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COMMISSIONERS  
JEFF HATCH-MILLER - Chairman  
WILLIAM A. MUNDELL  
MIKE GLEASON  
KRISTIN K. MAYES  
GARY PIERCE



OPEN MEETING ITEM  
ARIZONA CORPORATION COMMISSION

RECEIVED

22

2007 JAN 26 P 3: 16

DATE: JANUARY 26, 2007

DOCKET NO: W-02111A-06-0361

AZ CORP COMMISSION  
DOCUMENT CONTROL

TO ALL PARTIES:

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

SABROSA WATER COMPANY  
(PERMANENT RATE INCREASE)

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 ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00 p.m.** on or before:

FEBRUARY 5, 2007

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 Working Session and Open Meeting to be held on:

FEBRUARY 13, 2007 AND FEBRUARY 14, 2007

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 Secretary's Office at (602) 542-3931.

Arizona Corporation Commission  
DOCKETED

JAN 26 2007

DOCKETED BY *nr*

BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 JEFF HATCH-MILLER, Chairman  
4 WILLIAM A. MUNDELL  
5 MIKE GLEASON  
6 KRISTIN K. MAYES  
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION OF  
9 SABROSA WATER COMPANY FOR A  
10 PERMANENT RATE INCREASE.

DOCKET NO. W-02111A-06-0361

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

11 **ORDER**

12 Open Meeting  
13 February 13 and 14, 2007  
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 On May 31, 2006, Sabrosa Water Company ("Applicant" or "Company") filed with the  
17 Arizona Corporation Commission ("Commission") an application for a permanent rate increase in its  
18 water rates and charges.

19 On June 29, 2006, pursuant to A.A.C. R14-2-103, the Commission's Utilities Division  
20 ("Staff") issued a notice of insufficiency.

21 On July 25, 2006, the Company filed certification that public notice had been provided to its  
22 customers by first class U.S. mail.

23 On July 28, 2006, Dannis Shumacher filed a request to intervene in the proceeding. There  
24 were no objections to his request to intervene.

25 On August 9, 2006, by Procedural Order, Dannis Schumacher was granted intervention.

26 On August 17, 2006, pursuant to A.A.C. R14-2-103, Staff issued a notice of sufficiency with  
27 respect to the Company's rate application and classified the Company as a Class D utility.

28 On October 2, 2006, Staff filed a Motion for Extension of Deadline ("Motion") to delay the  
filing of the Staff Report. No objections to Staff's Motion were filed.

On November 1, 2006, by Procedural Order, Staff's Motion was granted.

On November 30, 2006, Staff filed its report, recommending that Staff's proposed rates and  
charges be approved.

\* \* \* \* \*

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

**FINDINGS OF FACT**

1. Applicant is a dissolved Arizona corporation engaged in the business of providing water service the area of New River, Arizona.<sup>1</sup>

2. Applicant's last permanent rate increase for water was approved in Decision No. 57669 (December 19, 1991).

3. On May 31, 2006, the Company filed an application requesting authority to increase its rates and charges for water service. With its application, the Company is requesting that interim emergency rates approved in Decision No. 67990 (July 18, 2005)<sup>2</sup> and a water hauling surcharge tariff approved in Decision No. 68745 (June 5, 2006) be made permanent.

4. On July 21, 2006, Applicant provided notice to its customers of its proposed rate increase by first class U.S. mail and, in response thereto, no protests have been received by the Commission opposing Applicant's proposed increase.

5. On August 17, 2006, Staff filed notice that the Company's rate application had met the Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

6. During the test year ended March 31, 2006 ("TY"), Applicant served 58 metered customers, the majority of which are residential users who are served by 5/8" x 3/4" meters.

7. Average and median water usage by residential users during the TY were 6,514 and 4,074 gallons per month, respectively.

8. Staff conducted an investigation of Applicant's proposed rates and charges for water service and filed its Staff Report on the Company's rate application request on November 30, 2006,

<sup>1</sup> On November 16, 2000, the Commission issued Decision No. 63136 and authorized Staff to engage a qualified management entity to operate and manage the Company and to bring it into compliance with Arizona law. As a result, Arizona-American Water Company ("AZAM") was appointed the interim manager until January 2005. Subsequently, after AZAM withdrew from this position, on approximately February 1, 2005, Global Water Resources, L.L.C. ("Global") was appointed as the successor to AZAM and presently manages the utility. While under interim management, on March 20, 2002, the Company's corporate status was dissolved by the Commission's Corporations Division for failing to file its Corporate Annual Report and the Company's Certificate of Convenience and Necessity ("Certificate") was revoked by the Commission in Decision No. 65217 (September 24, 2002).

