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



ARIZONA CORPORATION COMMISSION

22

DATE: December 4, 2007

DOCKET NO: W-01384A-07-0314

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:

THE DELLS 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 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:

DECEMBER 13, 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:

DECEMBER 18 and DECEMBER 19, 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 Director's Office at (602) 542-3931.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION
OF THE DELLS WATER COMPANY, INC.
FOR A PERMANENT RATE INCREASE.

DOCKET NO. W-01384A-07-0314

DECISION NO. _____

ORDER

Open Meeting
December 18 and 19, 2007
Phoenix, Arizona

BY THE COMMISSION:

On May 21, 2007, the Dells Water Company, Inc. ("Applicant" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase.

On June 19, 2007, the Company filed certification that it had mailed notice of its application for a permanent rate increase to its customers by first class U.S. mail. In response thereto, the Commission did not receive any protests.

On June 20, 2007, the Commission's Utilities Division ("Staff") issued a Notice of Insufficiency with respect to the Company's application pursuant to A.A.C. R14-2-103.

On September 10, 2007, Staff issued a Notice of Sufficiency on the Company's rate application and classified the Applicant as a Class E utility.

On November 9, 2007, Staff filed its Staff Report recommending that Staff's proposed rates and charges be approved. No comments or objections were filed by the Company to Staff's recommendations.

* * * * *

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

FINDINGS OF FACT

1
2 1. Pursuant to authority granted by the Commission, Applicant is an Arizona Corporation
3 engaged in the business of providing water service in Yavapai County outside of Prescott, Arizona.¹

4 2. Applicant's present rates and charges were approved in Decision 27705 (June 16,
5 1953).

6 3. On May 21, 2007, Applicant filed an application for a permanent rate increase.

7 4. On June 18, 2007, Applicant mailed notice of its application to its customers by first
8 class U.S. mail and, in response thereto, no objections or comments have been received by the
9 Commission opposing the Company's application.²

10 5. On September 10, 2007, Staff filed notice that the Company's rate application had met
11 the Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

12 6. During the test year ended December 31, 2006 ("TY"), Applicant served 68 metered
13 customers who were all served by 5/8 x 3/4-inch meters.

14 7. Average and median water usage by residential users during the TY were 4,886 and
15 3,419 gallons per month, respectively.

16 8. Staff conducted an investigation of Applicant's proposed rates and charges for water
17 service and filed its Staff Report on the Company's rate application request on November 9, 2007,
18 recommending that Staff's proposed rates and charges be approved. Staff is also recommending that
19 the Company's service line and meter installation charges be modified and its other service charges
20 be increased consistent with Staff's recommendations.

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

23 ...
24

25
26 ¹ According to Commission corporation records, the Company is owned by the Estate of Robert D. Conlin ("Estate") and
27 David A. Conlin, Jr. and is managed by the Glenarm Land Company, Inc. ("Glenarm") which the Estate and Mr. Conlin
also own. They also own the Wilhoit Water Company ("Wilhoit") that owns three other public water systems, which
provide water in the following areas: Thunderbird Meadows in the vicinity of Wilhoit; Yavapai Mobile Home Estates in
the vicinity of Chino Valley; and Blue Hills No. 3 in the vicinity of Dewey, Arizona.

28 ² The Company's notice of its proposed rate increase to its customers advised them that the rates adopted by the
Commission could be either higher or lower than those proposed by the Company.

