

OPEN MEETING ITEM

ORIGINAL



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

ARIZONA CORPORATION COMMISSION

22

DATE: May 9, 2006
DOCKET NO.: W-02448A-05-0745
TO ALL PARTIES:

RECEIVED
2006 MAY - 9 A 9:41
AZ CORP COMMISSIO
DOCUMENT CONTROL

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

HIGH COUNTRY PINES WATER COMPANY, INC.
(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:

MAY 18, 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 Open Meeting to be held on:

MAY 31 AND JUNE 1, 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.

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 HIGH COUNTRY PINES WATER COMPANY,
10 INC. FOR A PERMANENT RATE INCREASE.

DOCKET NO. W-02448A-05-0745

DECISION NO. _____

ORDER

9 Open Meeting
10 May 31 and June 1, 2006
11 Phoenix, Arizona

12 **BY THE COMMISSION:**

13 On October 21, 2005, High Country Pines Water Company, Inc. (“Applicant” or “Company”)
14 filed with the Arizona Corporation Commission (“Commission”) an application for a permanent rate
15 increase in its water rates and charges.

16 On November 18, 2005, pursuant to A.A.C. R14-2-103, the Commission’s Utilities Division
17 (“Staff”) issued a notice of deficiency with respect to the Company’s rate application.

18 On February 6, 2006, pursuant to A.A.C. R14-2-103, Staff issued a notice of sufficiency and
19 classified the Company as a Class D utility.

20 On April 24, 2006, Staff filed its report, recommending that the proposed rate increase filed
21 by the Company be denied.

22 * * * * *

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

FINDINGS OF FACT

25 1. Pursuant to authority granted by the Commission, Applicant is an Arizona corporation
26 engaged in the business of providing water service in an area approximately 1 mile west of Heber in
27 Navajo County, Arizona.

28 2. Applicant’s present rates and charges for water were approved in Decision No. 66514

1 (November 10, 2003).

2 3. On October 21, 2005, the Company filed an application requesting authority to
3 increase its rates and charges for water service.

4 4. Applicant provided notice to its customers of its proposed rate increase by first class
5 U.S. mail and, in response thereto, two telephonic protests have been received by the Commission
6 opposing Applicant's proposed increase.

7 5. On February 5, 2006, Staff filed notice that the Company's rate application had met
8 the Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

9 6. During the test year ended December 31, 2004 ("TY"), Applicant served 150 metered
10 customers, the majority of which are residential users who are served by 5/8" x 3/4" meters.

11 7. Average and median water usage by residential users during the TY were 4,800 and
12 1,118 gallons per month, respectively.

13 8. Staff conducted an investigation of Applicant's proposed rates and charges for water
14 service and filed its Staff Report on the Company's rate application request on April 24, 2006 and is
15 recommending that the Company's proposed rate increase be denied, that the Company's service line
16 and meter installation charges reflect separate charges for meters and service lines and its other
17 service charges remain basically unchanged because existing service charges are reasonable and
18 because the Company failed to provide adequate evidence to support its proposed increases.

19 9. The water rates and charges for Applicant at present, as proposed in the Application
20 and as recommended by Staff (to continue the Company's present rates) are as follows:

| | Present Rates | Proposed Rates | |
|---------------------------------|------------------|----------------|--------------|
| | | <u>Company</u> | <u>Staff</u> |
| 23 <u>MONTHLY USAGE CHARGE:</u> | | | |
| 24 5/8" x 3/4" Meter | \$20.00 | \$22.00 | \$20.00 |
| 25 3/4" Meter | 30.00 | 33.00 | 30.00 |
| 26 1" Meter | 50.00 | 55.00 | 50.00 |
| 27 1 1/2" Meter | 100.00 | 110.00 | 100.00 |
| 28 2" Meter | 136.00 | 145.00 | 136.00 |
| 3" Meter | 255.00 | 260.00 | 255.00 |
| 4" Meter | \$370.00 | \$380.00 | \$370.00 |
| 6" Meter | 900.00 | 950.00 | 900.00 |

1 Gallons Included in Minimum 0 0 0

2 **Commodity Rate (Residential and**
 3 **Commercial)**
 4 **5/8 Inch to 6 Inch Meters (per 1,000**
 4 **gallons)**