<sup>2</sup> See Decision No. 67990 for a complete and thorough discussion of the Company's background and its present status.

1 recommending that the Company's interim emergency rates and water hauling surcharge be approved  
 2 and made permanent. Staff is also recommending that the Company's service line and meter  
 3 installation charges be increased and its other service charges be modified consistent with Staff's  
 4 recommendations.

5 9. The water rates and charges for Applicant at present, as proposed in the Application  
 6 and as recommended by Staff are as follows:

	Present Interim Rates	Proposed Rates	
		<u>Company</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$39.50	\$39.50	\$39.50
3/4" Meter	39.50	39.50	39.50
1" Meter	39.50	39.50	39.50
1 1/2" Meter	39.50	39.50	200.00
2" Meter	39.50	39.50	320.00
3" Meter	39.50	39.50	600.00
4" Meter	39.50	39.50	1,000.00
6" Meter	39.50	39.50	2,000.00
<u>Gallons Included In Minimum</u>	0	0	0
<u>Commodity Rates ( per 1,000 Gallons):</u>			
0 - 3,000 gallons	\$6.00	\$6.00	\$6.00
3,001 - 10,000 gallons	9.00	9.00	9.00
Over 10,000 gallons	10.80	10.80	10.80
Water Hauling Surcharge	***	***	***
<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
(Refundable pursuant to A.A.C. R14-2-405)			
5/8" x 3/4" Meter	\$278.00	\$400.00	\$400.00
3/4" Meter	309.00	440.00	440.00
1" Meter	360.00	500.00	500.00
1 1/2" Meter	552.00	715.00	715.00
2" Meter Turbo	779.00	1,170.00	1,170.00
2" Meter Compound		1,700.00	1,700.00
3" Meter Turbo	1,010.00	1,585.00	1,585.00
3" Meter Compound		2,190.00	2,190.00
4" Meter Turbo	1,703.00	2,540.00	2,540.00
4" Meter Compound		3,215.00	3,215.00
6" Meter Turbo	3,769.00	4,815.00	4,815.00
6" Meter Compound		6,270.00	6,270.00

SERVICE CHARGES:

1	Establishment	\$15.00	\$25.00	\$25.00
2	Establishment (After Hours)	30.00	50.00	50.00
	Reconnection (Delinquent)	25.00	30.00	30.00
3	Meter Test (If Correct)	25.00	50.00	30.00
	Deposit	*	*	*
4	Deposit Interest	*	*	*
	Reestablishment (Within 12 Months)	**	**	**
5	NSF Check	15.00	25.00	25.00
6	Deferred Payment (Per Month)	1.50%	1.50%	1.50%
	Meter Reread (If Correct)	15.00	25.00	25.00

- 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 \*\*\* Surcharge calculated by dividing the total Water Hauling Costs incurred in a given month by the amount of water sold that month. The resulting rate per 1,000 gallons will then be multiplied by the gallons used in that month for each customer to arrive at the surcharge per 1,000 gallons, appearing in the next monthly billing as a separate line item.

14 10. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined to be \$62,904 which is the same as its original cost rate base. The Company's FVRB reflects a \$27,014 decrease by Staff of Applicant's proposed FVRB due in large part to an adjustment to Applicant's Net Plant. A significant portion of this decrease, \$29,777, is composed of disallowed emergency rate and permanent rate case costs, property tax, and ownership related legal costs incorrectly capitalized to plant in service, and disallowed nitrate analyzer design cost as not used and useful. Staff further supports its FVRB for the Company by stating that due to the abandonment of Applicant's system by its last known owner, Keith J. Morris, and due to the unavailability of complete financial records prior to Global's management, plant in service included in rate base only reflects plant assets added by Global since it became the interim manager.

24 11. Staff decreased Applicant's TY operating expenses by \$86,134 primarily due to adjustments which decrease the following Company expenses by \$94,931 for outside services<sup>3</sup> and \$1,077 for depreciation expense. However, these decreases were partially offset by an increase of \$2,095 for water testing expense, \$7,790 for rate case expense and \$395 for property tax expense.

28 <sup>3</sup> This adjustment results largely from Staff's analysis of what sum (\$26 per customer per month) is fair and reasonable to operate Applicant by Global based on average costs for 35 small water utilities.

1           12.     Applicant's present interim water rates and charges produced adjusted operating  
2 revenues of \$58,513 and adjusted operating expenses of \$37,294 which resulted in operating income  
3 of \$21,219 during the TY or a 33.73 percent rate of return on FVRB. Staff notes that this rate of  
4 return is not a meaningful figure due to the Company's small rate base, but points out that this  
5 equates to a 36.26 percent operating margin, a more useful means to evaluate the Company's  
6 financial viability.