	Present Rates	- Proposed Rates -	
		Company	Staff
1	<u>Monthly Usage Charge:</u>		
	\$ 6.00	\$ 8.00	\$ 11.00
2	5/8" x 3/4" Meter	18.00	16.50
	9.00	30.00	27.50
3	3/4" Meter	60.00	55.00
	15.00	96.00	88.00
4	1" Meter	180.00	176.00
	30.00	300.00	275.00
5	1 1/2" Meter	600.00	550.00
	48.00		
	2" Meter (Turbo)		
	N/A		
	3" Meter (Turbo)		
	N/A		
	4" Meter (Turbo)		
	N/A		
	6" Meter (Turbo)		
	N/A		
6	Gallons Included in Minimum	2,000	0
	0		
	Residential Customers:		
7	Gallonage Charge (per 1,000 Gallons)	\$ 1.20	\$ 1.78
	0 to 3,000 Gallons		\$ 1.37
8	3,001 to 10,000 Gallons		2.06
	over 10,000 Gallons		2.47
9			
	Commercial Customers:		
10	Gallonage Charge (per 1,000 Gallons)		\$ 2.06
	0 to 34,000 Gallons	N/A	
11	over 34,000 Gallons	N/A	2.47
12			
	<u>Service Line and Meter Installation Charges:</u>		
	(Refundable pursuant A.A.C. R14-2-105)		
13	5/8" x 3/4" Meter	\$ 265.00	\$ 520.00
	3/4" Meter	295.00	600.00
14	1" Meter	345.00	690.00
	1 1/2" Meter	520.00	935.00
15	2" Meter (Turbo)	725.00	1,595.00
	3" Meter (Turbo)	N/A	2,275.00
16	4" Meter (Turbo)	N/A	3,520.00
	6" Meter (Turbo)	N/A	6,275.00
17			
	<u>Service Charges:</u>		
18	Establishment	\$ 20.00	\$ 100.00
	Establishment (After Hours)	N/A	N/A
19	Reconnection (Delinquent)	60.00	100.00
	Meter Test (If Correct)	50.00	150.00
20	Deposit	*	*
	Deposit Interest	*	*
21	Re-Establishment (within 12 Months)	**	**
	NSF check	15.00	35.00
22	Deferred Payment (Per Month)	6%	6%
	Meter Re-Read (If Correct)	15.00	35.00
23	Late Fee	N/A	N/A

24			
	<u>Monthly Service Charge for Fire Sprinklers:</u>		
25	4" or smaller	N/A	N/A
	6"	N/A	N/A
26	8"	N/A	N/A
	10"	N/A	N/A
27	Larger than 10"	N/A	N/A
28			

- 1 * Per Commission rule A.A.C. R14-2-403(B).
 2 ** Number of months off system times the monthly minimum per Commission rule
 3 *** 1.5% of monthly unpaid balance.
 4 **** 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.

5 10. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is \$5,904
 6 which is the same as its original cost rate base. The Company's FVRB reflects a positive adjustment
 7 by Staff of \$40,321 which increases the Company's negative \$34,417 rate base to Staff's
 8 recommended FVRB, due in large part to \$23,551 in plant adjustments as reflected in Decision No.
 9 56856 (April 4, 1990).

10 11. Staff increased Applicant's TY operating expenses by \$9,822 primarily due to an
 11 increase in salaries and wage expense (\$8,031). Other increases and decreases or reallocations were
 12 essentially offsetting except repairs and maintenance expense which was increased by \$2,916 by
 13 Staff.³

14 12. Applicant's present water rates and charges produced adjusted operating revenues of
 15 \$13,970 and adjusted operating expenses of \$23,315 resulting in an operating loss of \$9,345.

16 13. The water rates and charges Applicant proposed would produce operating revenues of
 17 \$21,141 and adjusted operating expenses of \$23,322 resulting in an operating loss of \$2,181 and no
 18 return on its FVRB.

19 14. The water rates and charges proposed by Staff would produce adjusted operating
 20 revenues of \$27,496 and adjusted operating expenses of \$23,322 resulting in net operating income of
 21 \$4,174 or a 70.71 percent rate of return on FVRB. Staff notes that this is not a meaningful figure due
 22 to the small rate base of the Company, but it equates to a 15.18 percent operating margin to enable
 23 Applicant to meet its obligations.

24 15. Applicant's proposed rate schedule would increase the average monthly customer
 25

26 ³ Staff notes that in determining the Company's adjusted operating expenses it developed an alternate allocation factor to
 27 allocate expenses for Applicant because neither Glenarm nor Wilnoit maintained records to separately identify expenses
 28 for its individual water systems. Ultimately, Staff determined that the Company's allocation percentage in this
 proceeding should be 18.16 percent versus its allocation of zero percent due to the Company's cross-subsidization by the
 Wilnoit systems.

1 water bill by 76.5 percent, from \$9.46 to \$16.70, and the median monthly customer water bill by 83.0
2 percent, from \$7.70 to \$14.09.

3 16. Staff's recommended rates would increase the average monthly customer water bill by
4 100.7 percent, from \$9.46 to \$18.99 and the median monthly customer water bill by 107.4 percent
5 from \$7.70 to \$15.97.

6 17. According to the Staff Report the Company is out of compliance with the National
7 Association of Regulatory Utility Commissioners ("NARUC") Uniform system of Accounts
8 ("USOA").⁴

9 18. The Staff Report indicates that Applicant has an approved Curtailment Tariff on file
10 with the Commission.

11 19. In the Engineering Report attached to the Staff Report, the Engineer indicates that
12 there is an existing storage capacity problem for the Company and proposes that the Company select
13 one of the following choices to remedy the problem: install an additional 20,000 gallon storage tank
14 at a cost of \$59,800; deepen and reconnect one of its capped wells at an estimated cost of \$37,950; or
15 interconnect to the City of Prescott's water system at an estimated cost of \$24,380.