5 0 to 2,000 gallons \$3.50 \$3.68 \$3.50
 6 2,001 to 10,000 gallons 3.75 3.94 3.75
 7 Over 10,000 Gallons 4.00 4.20 4.00

8 **Special Rates for Salvation Army**
 8 **Youth Camp**

9 4" Meter – Monthly Usage Charge \$275.00 \$288.00 \$275.00

10 Gallons included in the minimum 0 0 0

11 Commodity Rate:
 12 4" Meter (per 1,000 gallons)
 13 Excess of Minimum – per 1,000
 14 gallons \$2.875 \$3.00 \$2.875

15
 16 **SERVICE LINE AND METER INSTALLATION CHARGES (A):**
 16 **(Refundable pursuant to A.A.C. R14-2-405)**

| | Present Rates | Proposed Rates | | | | Company and Staff Total |
|----------------------|---------------|----------------|----------|-----------|----------|-------------------------|
| | | Company | | Staff | | |
| | Total | Meter | Line | Meter | Line | Total |
| 18 5/8" x 3/4" Meter | \$ 400.00 | \$ 105.00 | \$300.00 | \$ 105.00 | \$300.00 | \$ 405.00 |
| 19 3/4" Meter | 425.00 | 131.25 | 300.00 | 131.25 | 300.00 | 431.25 |
| 20 1" Meter | 510.00 | 189.00 | 330.00 | 189.00 | 330.00 | 431.00 |
| 20 1 1/2" Meter | 770.00 | 441.00 | 350.00 | 441.00 | 350.00 | 791.00 |
| 21 2" Meter | 1,340.00 | 1,008.00 | 380.00 | 1,008.00 | 380.00 | 1,388.00 |
| 21 3" Meter | 1,870.00 | 1,522.50 | 420.00 | 1,522.00 | 420.00 | 1,942.00 |
| 22 4" Meter | 2,930.00 | 2,404.00 | 640.00 | 2,404.00 | 640.00 | 3,044.00 |
| 23 6" Meter | 5,610.00 | 4,882.50 | 960.00 | 4,882.50 | 960.00 | 5,842.50 |

24 (A) Company states only meter charges are applicable, because water lines are already installed.
 24 Therefore, new customers would be charged only the applicable meter installation fee.

25 **SERVICE CHARGES:**

26 Establishment \$40.00 \$42.00 \$40.00
 27 Establishment (After Hours) 60.00 63.00 60.00
 28 Reconnection (Delinquent) 40.00 42.00 40.00

| | | | | |
|---|---------------------------------------|-------|-------|-------|
| 1 | Reconnection (Delinquent) after hours | 60.00 | 63.00 | 60.00 |
| | Meter Test (If Correct) | 50.00 | 52.50 | 50.00 |
| 2 | Deposit | * | * | * |
| | Deposit Residential | * | * | * |
| 3 | Deposit Non-Residential | * | * | * |
| | Deposit Interest | * | * | * |
| 4 | Reestablishment (Within 12 Months) | ** | ** | ** |
| | NSF Check | 20.00 | 25.00 | 20.00 |
| 5 | Deferred Payment (Per Month) | 1.50% | 1.50% | 1.50% |
| 6 | Meter Reread (If Correct) | 20.00 | 25.00 | 20.00 |
| | Late Fee (per month) | 1.50% | 5.00 | 1.50% |
| 7 | Call Out Fee | 40.00 | 42.00 | 40.00 |

8

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

10 ** Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

11 10. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined
 12 to be a negative \$121,045 which is the same as its original cost rate base. The Company's FVRB
 13 reflects an increase by Staff of Applicant's proposed FVRB due in large part to an increase in the
 14 amortization of contributions in aid of construction ("CIAC") of \$2,650 and an increase in working
 15 capital of \$4,060.

16 11. Staff increased Applicant's TY operating expenses by \$2,154 primarily due to an
 17 adjustment for income tax expense due to Staff's adjustments to other operating expenses and the
 18 resulting operating income.

19 12. Applicant's present water rates and charges produced operating revenues of \$80,273
 20 and adjusted operating expenses of \$58,596 which resulted in operating income of \$21,677 during the
 21 TY.¹

22 13. The water rates and charges Applicant proposed would produce operating revenues of
 23 \$87,121 and adjusted operating expenses of \$58,596 resulting in net operating income of \$28,525,
 24 but due to the Company's negative rate base, it results in no rate of return.