7           13.     The interim water rates and charges Applicant is proposing be made permanent are  
8 concurred with by Staff conditioned upon the company depositing in a separate interest bearing  
9 account any operating income in excess of 20 percent per calendar year, commencing in 2007. This  
10 "excess" will be used to fund future plant requirements to meet the Company's infrastructure needs  
11 for water production and water quality.

12           14.     The proposal to make permanent the Company's interim rate schedule will result in  
13 the average monthly customer water bill to remain at \$89.13, and the median monthly customer water  
14 bill to remain at \$67.17.

15           15.     According to the Staff Report, Applicant is not in compliance with the Commission's  
16 rules and prior Commission Orders. According to Staff's Compliance Section, Applicant and its last  
17 known owner, Keith J. Morris, have failed to comply with Decision No. 63136 (November 16, 2000)  
18 which ordered them to jointly and severally pay a penalty of \$5,000 within 15 days of the Decision.  
19 They have also failed to comply with a provision which ordered them to pay \$1,000 a day from  
20 December 1, 2000, until Mr. Morris either sells the utility and/or its assets to a Commission approved  
21 third party within 60 days of the Decision or until he brings the utility into compliance with Arizona  
22 law. The Staff Report states that Mr. Morris abandoned the Company a number of years ago, but still  
23 may have legal title to some assets of the utility including real property. The Staff Report also states  
24 that a parcel where a Company well site and storage tank are located was purchased through a tax  
25 lien sale by a firm known as "Otto Kruger Investments" which appears to have title to the land.

26           16.     Additionally, according to Staff, Applicant is not current on the payment of its  
27 property taxes and its sales taxes are being paid by Global under the Transaction Privilege Tax  
28

1 (“TPT”) identification number (“ID”) of Santa Cruz Water Company (“SCWC”), a water utility  
2 owned by Global since Applicant does not have its own TPT ID.

3 17. Although Staff indicates the Company has an arsenic problem, according to the  
4 Maricopa County Department of Environmental Services (“MCDES”), the Company is currently  
5 delivering water which meets the requirements of the Safe Drinking Water Act. With respect to  
6 reduced arsenic, the Company’s wells produce water which contains arsenic levels which clearly  
7 exceed the new maximum standard allowable of less than 10 parts per billion. The Company did not  
8 meet the arsenic level compliance date of December 31, 2006, required by MCDES, and did not  
9 submit an arsenic removal plan with its rate application. Global has indicated to Staff that the costs  
10 to customers to treat for arsenic will be high and has taken no action on this problem because it is  
11 only an interim manager.

12 18. The Company has previously filed a Curtailment Tariff which has been approved by  
13 the Commission.

14 19. Based on the Engineering Report attached to the Staff Report, Staff found that the  
15 Company reported pumping 6,145,000 gallons of water during the TY, but selling only 4,915,640  
16 gallons of water which equates to a water loss of 20.12 percent which exceeds Staff’s recommended  
17 level of 10 percent or less. The Engineering Report also indicates that the Company lacks adequate  
18 water production and storage capacity.

19 20. To resolve Applicant’s non-account water problem, the Company is proposing a two  
20 phase water loss reduction plan by the following steps: first, replace all meters over five years old  
21 and well head check valves at an estimated cost of \$9,500 to \$12,500; and second, install leak  
22 detection sensor heads and leak precluding spring-loaded check valves for each meter at an estimated  
23 total cost of \$17,000. While there are several possible solutions to the Company’s water production  
24 problems, none of them seem feasible in the near future due to either excessive cost or lack of an  
25 available water source.

26 21. Staff is additionally recommending that the Commission order the following:

- 27
- 28 • that Applicant notify its customers of the water rates and charges approved hereinafter and their effective date by means of an insert in the monthly billing which precedes

1 the month in which they become effective and file a copy of the notice sent to its  
2 customers with the Commission's Docket Control as a compliance item in this docket;

