

OPEN MEETING ITEM

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



EXECUTIVE DIRECTOR

ARIZONA CORPORATION COMMISSION

DATE: March 20, 2006
DOCKET NO: SW-02573A-05-0843

TO ALL PARTIES:

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

KINGS RANCH UNIT II TREATMENT PLAN
(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:

MARCH 29, 2006

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:

APRIL 4 AND 5, 2006

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

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MAR 20 2006

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

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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 KINGS RANCH UNIT II TREATMENT PLANT
10 FOR AN INCREASE IN ITS WASTEWATER
11 RATES FOR CUSTOMERS WITHIN YAVAPAI
12 COUNTY, ARIZONA.

DOCKET NO. SW-02573A-05-0843

DECISION NO. _____

ORDER

13 Open Meeting
14 April 4 and 5, 2006
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 * * * * *

18 Having considered the entire record herein and being fully advised in the premises, the
19 Commission finds, concludes, and orders that:

20 **FINDINGS OF FACT**

21 1. Kings Ranch Unit II Treatment Plant ("Kings Ranch" or "Applicant" or "Company")
22 is an Arizona corporation, located in Black Canyon City. It is engaged in the business of providing
23 wastewater utility service to the public in a portion of Yavapai, County, Arizona, pursuant to
24 authority granted by the Commission in Decision No. 57447 (July 10, 1991).

25 2. Kings Ranch is a sole proprietorship owned by Mr. Philip Albins and its service area
26 is located in Black Canyon City, Yavapai County, Arizona, approximately 30 milles north of
27 Phoenix.

28 3. The Kings Ranch wastewater system was designed and built to serve 49 single family
lots on 50 acres of land in the Kings Ranch Unit II subdivision.

4. By 1998, all 49 lots had been sold; however, by the end of the test year ending
December 31, 2004, only 27 homes had been built and were occupied. According to Staff's Report,
as of November 21, 2005, 30 customers were receiving wastewater service from the Applicant.

1 5. Staff's Report notes that in the Company's three previous rate cases, it sought
2 Commission approval to charge the unoccupied lot owners a monthly non-user availability fee for
3 wastewater service, as a potential solution to the Company's on-going high rate/ low revenue issue.
4 The Commission has never approved a non-user fee; however, the Commission did allow, a one-time
5 establishment fee for unconnected lots, to allow the Company to distribute the capital cost of the
6 wastewater plant to new customers. Additionally, the funds from the establishment fee are not
7 segregated and therefore the Company could use the funds to help reduce operating losses.

8 6. Applicant's current rates and charges for wastewater service were approved in
9 Decision No. 64597 (March 4, 2002).

10 7. On November 16, 2005, Kings Ranch filed with the Arizona Corporation Commission
11 ("Commission" or "ACC") the above-captioned application for a permanent rate increase, using a test
12 year ending December 31, 2004.

13 8. On December 16, 2005, the Commission's Utilities Division ("Staff") determined that
14 the application was sufficient pursuant to A.A.C. R14-2-103 and classified Kings Ranch as a Class E
15 utility.

16 9. On December 21, 2005, Kings Ranch docketed notice that it mailed to all customers
17 on December 9, 2005 notification of its requested rate increase.

18 10. On January 9, 2006, Kings Ranch filed supplements to its application showing its
19 current and proposed service rate charges.

20 11. More than one dozen complaints were filed in response to the rate application. On
21 January 26, 2006, the Commission's Consumer Services Section ("Consumer Services") held an on-
22 site public comment meeting to allow homeowners to express their concerns. Consumer Services and
23 representatives from Staff appeared at the meeting on behalf of the Commission. Also more than 31
24 customers appeared and generally expressed concern that Kings Ranch already has the highest
25 monthly sewer rates in Arizona as well as a substantial establishment fee. Additionally, the customers
26 raised concerns over continuing net losses, and questioned whether there were inappropriate or high
27 expenses or a lack of audits or fiscal controls by the Company.
28

1 12. At the meeting, Staff offered as a potential solution to the on-going high rates/ low
2 revenue issue that the homeowners purchase the wastewater system from Mr. Albins and form their
3 own sanitation district as a way to reduce costs. Staff also stated Mr. Albins had expressed a
4 willingness to sell or give the system to the homeowners. Staff also explained that with small
5 wastewater systems like Kings Ranch it was virtually impossible to make a profit and that the
6 Commission had granted the Company's prior rate increases because the Company was losing
7 money. Also Staff explained that if the homeowners were to form their own sanitation district the
8 profit motive would be removed because they would only need to be concerned about covering costs
9 and, as a district, the homeowners could charge a non-user fee to lot owners who are not using the
10 system because they would no longer be under Commission jurisdiction.

