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Arizona Corporation Commission
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LEGAL

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson *E. G. Johnson*
Director
Utilities Division

DATE: May 11, 2007

RE: STAFF REPORT FOR BELLEMONT WATER COMPANY'S APPLICATION
FOR AN EMERGENCY RATE INCREASE (DOCKET NO. W-02526A-
07-0170)

Attached is the Staff Report for Bellemont Water Company's ("Company") application for an emergency rate increase. Staff recommends approval of the Company's request for an emergency rate increase, along with Staff's additional recommendations.

EGJ:DRE:tdp

Originator: Darak R. Eaddy

Attachment: Original and thirteen copies

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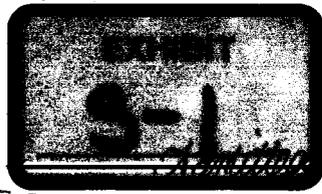
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Service List for: Bellemont Water Company
Docket No. W-02526A-07-0170

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

BELLEMONT WATER COMPANY

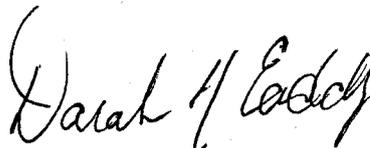
DOCKET NO. W-02526A-07-0170

**APPLICATION FOR AN
EMERGENCY RATE INCREASE**

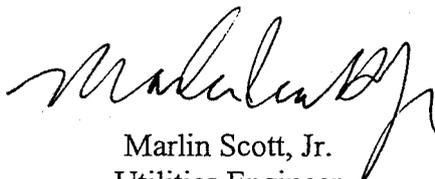
MAY 11, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Bellemont Water Company, Docket No. W-02526A-07-0170, was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Guadalupe Ortiz was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy
Public Utilities Analyst I



Marlin Scott, Jr.
Utilities Engineer



Guadalupe Ortiz
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
BELLEMONT WATER COMPANY
APPLICATION FOR AN EMERGENCY RATE INCREASE
DOCKET NO. W-02526A-07-0170**

Bellefont Water Company ("Bellefont" or "Company") is a Class D water utility located approximately ten miles west of Flagstaff and south of Interstate 40. Bellefont provides potable water to seven metered customers in its certificated area. The Company also has provided potable water to many standpipe customers but due to the current water supply issues that Bellefont is experiencing, the Company has had to discontinue its standpipe service.

Bellefont filed a request for an emergency rate increase on March 22, 2007, because both of the Company's two wells were running dry and not recovering. Bellefont's depleted well production initially caused the Company to purchase hauled water for a three-week period beginning in mid-January 2007. Bellefont has since ceased to haul water on a consistent basis because the Company does not have the funds to pay for the service. However, the Company has hauled water intermittently over the past three months when demand was highest and Bellefont had the funds to pay for the service. The Company has had to limit water usage when it has not had funds to purchase hauled water and demand was high by contacting its largest customer, SCA Tissue, and requesting that it utilize its storage, rather than take from the Company's water system.

Bellefont's application requested an emergency rate increase be added to the Company's existing commodity charge. The emergency rate requested is 3 cents per gallon or \$30 per one thousand gallons of usage, an increase of 975% over the tier-one commodity charge of \$2.79 per one thousand gallons. The emergency rate increase would produce an additional \$1,500 per month in revenues at the Company's current water production level of 50,000 gallons per month. This additional revenue would allow the Company to haul water as needed to meet its metered customers' water demands.

Staff recommends approval of the emergency rate increase requested by the Company. Staff also has made several other recommendations to address the long-term viability of the Company.

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Introduction

On March 22, 2007, Bellemont Water Company ("Bellemont" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission"). On April 17, 2007, a procedural order was issued setting May 23, 2007, as the date for the hearing on the application.

Bellemont has stated that the Company's two wells are not recovering to previous water levels and that the wells' pumps are only operating for a minute before they exhaust their water supply and begin to pump air. In an effort to find additional water supplies, the Company drilled two wells, but unfortunately, neither produced adequate water. The Company's water supply problems are further exacerbated by the recent purchase of the Burlington Northern Santa Fe Railroad wells by a local water hauling service. Previously the Company could augment its water supply with water from these wells at a much lower rate than what is now being offered by that water hauling service.

Background

Bellemont is an Arizona class D utility engaged in the business of providing potable water service. Bellemont was granted a Certificate of Convenience and Necessity ("CC&N") to provide water service per Decision No. 58079 effective November 12, 1992.

The current rates have been in effect since May 1, 2003 per Decision No. 65853.

Customers

Bellemont provides water service to a subdivision located approximately 10 miles west of Flagstaff, Arizona. Bellemont provides service to 7 metered connections and 2 standpipes. All 7 of the metered customers are commercial and the standpipes are currently disconnected. The number of previous standpipe customers is not known but is believed to be in the range of 150 to 200 customers. Traditionally standpipe customers have amounted to approximately 70%-80% of total Company revenues. The emergency rate increase would not affect standpipe customers as the increase would only address providing hauled water for metered customers.

The Company is now located within a newly formed fire district that requires all commercial enterprises to meet or exceed a flow rate of 1,000 gallons per minute for a duration of 2 hours, or 120,000 gallons for emergency fire protection.