16 20. According to the Staff Report, the Company's existing 5,000 gallon storage tank has
17 only enough capacity to serve approximately 36 customers based on water use data provided by the
18 Company for 2006.

19 21. The Engineering Report further indicates that the Company's wells produce water
20 which is below the maximum contaminant level of the new arsenic standard and water which meets
21 the requirements of the Safe Drinking Water Act.

22 22. The Staff Report indicates that Applicant is in compliance with its Commission
23 compliance action filings and has no outstanding complaints against it. Staff does not indicate
24 whether the Company is current on the payment of its sales taxes. However, Staff does indicate that
25 the Company owes back taxes to the Yavapai County of at least \$6,316.⁵

26 ⁴ According to the Staff Report, Wilhoit, a related company, operates three other separate systems and it is out of
27 compliance with NARUC's USOA.

28 ⁵ Staff goes into greater detail on Wilhoit's noncompliance problems with the Commission and Wilhoit's nonpayment of
back taxes to Yavapai County totaling \$73,928. However, Applicant is operated as a separate corporate entity by the
Estate and Mr. Conlin.

1 23. Besides recommending approval of Staff's recommended rates and charges, Staff is
2 also recommending the Commission order the following:

- 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 schedule of its approved rates and charges;
- 5 • that the Company maintain its books and records separate and apart from those of
6 its related systems and maintain its books and records in accordance with the
7 NARUC USOA and file, within 180 days of the effective date of this Decision,
with the Commission's Docket Control, as a compliance item in this docket an
affidavit that it is maintaining its books as ordered;
- 8 • that the approved rates authorized hereinafter not go into effect until the first day
9 of the month following the filing with the Commission's Docket Control, as a
10 compliance item in this docket, a copy of an agreement to pay current and
delinquent property taxes between the Company and the Yavapai County
Treasurer's Office;
- 11 • that Applicant notify its customers of the water rates and charges approved
12 hereinafter and their effective date by means of an insert in the monthly billing
13 which precedes the month in which they become effective and file a copy of the
notice sent to its customers with the Commission's Docket Control as a
14 compliance item in this docket;
- 15 • that the Company adopt and utilize the depreciation rates by NARUC category as
set forth in Exhibit 6 of the Engineer's Report attached to the Staff Report;
- 16 • that the Company install, within 45 days of the effective date of this Decision, a
17 well meter on Well No. 55-802749 and file, not later than 30 days thereafter,
certification of same with the Commission's Docket Control, as a compliance item
18 in this docket;
- 19 • that the Company monitor the system and submit the gallons pumped and sold to
20 determine the actual water loss for one full year. The results of this monitoring
and reporting should be docketed as a compliance item in this case within 13
21 months of the effective date of this Decision. If the reported water loss for the
period is greater than 10 percent, the Company shall prepare a report containing a
22 detailed analysis and plan to reduce water loss to 10 percent or less. If the
Company believes it is not cost effective to reduce water loss to less than 10
23 percent, it should submit a detailed cost benefit analysis to support its opinion. In
no case shall the Company allow water loss to be greater than 15 percent. The
24 water loss reduction report or the detailed analysis, whichever is submitted, shall
be docketed as a compliance item in this docket within 13 months of the effective
25 date of this Decision;
- 26 • that the Company file, within 60 days of the effective date of this Decision, with
27 the Commission's Docket Control, as a compliance item in this docket, a letter
from the Arizona Department of Water Resources indicating that the water use and
28 monitoring requirements have been resolved;

- 1 • that the Company file, by December 31, 2008, with the Commission's Docket
- 2 Control, as a compliance item in this docket, a copy of the Arizona Department of
- 3 Environmental Quality Certificate of Approval of Construction for the plant to
- 4 increase storage capacity;
- 5 • that the Company file, within five years of the effective date of this Decision, a
- 6 new rate case; and
- 7 • that Applicant, in addition to the collection of its regular rates and charges, collect
- 8 from its customers their proportionate share of any privilege, sales, or use tax as
- 9 provided for in A.A.C. R14-2-409(D).