11 13. On February 14, 2006, Staff filed its Staff Report recommending approval of the rate
12 application as requested by the Company.

13 14. According to Staff's Report, the Company is in total compliance with the Arizona
14 Department of Environmental Quality ("ADEQ") rules and regulations.

15 15. According to the Utilities Division Compliance Section, the Company has no
16 outstanding ACC compliance issues.

17 16. The Company is current on all its property taxes.

18 17. The Company does not collect a sales tax and has no sales tax obligation related to its
19 wastewater services.

20 18. According to Staff's Report, Kings Ranch's sewage collection system consists of six-
21 inch and eight-inch sewer lines and one lift station. The system has the capacity to treat a nominal
22 9,000 gallons per day and secondary effluent is disinfected, dechlorinated and discharged into the
23 Agua Fria River.

24 19. Staff concluded that based on estimated flows the current Kings Ranch facility has
25 adequate capacity to serve all 49 lots at build out.

26 20. In its Staff Report, Staff made an adjustment to rate base that resulted in an increase of
27 \$279. The increase is to plant in service and resulted in no change to total plant values, but
28

1 reclassified the values to comply with the individual National Association of Regulatory Utility
2 Commissioners ("NARUC") categories instead of a standard 5% depreciation rate for every category.
3 Staff recommends that Kings Ranch use the depreciation rates for individual NARUC categories on a
4 going-forward basis.

5 21. Kings Ranch's proposed rates, as filed, would produce revenues of \$45,780, resulting
6 in an operating loss of \$27 and no return on a Company proposed original cost less depreciation
7 ("OCLD") rate base of \$90,861. The proposed rates would increase monthly residential rates from
8 \$80 to \$95 or 18.75 percent.

9 22. In the test year, as adjusted by Staff, Kings Ranch experienced an operating loss of
10 \$7,156, resulting in no return on an OCLD a rate base of \$91,140.

11 23. Staff recommends a revenue level of \$49,200, resulting in an operating income of
12 \$1,244 and a 1.36 percent rate of return on a Staff recommended OCLD rate base of \$91,140. Staff's
13 recommended revenue would mirror the Company's proposed increase for monthly residential bills
14 from \$80 to \$95 or a 18.75 percent increase.

15 24. Kings Ranch proposed operating revenues of \$37,920 for the test year, which included
16 a pro forma adjustment of \$5,920 to include new customers acquired outside the test year. Staff
17 recommended test year operating revenues of \$40,800. Staff increased the test year flat-rate revenues
18 by \$2,880 to reflect the normalization of revenues to account for the increase in customers.

19 25. Staff made adjustments to the test year operating expenses, which resulted in an
20 increase of \$2,149. Staff transferred \$3,600 from contractual services to salaries and wages to
21 account for office and billing services. Further, Staff reduced other accounts by \$2,009 to reflect the
22 transfer of \$3,600 to salaries and wages; \$458 was removed for overcharges by the contract operator
23 during the test year; and Staff increased the account by \$2,049 to normalize a mid-test year price
24 increase from the contract operator.

25 26. Staff also increased the test year regulatory commission expense by \$638 to reflect the
26 outside accountant's fees for rate case preparation billed after the test year in the amount of \$2,550
27 and Staff's use of a four-year normalization period.
28

1 27. Staff decreased test year depreciation expense by \$80 to reflect Staff's recommended
2 new depreciation rates.

3 28. Kings Ranch recorded operating expenses of \$45,807 for the test year, resulting in a
4 \$7,887 operating loss. Staff recommends test year operating expenses of \$47,956, resulting in a
5 recommended \$7,156 operating loss.

6 29. According to the Company's application, it proposes to increase the one-time
7 establishment fee per unconnected lot from \$4,000 to \$5,000 for new customers, leaving current
8 customers unaffected. Staff concurs with the Company's proposed one-time establishment fee per
9 unconnected lot at \$5,000, to help mitigate the Company's previous operating losses and to allow it a
10 very small rate of return under the new recommended rates.

11 30. The Company's current growth rate is approximately three new customers per year.

12 31. The Company reported a \$29,891 per year expense for professional services from
13 "Jack Muir Enterprises" for the operation of the wastewater treatment plant. That fee includes daily
14 visits to the plant and pumping station and general maintenance to the system. Staff concluded that
15 the amount was reasonable for the work performed and is comparable to wages for other similar
16 wastewater operators.

17 32. Staff recommends that the Commission grant the rate increase requested by the
18 Company, as adjusted by Staff's recommendations. The Company does not oppose Staff's
19 recommendations.

