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OPEN MEETING ITEM



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

Executive Director
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ARIZONA CORPORATION COMMISSION

2007 DEC 21 P 2:57

DATE: DECEMBER 21, 2007

DOCKET NO: I-02274A-07-0357

AZ CORP COMMISSION
DOCKET 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:

VERDE WEST IRRIGATION
(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 31, 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:

JANUARY 15, 2008 and JANUARY 16, 2008

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.

Arizona Corporation Commission
DOCKETED

DEC 21 2007

DOCKETED BY
KK

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

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

8 IN THE MATTER OF THE APPLICATION OF
9 VERDE WEST IRRIGATION FOR APPROVAL
10 OF AN INCREASE IN ITS RATES AND
11 CHARGES.

DOCKET NO. I-02274A-07-0357

DECISION NO. _____

ORDER

12 Open Meeting
13 January 15 and 16, 2008
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 On June 7, 2007, Verde West Irrigation ("Applicant" or "Company") filed with the Arizona
17 Corporation Commission ("Commission") an application for a permanent rate increase.

18 On June 27, 2007, the Company filed certification that it had mailed public notice of its
19 application to all property owners within its certificated service area.

20 On July 6, 2007, the Commission's Utilities Division ("Staff") issued a Letter of Insufficiency
21 on the Company's rate application. Subsequently, on August 23, 2007, Staff issued a second Notice
22 of Insufficiency.

23 On September 27, 2007, Staff issued a Notice of Sufficiency to the Applicant and classified
24 the company as a Class E utility.

25 On November 28, 2007, Staff filed its Staff Report recommending that Staff's proposed rates
26 and charges be approved. No comments or objections were filed by the Company to Staff's
27 recommendation.

28 * * * * *

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 a sole proprietorship
3 engaged in the business of providing irrigation service to 183 customers in Camp Verde in Yavapai
4 County, Arizona.¹

5 2. Applicant's present rates for irrigation service were approved in Decision No. 55557
6 (May 6, 1987).

7 3. On June 7, 2007, the Company filed an application requesting authority to increase its
8 rates for irrigation service.

9 4. Applicant provided notice to its customers of its application for a proposed rate
10 increase by first class U.S. mail on June 25, 2007, and in response thereto, six customer comments
11 were received by the Commission. Staff reported that there was one complaint, two inquiries and
12 three opinions.

13 5. On July 6, 2007, Staff issued a Notice of Insufficiency to the Company that its
14 application failed to meet sufficiency requirements pursuant to A.A.C. R14-2-103.

15 6. On September 27, 2007, Staff filed notice that the Company's rate application had met
16 the Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

17 7. During the test year ended December 31, 2006 ("TY"), Applicant served 183
18 irrigation customers.

19 8. The Company has two classes of customers as follows: those who are irrigated by lot;
20 and those who are irrigated by the acre.

21 9. Irrigation water is available during the landscape growing season in Camp Verde from
22 March 15th through November 15th of each year. Customers who receive water by "lot" may obtain
23 water at any time during the growing season. Customers who receive water by "acre" receive their
24 water on two specific days of the week between the March and November growing season. Water is
25 not available during the winter months of December through February.

26 10. The Company's 183 customers are divided into 117 "lot" customers and 66 "acre"
27

28 ¹ The Company was originally operated by Mr. Harold Bullard but it is presently being operated by Mrs. Peggy Bullard Larsen, Mr. Bullard's ex-wife, who received the utility as a result of a divorce decree.

1 customers.

2 11. Staff conducted an investigation of Applicant's proposed rates for irrigation service
3 and filed its Staff Report on November 28, 2007, recommending that Staff's proposed rates be
4 approved.

5 12. The irrigation rates for Applicant at present, as proposed in the application, and as
6 recommended by Staff are as follows:

| <u>Monthly Usage Charge:</u> | <u>Present Rates</u> | <u>- Proposed Rates - Company Staff</u> | |
|------------------------------|--------------------------|---|----------|
| Lot Customers | \$ 5.00 | \$ 12.00 | \$ 12.00 |
| Acre Customers | 10.42 | 25.00 | 26.00 |

7
8
9
10 13. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined
11 to be \$12,186 which is the same as its original cost rate base. The Company's FVRB reflects a Staff
12 adjustment of \$104,922 which reduced Applicant's proposed FVRB due in large part to an
13 adjustment to Applicant's net plant to reflect amounts authorized in Decision No. 55557 and also to
14 remove approximately \$10,500 which was unsupported and allegedly used to add pumping
15 equipment in 1995. However, Staff increased working capital by \$3,336 to partially offset the
16 adjustment to net plant.

17 14. Staff increased Applicant's TY operating expenses by \$1,906 primarily due to a
18 \$6,200 adjustment increasing the Company's repairs and maintenance expense which was partially
19 offset by an adjustment reducing Applicant's claimed depreciation expense by \$2,363.

20 15. Applicant's present irrigation rates produced adjusted operating revenues of \$15,272
21 and adjusted operating expenses of \$31,404, resulting in an operating loss of \$16,132 for the TY.

22 16. The irrigation rates Applicant proposed would produce operating revenues of \$36,648
23 and adjusted operating expenses of \$31,404, resulting in net operating income of \$5,244 or a 43.03
24 percent rate of return on FVRB, which is not a meaningful figure due to the Company's small rate
25 base, but which equates to a 14.31 percent operating margin.