Bellemont's largest customer SCA Tissue has expressed to Staff, its support for the increased rate if it will result in Bellemont having sufficient water supply to meet SCA Tissue's water demands

Engineering Analysis

Staff visited the Company on May 1, 2007. The Company operates two wells; Main Well – this well is 180 feet deep and pumps 3 to 5 gallons per minute (“GPM”) when operational, and the Backup Well – this well is 100 feet deep and pumps 1 to 2 GPM when operational. Both wells do not have meters and pump water into a 100,000 gallon storage tank.

Water is then pumped from the storage tank, through three booster pumps, a 5,000 gallon pressure tank and into the distribution system currently serving seven metered commercial customers; six customers with 3/4-inch meters and one customer with a 4-inch meter. The Company also provides standpipe service, which has been temporarily discontinued as a result of the depleted well production.

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

The Company is in good standing with the Corporations Division of the Commission.

The Company has major deficiencies in monitoring and reporting status for; 1) disinfection byproducts analysis, 2) maximum residual disinfection levels, 3) lead and copper, and 4) total coliform analysis. Based on these deficiencies, ADEQ cannot determine if this system is currently delivering water that meets the drinking water standards.

Consumer Services

A review of the Consumer Services Section database from January 1, 2004 to current revealed that one inquiry was received in 2005. There have been no complaints or opinions filed for Bellemont.

Financial Viability and Ability to Maintain Service

In order to meet the water needs of its metered customers, Bellemont began purchasing hauled water at a cost of \$25 per 1000 gallons. The Company took three shipments of 20,000 gallons for \$500 each before expending all the Company’s supplementary funds in February 2007. Since this time, the Company has stopped regularly purchasing hauled water and instead has purchased hauled water periodically when it had the funds to do so.

Bellemont has requested an emergency rate of 3 cents per gallon or \$30.00 per one thousand gallons of usage. This amounts to a 975% increase in the current tier-one commodity charge of \$2.79 per one thousand gallons. While the rate is costly and quite prohibitive, the funds are needed for the Company to consistently supply water when needed by its metered customers.

The Company's requested emergency rate would produce an additional \$1,500 per month in revenues at its current water production level of 50,000 gallons per month. These additional funds would be used to purchase hauled water at a rate of \$25 per 1,000 gallons. Bellefont plans to take batches in 20,000 gallon increments every 12 days from a water hauling service located in Flagstaff, Arizona. Bellefont's financial viability and ability to maintain service is highly dependent on the Company being able to secure a reliable water source. Currently the Company lacks the ability to consistently provide reliable water service on a demand basis.

Staff believes that Bellefont's current situation meets the general conditions necessary for interim emergency rate consideration. Staff believes that Bellefont has experienced a situation of sudden change that brings hardship to the Company, and a situation where the ability of Bellefont to maintain service, pending a formal rate determination, is in serious doubt. Therefore Staff recommends that Bellefont's emergency rate increase be approved.

Staff Recommendations

Staff recommends approval of the emergency rate increase sought by Bellefont Water Company.

Staff further recommends that the emergency rate increase be interim.

Staff further recommends that the Company be directed to file within 30 days of the Order a revised rate schedule reflecting the emergency rate increase with Docket Control, as a compliance item in this docket.

Staff further recommends that the Company notify its customers of the revised rates, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.

Staff further recommends that the Company file a full rate case within 6 months of the Decision made in the instant case.

Staff further recommends that if the Company believes it will need to incur debt in order to solve its water shortage problem, that it file a financing application concurrent with the rate application.

Staff further recommends that the Company not reinstate its standpipe service until further order from the Commission.

**BELLEMONT WATER COMPANY
DOCKET NO. W-02526A-07-0170
(EMERGENCY RATES)**

**ENGINEERING REPORT BY MARLIN SCOTT, JR.
(May 4, 2007)**

Water System

Staff Engineering visited the Company on May 1, 2007. The Company operates two wells; Main Well – this well is 180 feet deep and pumps 3 to 5 gallons per minute (“GPM”) when operational, and the Backup Well – this well is 100 feet deep and pumps 1 to 2 GPM when operational. Both wells do not have meters and pump water into a 100,000 gallon storage tank. Water is then pumped from the storage tank, through three booster pumps, a 5,000 gallon pressure tank and into the distribution system currently serving seven metered commercial customers; six customers with 3/4-inch meters and one customer with a 4-inch meter. The Company also provides standpipe service, which has been temporarily discontinued as a result of the depleted well production.

Well Production

According to the Company, the wells are unreliable and the actual productions are unknown. These wells operate intermittently when water is available to pump.

Earlier this year, the Company drilled two new wells, one to a depth of 140 feet and another to depth of 340 feet. Both wells did not produce a sufficient amount and were capped.

The Company would like to drill a new well to a depth of 2,100 feet having an estimated cost of \$319,377. Currently, the Company is reviewing its options for financing of this deep well.

Water Hauling

According to the Company, water is being hauled into the 100,000 gallon storage tank when needed. The most recent hauling occurred on April 30, 2007 when 40,000 gallons of water was hauled in.

Fire District

According to the Company, the Company is now located within a fire district and the commercial customers are required to have a flow rate of 1,000 GPM for a duration of 2 hours, or 120,000 gallons.

ADEQ Compliance Status

The Company has major deficiencies in monitoring and reporting status for; 1) disinfection byproducts analysis, 2) maximum residual disinfection levels, 3) lead and copper, and 4) total coliform analysis. Based on these deficiencies, ADEQ cannot determine if this system is currently delivering water that meets the drinking water standards.