- 3 • that Applicant file, within 30 days of the effective date of this Decision, as a  
4 compliance item in this docket, with the Commission's Docket Control, a copy of the  
5 schedule of its approved rates and charges;
- 6 • that the Company adopt the depreciation rates delineated in Exhibit 6 of the  
7 Engineering Report attached to the Staff Report on a going forward basis;
- 8 • that commencing at the end of 2007, operating income for each calendar year in  
9 excess of 20 percent operating margin be deposited in a separate interest bearing  
10 account in order to fund the future plant requirements of the Company's infrastructure  
11 and water quantity and quality demands;
- 12 • that the moratorium on service line and meter installations pursuant Decision No.  
13 65041 (July 24, 2002) remain in effect;
- 14 • that the interim water hauling surcharge tariff granted by the Commission in Decision  
15 No. 68745 (June 5, 2006) become permanent upon the effective date of this Decision;
- 16 • that the Company maintain its books and records in conformity with the National  
17 Association of Regulatory Utility Commissioners ("NARUC") Uniform System of  
18 Accounts;
- 19 • that the Company be ordered to file, within 60 days of the effective date of this  
20 Decision, with the Commission's Docket Control, as a compliance item in this Docket,  
21 an affidavit attesting that its books and records are being maintained in compliance  
22 with the NARUC Uniform System of Accounts;
- 23 • that the Company be ordered to file, within 30 days of the effective date of this  
24 Decision, with the Commission's Docket Control, as a compliance item in this Docket,  
25 a plan subject to Staff approval, describing the actions it will take to obtain a TPT ID,  
26 and become compliant with state TPT rules and law for tax collected since Global's  
27 appointment as interim manager;
- 28 • that the Company be ordered to file, within 30 days of the effective date of this  
Decision, with the Commission's Docket Control, as a compliance item in this Docket,  
a plan subject to Staff approval, describing the actions it will take to make current  
property tax payments and comply with Maricopa County property tax rules and law  
for property under its ownership since Global's appointment as interim manager;
- that the Company be ordered to file, within 60 days of the effective date of this  
Decision, with the Commission's Docket Control, as a compliance item in this Docket,  
a plan subject to Staff approval, describing the actions it will take to comply with  
Federal and State income tax rules and laws for the period since Global's appointment  
as interim manager;

- 1 • that the Company complete, within two years of the effective date of this Decision, its  
2 Phase I water loss reduction program and complete, within three years of the effective  
3 date of this Decision, its Phase II water loss reduction program; and
- 4 • that Applicant, in addition to the collection of its regular rates and charges, collect  
5 from its customers their proportionate share of any privilege, sales, or use tax as  
6 provided for in A.A.C. R14-2-409(D).

7 22. Because an allowance for the property tax expense of Applicant is included in the  
8 Company's rates and will be collected from its customers, the Commission seeks assurances from the  
9 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing  
10 authority. It has come to the Commission's attention that a number of water companies have been  
11 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,  
12 some for as many as twenty years. It is reasonable, therefore, that as a preventive measure the  
13 Company shall annually file, as part of its annual report, an affidavit with the Utilities Division  
14 attesting that the company is current in paying its property taxes in Arizona.

15 23. Under the circumstances, after our review of the application and the Staff Report, we  
16 believe the Company's interim rates and water hauling charges are reasonable and should be made  
17 permanent. We also concur with Staff's additional recommendations and shall order their adoption  
18 hereinafter with the added requirement that all funds collected in excess of the 20 percent operating  
19 margin and deposited in the aforementioned separate interest bearing account be used exclusively to  
20 fund plant improvements.

21 **CONCLUSIONS OF LAW**

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

24 2. The Commission has jurisdiction over Applicant and the subject matter of the  
25 application.

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

27 4. Under the circumstances discussed herein, the rates and charges proposed by Staff and  
28 authorized hereinafter are just and reasonable and should be approved without a hearing.

5. Staff's recommendations, as set forth in Findings of Fact No. 21 and 22, are  
reasonable and should be adopted.



1	Reconnection (Delinquent)	30.00
	Meter Test (If Correct)	30.00
2	Deposit	*
	Deposit Interest	*
3	Reestablishment (Within 12 Months)	**
	NSF Check	\$25.00
4	Deferred Payment (Per Month)	1.50%
5	Meter Reread (If Correct)	25.00

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\* 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).  
 \*\*\* Surcharge calculated by dividing the total Water Hauling Costs incurred in a given month by the amount of water sold that month. The resulting rate per 1,000 gallons will then be multiplied by the gallons used in that month for each customer to arrive at the surcharge per 1,000 gallons, appearing in the next monthly billing as a separate line item.

IT IS FURTHER ORDERED that Sabrosa Water Company shall notify its customers of the water rates and charges approved hereinabove and their effective date by means of an insert in the monthly billing which precedes the month in which they become effective and file a copy of the notice when sent to its customers with the Commission's Docket Control as a compliance item in this docket.

IT IS FURTHER ORDERED that Sabrosa Water Company is hereby directed to comply with Staff's recommendations as set forth in Findings of Fact No. 21.

IT IS FURTHER ORDERED that Sabrosa Water Company shall use funds collected in excess of the 20 percent operating margin and deposited in separate interest bearing account exclusively to fund plant improvements.

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

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 \_\_\_\_\_, 2007.

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

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

1 SERVICE LIST FOR: SABROSA WATER COMPANY

2 DOCKET NO.: W-02111A-06-0361

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