26 17. The irrigation rates proposed by Staff would produce adjusted operating revenues of
27 \$37,440 and adjusted operating expenses of \$31,404, resulting in net operating income of \$6,036 or a
28 49.53 percent rate of return on FVRB, which is not a meaningful figure due to the Company's small

1 rate base, but which equates to a 16.12 percent operating margin.

2 18. Staff's recommended rates would increase a "lot" customer bill by 140.0 percent, from
3 \$5 per month to \$12 per month and an "acre" customer bill by 149.5 percent, from \$10.42 a month to
4 \$26.00 a month.

5 19. According to the Staff Report, Applicant is failing to maintain its books and records in
6 accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform
7 System of Accounts ("USOA") as was illustrated by Staff's adjustments to the Company's rate
8 request. Staff also noted that the Company is incorrectly depreciating its plant and recommends that
9 it utilize the NARUC depreciation rates as set forth in the Engineering Report attached to the Staff
10 Report.

11 20. The Staff Report does not indicate that the Company has any compliance issues with
12 the Commission and there is no indication that any back property taxes are owed to Yavapai County.

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

- 14 • that Applicant file, within 30 days of the effective date of this Decision, with the
15 Commission's Docket Control, as a compliance item in this docket, a tariff
schedule of its new rates;
- 16 • that the rates authorized herein shall not become effective until the first day of the
17 month following the Company's application for the transfer of its assets in Docket
No. I-02274A-06-0327 is found sufficient by Staff;
- 18 • that Applicant notify its customers of the irrigation rates approved hereinafter and
19 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 sent to its
20 customers with the Commission's Docket Control as a compliance item in this
docket;
- 21 • that the Company maintain its books and records in accordance with the NARUC
22 USOA;
- 23 • that the Company utilize the depreciation rates illustrated in Exhibit 3 of the
Engineering Report attached to the Staff Report;
- 24 • that the Company improve its collection policy on past-due accounts and, if
25 necessary, use the termination service provisions as set forth in the Commission's
rules;
- 26 • that the Company file, within 12 months of the effective date of this Decision, with
27 the Commission's Docket Control, as a compliance item in this docket, a plan on
28 how it will propose to replace deteriorating existing plastic thin-wall pipe
including sufficient detail to determine its reasonableness and include timeframes

1 and cost estimates for replacement and the funding method that the Company
2 would propose to utilize to replace pipe which has deteriorated;

- 3 • that the Company file, beginning January 31, 2009 and each January 31st
4 thereafter, with the Commission's Docket Control, as a compliance item in this
5 docket, a twelve month status report showing the amount of money spent on
6 routine system repairs, maintenance and weed control until the Company files its
7 next rate application and new rates are approved by the Commission; and
- 8 • that Applicant, in addition to the collection of its regular rates and charges, collect
9 from its customers their proportionate share of any privilege, sales, or use tax as
10 provided for in A.A.C. R14-2-409(D).

11 22. Because an allowance for the property tax expense of Applicant is included in the
12 Company's rates and will be collected from its customers, the Commission seeks assurances from the
13 Company that any taxes collected from rate payers have been remitted to the appropriate taxing
14 authority. It has come to the Commission's attention that a number of water companies have been
15 unwilling or unable to fulfill their obligation to pay the taxes that were collected from rate payers,
16 some for as many as 20 years. It is reasonable, therefore, that as a preventive measure the Company
17 shall annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the
18 Company is current in paying its property taxes in Arizona.

19 23. After our review of the application and the Staff Report, we believe that Staff's
20 proposed rates are reasonable and should be adopted together with the additional recommendations.

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 of 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 proposed by Staff and authorized
28 hereinafter are just and reasonable.

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

...

ORDER

IT IS THEREFORE ORDERED that Verde West Irrigation is hereby directed to file, with the Commission's Docket Control, as a compliance item in this Docket, on or before February 1, 2008, revised rate schedules setting forth the following rates:

Monthly Usage Charge:

| | |
|----------------|----------|
| Lot Customers | \$ 12.00 |
| Acre Customers | 26.00 |

IT IS FURTHER ORDERED that the rates authorized herein shall not become effective until the first day of the month following the Company's application for the transfer of its assets in Docket No. I-02274A-06-0327 is found sufficient by Staff.

IT IS FURTHER ORDERED that Verde West Irrigation shall notify its customers of the rates authorized hereinabove and the effective date of same by means of an insert in the regular 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 Verde West Irrigation shall comply with each of the recommendations appearing in Finding of Fact No. 21.

IT IS FURTHER ORDERED that Verde West Irrigation shall maintain its books and records in accordance with the NARUC USOA.

IT IS FURTHER ORDERED that Verde West Irrigation, in addition to the collection of its regular rates and charges, shall 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).

23 ...
24 ...
25 ...
26 ...
27 ...
28 ...

1 IT IS FURTHER ORDERED that Verde West Irrigation shall annually file as part of its
2 annual report an affidavit with the Utilities Division attesting that the Company is current in paying
3 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

9
10 COMMISSIONER _____ 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 _____
18 DEAN S. MILLER
19 INTERIM EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____

22 MES:db

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1 SERVICE LIST FOR:

VERDE WEST IRRIGATION

2 DOCKET NO.:

I-02774A-07-0357

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13 Ernest G. Johnson, Director
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