25 14. Staff is recommending that the water rates and charges of the Company remain
 26 unchanged because Applicant's existing rates provide it with sufficient operating income to amply

27

28 ¹ Although this equates to no return on FVRB due to the Company's negative rate base, Applicant's existing rates provide the Company with a 27 percent operating margin.

1 meet its operating expenses and because after considering Applicant's non-cash depreciation expense
2 of \$14,980, the Company has a positive cash flow of \$36,657.

3 15. Applicant's proposed rate schedule would increase the average monthly customer
4 water bill by 7.7 percent, from \$37.50 to \$40.39, and the median monthly customer water bill by 9.2
5 percent, from \$23.91 to \$26.11.

6 16. Staff's recommended rates would continue the average monthly customer water bill at
7 \$37.50 and continue the median monthly customer water bill at \$23.91.

8 17. According to the Staff Report, Applicant is in compliance with its Commission
9 compliance action filings and prior Commission Orders. Additionally, according to Staff, Applicant
10 is current on the payment of its property taxes and its sales taxes, is providing water which meets the
11 requirements of the Safe Drinking Water Act and its water sources are well below the new arsenic
12 standard of 10 parts per billion.

13 18. The Company has previously filed its Curtailment Tariff with the Commission.

14 19. Aside from recommending no change in the Company's rates and only minor changes
15 to Applicant's Service line and meter installation charges, Staff is additionally recommending that the
16 Commission order the following:

- 17
- 18 • that Applicant notify its customers of the water rates and charges approved hereinafter
19 and their effective date by means of an insert in its next monthly billing and file a copy
20 of the notice sent to its customers with the Compliance Section of the Utilities
21 Division ("Compliance Section");
 - 22 • that Applicant file, on or before June 30, 2006, as a compliance item in this docket,
23 with the Commission's Docket Control, a copy of the schedule of its approved rates
24 and charges;
 - 25 • that the Company's proposed separate service line charges and separate meter
26 installation charges be adopted; and
 - 27 • that Applicant, in addition to the collection of its regular rates and charges, collect
28 from its customers their proportionate share of any privilege, sales, or use tax as
provided for in A.A.C. R14-2-409(D).

20. Because an allowance for the property tax expense of Applicant is included in the

1 Company's rates and will be collected from its customers, the Commission seeks assurances from the
2 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing
3 authority. It has come to the Commission's attention that a number of water companies have been
4 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,
5 some for as many as twenty years. It is reasonable, therefore, that as a preventive measure the
6 Company shall annually file, as part of its annual report, an affidavit with the Utilities Division
7 attesting that the company is current in paying its property taxes in Arizona.

8 21. Under the circumstances, we shall adopt Staff's recommendation to deny the rate
9 increase and order the Company to continue to charge its present rates for water usage with minor
10 changes to its service line and meter installation charges. We also concur with Staff's additional
11 recommendations and shall order their adoption hereinafter.

12 CONCLUSIONS OF LAW

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

15 2. The Commission has jurisdiction over Applicant and the subject matter of the
16 application.

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

18 4. Under the circumstances discussed herein, the rates and charges for Applicant as
19 authorized hereinafter are just and reasonable and should be approved without a hearing.

20 5. Staff's recommendations, as set forth in Findings of Fact No. 19, are reasonable and
21 should be adopted.

22 6. The Applicant should comply with Staff's recommendations as set forth in Findings of
23 Fact No. 19.

24 7. Based on our findings and in light of Staff's recommendations, no hearing is
25 necessary.

26 ORDER

27 IT IS THEREFORE ORDERED that High Country Pines Water Company, Inc. is hereby
28 directed to file on or before June 30, 2006, revised rate schedules setting forth the following rates and

1 charges:

2 MONTHLY USAGE CHARGE:

| | | |
|---|-------------------|---------|
| 3 | 5/8" x 3/4" Meter | \$20.00 |
| 4 | 3/4" Meter | 30.00 |
| | 1" Meter | 50.00 |
| 5 | 1 1/2" Meter | 100.00 |
| 6 | 2" Meter | 136.00 |
| | 3" Meter | 255.00 |
| 7 | 4" Meter | 370.00 |
| | 6" Meter | 900.00 |