20 33. The rates and charges for Applicant at present, as proposed in the application, and as
21 recommended by Staff are as follows:

	<u>Present</u> <u>Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
Flat Rate	\$80.00	\$95.00	\$95.00
<u>SERVICE CHARGES:</u>			
One-Time Establishment Fee per Unconnected Lot	\$4,000.00	\$5,000.00	\$5,000.00
Establishment Fee (R14-2-603.D.1)	\$20.00	\$20.00	\$20.00
Reconnection (Delinquent) (R14-2-603.D.1)	\$20.00	\$20.00	\$20.00

1 represents a viable alternative to current ownership. Absent creation of an improvement district, we
2 expect the Company prior to its next rate case filing to take every possible action to bring its costs
3 under control, while maintaining safe and reliable service. In its next rate case filing, we expect Staff
4 to carefully scrutinize all of the Company's operations and provide recommendations as to how rates
5 can be brought under control.

6 **CONCLUSIONS OF LAW**

7 1. Kings Ranch is a public service corporation within the meaning of Article XV of the
8 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301 and 40-302.

9 2. The Commission has jurisdiction over Kings Ranch and of the subject matter of the
10 application.

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

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

14 5. Staff's recommendations, as set forth in Findings of Fact Nos. 33 and 34 are
15 reasonable and should be adopted.

16 **ORDER**

17 IT IS THEREFORE ORDERED that Kings Ranch Unit Treatment Plan is hereby directed to
18 file on or before April 28, 2006 revised rate schedules setting forth the following rates and charges:

19 **MONTHLY USAGE CHARGE:**

20 Flat Rate \$95.00

21 **SERVICE CHARGES:**

22	One-Time Establishment Fee per Unconnected Lot	\$5,000.00
23	Establishment	\$20.00
24	Reconnection (Delinquent)	\$20.00
25	Deposit	*
26	Deposit Interest (Per Annum)	*
27	Reestablishment (Within 12 Months)	**
28	NSF Check	\$15.00
	Late Fee (Per Month)	1.50%
	Deferred Payment (Per Month)	1.50%

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* Per Commission rule A.A.C. R-14-2-603(B).
** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-603(D).

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after May 1, 2006.

IT IS FURTHER ORDERED that Kings Ranch Unit II Treatment Plant shall notify its customers of the rates and charges authorized hereinabove and the effective date of same by means of an insert in its next regular monthly billing.

IT IS FURTHER ORDERED that Kings Ranch Unit II Treatment Plant is hereby directed to comply with the Staff recommendations set forth in Findings of Fact Nos. 33 and 34.

IT IS FURTHER ORDERED that Kings Ranch Unit II Treatment Plant shall file as a part of its annual report, an affidavit with the Utilities Division attesting that the Company is current on paying its property taxes in Arizona.

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1 IT IS FURTHER ORDERED that Staff shall contact representatives of the Kings Ranch Unit
2 II Treatment Plant and its customers, within 60 days of this Decision, to determine if creation of a
3 wastewater improvement district represents a viable alternative to current ownership. Absent
4 creation of a wastewater improvement district, Kings Ranch Unit II Treatment Plant shall, prior to its
5 next rate case filing, take every possible action to bring its costs under control, while maintaining safe
6 and reliable service. In Kings Ranch Unit II Treatment Plant's next rate case filing, Staff shall
7 carefully scrutinize all of King Ranch Unit II Treatment Plant's operations and provide
8 recommendations as to how rates can be brought under control.

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

10 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

11
12
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14 CHAIRMAN

COMMISSIONER

15
16
17 COMMISSIONER

COMMISSIONER

COMMISSIONER

18
19 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
20 Director of the Arizona Corporation Commission, have
21 hereunto set my hand and caused the official seal of the
22 Commission to be affixed at the Capitol, in the City of Phoenix,
23 this ____ day of _____, 2006.

24 BRIAN C. McNEIL
EXECUTIVE DIRECTOR

25 DISSENT _____

26
27 DISSENT _____

28 YBK:mj

1 SERVICE LIST FOR:

KINGS RANCH UNIT II TREATMENT PLANT

2 DOCKET NO.

SW-02573A-05-0843

3 Philip Albins
Kings Ranch Unit II Treatment Plant
4 P.O. Box 109
Black Canyon City, AZ 85324

5 Christopher Kempley, Chief Counsel
6 Legal Division
ARIZONA CORPORATION COMMISSION
7 1200 West Washington Street
Phoenix, AZ 85007

8 Ernest G. Johnson, Director
9 Utilities Division
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