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

11 Company's rates and will be collected from its customers, the Commission seeks assurances from the

12 Company that any taxes collected from rate payers have been remitted to the appropriate taxing

13 authority. It has come to the Commission's attention that a number of water companies, including

14 this one, have been unwilling or unable to fulfill their obligation to pay the taxes that were collected

15 from rate payers, some for as many as 20 years. It is reasonable, therefore, that as a preventive

16 measure the Company shall annually file as part of its annual report, an affidavit with the Utilities

17 Division attesting that the Company is current in paying its property taxes in Arizona.

18 25. Under the circumstances, after our review of the application and the Staff Report, we

19 believe Staff's proposed rates are reasonable and together with their additional recommendations

20 should be adopted.

CONCLUSIONS OF LAW

- 21 1. Applicant is a public service corporation within the meaning of Article XV of the
- 22 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.
- 23 2. The Commission has jurisdiction over Applicant and of the subject matter of the
- 24 application.
- 25 3. Notice of the application was provided in the manner prescribed by law.
- 26 4. Under the circumstances discussed herein the rates and charges proposed by Staff and
- 27 authorized hereinafter are just and reasonable.
- 28 5. Staff's recommendations, set forth in Findings of Fact No. 23 are reasonable and
- should be adopted.

ORDER

IT IS THEREFORE ORDERED that the Dells Water Company, Inc. is hereby directed to file with Docket Control, as a compliance item in this docket, on or before January 1, 2008, revised rate schedules setting forth the following rates and charges:

Monthly Usage Charge:

5/8" x 3/4" Meter	\$ 11.00
3/4" Meter	16.50
1" Meter	27.50
1½" Meter	55.00
2" Meter (Turbo)	88.00
3" Meter (Turbo)	176.00
4" Meter (Turbo)	275.00
6" Meter (Turbo)	550.00

Residential Customers:

Gallage Charge (per 1,000 Gallons)	
0 to 3,000 Gallons	\$ 1.37
2,001 to 10,000 Gallons	2.06
over 10,000 Gallons	2.47

Commercial Customers:

Gallage Charge (per 1,000 Gallons)	
0 to 34,000 Gallons	\$ 2.06
over 34,000 Gallons	2.47

Service Line and Meter Installation Charges:

(Refundable pursuant A.A.C. R14-2-105)	
5/8" x 3/4" Meter	\$ 520.00
3/4" Meter	600.00
1" Meter	690.00
1½" Meter	935.00
2" Meter (Turbo)	1,595.00
3" Meter (Turbo)	2,275.00
4" Meter (Turbo)	3,520.00
6" Meter (Turbo)	6,275.00

Service Charges

Establishment	\$ 30.00
Establishment (After Hours)	N/A
Reconnection (Delinquent)	60.00
Meter Test (If Correct)	50.00
Deposit	*
Deposit Interest	*
Re-Establishment (within 12 Months)	**
NSF check	15.00
Deferred Payment (Per Month)	1.5%
Meter Re-Read (If Correct)	15.00
Late Fee	N/A

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Monthly Service Charge for Fire Sprinkler

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4" or smaller	****
6"	****
8"	****
10"	****
Larger than 10"	****

- * Per Commission rule A.A.C. R14-2-403(B).
- ** Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).
- *** 1.5% of monthly unpaid balance.
- **** 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.

IT IS FURTHER ORDERED that the approved rates authorized hereinafter shall not go into effect until the first day of the month following the filing with the Commission's Docket Control, as a compliance item in this docket, a copy of an agreement to pay current and delinquent property taxes between the Company and the Yavapai County Treasurer's Office.

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

IT IS FURTHER ORDERED that the Dells Water Company, Inc. shall comply with each of the recommendations appearing in Finding of Fact No. 23.

IT IS FURTHER ORDERED that the Dells Water Company, Inc. shall maintain its books and records in compliance with the NARUC USOA.

IT IS FURTHER ORDERED that the Dells Water Company, Inc., in addition to the collection of its regular rates and charges, collect from its customers their proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409(D).

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1 IT IS FURTHER ORDERED that the Dells Water Company, Inc. shall annually file as part of
2 its annual report an affidavit with the Utilities Division attesting that the Company is current in
3 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 CHAIRMAN COMMISSIONER COMMISSIONER

9
10 COMMISSIONER COMMISSIONER

11
12 IN WITNESS WHEREOF, I, DEAN S. MILLER, Interim
13 Executive Director of the Arizona Corporation Commission,
14 have hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this ____ day of _____, 2007.

17 DEAN S. MILLER
18 INTERIM EXECUTIVE DIRECTOR

19
20 DISSENT _____

21 DISSENT _____
22 MES:db

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1 SERVICE LIST FOR: THE DELLS WATER COMPANY, INC.

2 DOCKET NO.: W-01384A-07-0314

3

4 Jim West
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5 Phoenix, AZ 85004
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