8 Gallonge Charge (per 1,000 gallons)

| | | |
|----|-------------------------|--------|
| 9 | | |
| 10 | 0 to 2,000 gallons | \$3.50 |
| | 2,001 to 10,000 gallons | 3.75 |
| 11 | Over 10,000 Gallons | 4.00 |

12 Special Rates for Salvation Army Youth
13 Camp

| | | |
|----|---------------------------------|----------|
| 14 | 4" Meter – Monthly Usage Charge | \$275.00 |
|----|---------------------------------|----------|

| | | |
|----|---|---------|
| 15 | <u>Gallonage charge (per 1,000 gallons)</u> | \$2.875 |
|----|---|---------|

16

17 Service Line and Meter Installation Charges (A):
18 (Refundable pursuant to A.A.C. R14-2-405)

| | | | | |
|----|-------------------|--------------|-------------|--------------|
| 19 | | <u>Meter</u> | <u>Line</u> | <u>Total</u> |
| 20 | 5/8" x 3/4" Meter | \$ 105.00 | \$ 300.00 | \$ 405.00 |
| | 3/4" Meter | 131.25 | 300.00 | 431.25 |
| 21 | 1" Meter | 189.00 | 330.00 | 431.00 |
| | 1 1/2" Meter | 441.00 | 350.00 | 791.00 |
| 22 | 2" Meter | 1,008.00 | 380.00 | 1,388.00 |
| | 3" Meter | 1,522.00 | 420.00 | 1,942.00 |
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| 24 | 6" Meter | 4,882.50 | 960.00 | 5,842.50 |

25 (A) Only meter charges are applicable, because water lines are already installed. Therefore, new
26 customers would be charged only the applicable meter installation fee.

27 ...
28 ...

SERVICE CHARGES:

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|---------------------------------------|---------|
| Establishment | \$40.00 |
| Establishment (After Hours) | 60.00 |
| Reconnection (Delinquent) | 40.00 |
| Reconnection (Delinquent) after hours | 60.00 |
| Meter Test (If Correct) | 50.00 |
| Deposit | * |
| Deposit Residential | * |
| Deposit Non-Residential | * |
| Deposit Interest | * |
| Reestablishment (Within 12 Months) | ** |
| NSF Check | 20.00 |
| Deferred Payment (Per Month) | 1.50% |
| Meter Reread (If Correct) | 20.00 |
| Late Fee (per month) | 1.50% |
| Call Out Fee | 40.00 |

- * Per Commission rule A.A.C. R-14-2-403(B).
- ** Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

IT IS FURTHER ORDERED that High Country Pines Water Company, Inc. shall notify its customers of the water rates and charges approved hereinafter and their effective date by means of an insert in its next monthly billing and file a copy of the notice when sent to its customers with the Compliance Section of the Utilities Division.

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

IT IS FURTHER ORDERED that High Country Pines Water Company, Inc. is hereby directed to comply with Staff's recommendations as set forth in Findings of Fact No. 19.

IT IS FURTHER ORDERED that High Country Pines Water Company, Inc. shall file, on or before June 30, 2006, a copy of the schedule of its approved rates and charges.

...
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...

1 IT IS FURTHER ORDERED that High Country Pines Water Company, Inc. shall annually
2 file as part of its annual report, an affidavit with the Utilities Division attesting that the Company is
3 current in paying its property taxes in Arizona.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7
8

9 CHAIRMAN _____ COMMISSIONER _____

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12
13 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

14
15 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
16 Director 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 ____ day of _____, 2006.

20
21 _____
22 BRIAN C. McNEIL
23 EXECUTIVE DIRECTOR

24 DISSENT _____

25 DISSENT _____

26
27
28
MES:mj

1 SERVICE LIST FOR: HIGH COUNTRY PINES WATER COMPANY, INC.

2 DOCKET NO.: W-02448A-05-0745

3 Gregory G. Home
4 HIGH COUNTRY PINES WATER COMPANY, INC.
5 9630 North 25th Avenue, Ste. 450
6 Phoenix, AZ 85021

7 Christopher Kempley, Chief Counsel
8 Legal Division
9 ARIZONA CORPORATION COMMISSION
10 1200 West Washington Street
11 Phoenix, AZ 85007

12 Ernest G. Johnson, Director
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