommended its proposed rates and charges be granted without a hearing.

9 22. The Company should continue to charge its customers for service line and meter
10 installation charges at the current rates.

11 23. Staff recommended that, in addition to the collection of the Company's regular rates
12 and charges, Rocky Lake shall collect from its customers their proportionate share of any Privilege,
13 State, or Use Tax as provided for in Commission Rules.

14 24. Staff also recommended that Rocky Lake install a well meter at each of the five active
15 wells, no later than 12 months from the effective date of a final order in this rate case.

16 25. Staff found that the Company's water storage was adequate and water loss was within
17 acceptable limits.

18 26. Staff has indicated that the Company is current on all of its property tax payments to
19 Graham County and in its collection and remittance of the State Sales Taxes.

20 27. The Arizona Department of Environmental Quality has determined that this system is
21 currently delivering water that does not exceed any MCL (maximum contaminant level) and meets
22 the water quality standards of the Safe Drinking Water Act.

23 28. Rocky Lake is not located within an Active Management Area, and therefore is not
24 subject to the Arizona Department of Water Resources conservation and monitoring requirements.
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CONCLUSIONS OF LAW

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2 1. Rocky Lake Water Company is a public service corporation within the meaning of
3 Article XV of the Arizona Corporation Commission and A.R.S. Sections 40-250 and 40-251.

4 2. The Commission has jurisdiction over Rocky Lake Water Company and of the subject
5 matter of the applications.
6

7 3. Notice of the applications was provided in the manner prescribed by law.

8 4. The rates and charges authorized hereafter are just and reasonable and should be
9 approved without a hearing.

10 5. The recommendations set forth in Findings of Fact Nos. 16, 17, 22, 23, and 24 are
11 reasonable and should be adopted.

ORDER

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13 IT IS THEREFORE ORDERED that Rocky Lake Water Company shall file on or
14 before August 31, 2001, the following schedule of rates and charges:
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MONTHLY USAGE CHARGES

16	5/8" x 3/4" Meter	\$9.00
17	3/4" Meter	13.50
18	1" Meter	22.50
19	1 1/2" Meter	45.00
20	2" Meter	72.00
21	3" Meter	135.00
22	4" Meter	225.00
23	6" Meter	450.00

COMMODITY RATES (per 1,000 gallons)

24	1 - 5,000 Gallons	\$1.35
25	5001 - 20,000 Gallons	\$1.50
26	In excess of 20,000 Gallons	\$1.65

SERVICE LINE AND METERINSTALLATION CHARGES

(Refundable Pursuant to A.A.C. R14-2-405(B))

27	5/8" x 3/4" Meter	\$500.00
28	3/4" Meter	535.00
	1" Meter	660.00

1	1 1/2" Meter	1,025.00
	2" Meter	1,315.00
2	3" Meter	0.00
	4" Meter	0.00
3	6" Meter	0.00

4 SERVICE CHARGES

5	Establishment	\$30.00
	Establishment (After Hours)	40.00
6	Reconnection (Delinquent)	30.00
	Meter Test (if correct)	45.00
7	Deposit	*
	Deposit Interest	*
8	Re-Establishment (Within 12 Months)	**
9	NSF Check	\$15.00
	Deferred Payment (Per Month)	****
10	Meter Re-Read (If Correct)	\$5.00
11	Late Payment (per month)	1.50%

12 MONTHLY SERVICE CHARGE FOR FIRE

13 SPRINKLER

14	4" or smaller	***
	6"	***
15	8"	***
	10"	***
16	Larger than 10"	***

17 * Per Commission Rules (R14-2-403.B).

18 ** Months off system times the minimum (R14-2-403.D)

19 *** 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.

20 **** 1.50 percent of unpaid monthly balance.

21 IT IS FURTHER ORDERED that the aforementioned rates shall become effective as of
 22 September 1, 2001.

23 IT IS FURTHER ORDERED that Rocky Lake Water Company shall notify its customers of
 24 the rates and charges authorized herein and the effective date of same by means of an insert in its next
 25 regular monthly billing and shall file a copy of said insert with the Utilities Division Director within
 26 30 days of the effective date of this Decision.

28 IT IS FURTHER ORDERED that Rocky Lake Water Company shall install a well meter at

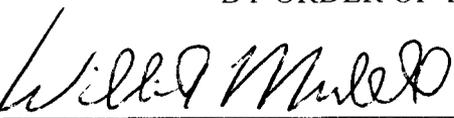
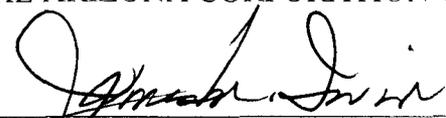
1 each of the five active wells, no later than 12 months from the effective date of this Decision.

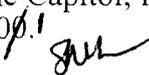
2 IT IS FURTHER ORDERED that Rocky Lake Water Company shall collect from its
3 customers their proportionate share of any Privilege, State, or Use Tax as provided for in A.A.C.

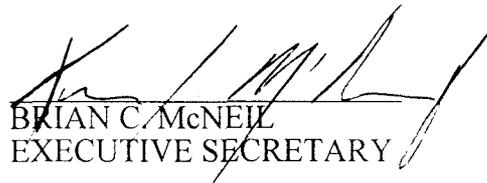
4 R14-2-409.D.

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

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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8  
9 CHAIRMAN COMMISSIONER COMMISSIONER

10 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
11 Secretary of the Arizona Corporation Commission, have
12 hereunto set my hand and caused the official seal of the
13 Commission to be affixed at the Capitol, in the City of Phoenix,
14 this 4th day of September, 2009. 

15 
16 BRIAN C. McNEIL
17 EXECUTIVE SECRETARY

18 DISSENT _____
19 PJD:mlj

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SERVICE LIST FOR: ROCKY LAKE WATER COMPANY
DOCKET NO.: W-01498A-01-0223

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