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1 ORIGINAL

BEFORE THE ARIZONA CORPORATION

Arizona Corporation Commission

2 COMMISSIONERS

DOCKETED

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

DEC 21 2007

DOCKETED BY *MM*

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

DOCKET NO. W-01472A-07-0208

11 DECISION NO. 70103

12 ORDER

13 Open Meeting
14 December 18 and 19, 2007
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 On April 2, 2007, Mormon Lake Water Company ("Applicant" or "Company") filed with the
18 Arizona Corporation Commission ("Commission") an application for a permanent increase in the
19 Company's water rates and charges. Subsequent to the Company's filing its application, notice was
20 provided to customers by first class U.S. mail.

21 On May 2, 2007, pursuant to A.A.C. R14-2-103, the Commission's Utilities Division
22 ("Staff") issued a Notice of Insufficiency ("Notice") with respect to the Company's application.
23 Subsequently, the Company amended its application on two occasions.

24 On September 11, 2007, Staff issued a Notice of Sufficiency and classified the Company as a
25 Class E utility.

26 On November 14, 2007, Staff filed its Staff Report recommending that Staff's proposed rates
27 and charges be approved. No comments or objections were filed by the Company to Staff's
28 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 to approximately 144 customers approximately 30
4 miles southeast of Flagstaff, Arizona adjacent to Mormon Lake.

5 2. Applicant's present rates and charges for water were approved in Decision 66035
6 (July 3, 2003).

7 3. On April 2, 2007, the Company filed an application requesting authority to increase its
8 rates and charges for water service.

9 4. Applicant provided notice to its customers of its application for a proposed rate
10 increase by first class U.S. mail and, in response thereto, three protests have been received by the
11 Commission. Notice was given in March, July, August and again in November after the filing of the
12 Staff Report and to inform customers of Staff's recommended rates which are higher than those
13 proposed by the Company.

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

16 6. During the test year ended December 31, 2006 ("TY"), Applicant provided service to
17 144 metered customers who were primarily served by 5/8 x 3/4-inch meters. A 55 space RV park is
18 served by a 1½-inch meter. The Staff Report indicates that average water usage by residential users
19 during the TY was 1,116 gallons per month. In part, the low water usage is attributable to the fact
20 that the Company operates two systems; the upper system, which serves 103 summer cottages and the
21 RV park and is only operated from May 15th to October 15th of each year and is taken out of service
22 during the winter. The Company's lower system consists of 41 year-round residents.

23 7. Staff conducted an investigation of Applicant's proposed rates and charges for water
24 service and filed its Staff Report on the Company's rate application request on November 14, 2007,
25 recommending that Staff's proposed rates and charges be approved. Staff also recommended that the
26 Company's service line and meter installation charges remain at their present levels as requested by
27 the Company and that minimal changes be made to the Company's other service charges.
28

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

	Present Rates	- Proposed Rates - Company Staff	
<u>Monthly Usage Charge:</u>			
5/8" x 3/4" Meter	\$ 18.00	\$ 23.00	\$ 34.50
3/4" Meter	20.00	25.00	51.75
1" Meter	50.00	65.00	86.25
1 1/2" Meter	100.00	125.00	172.50
2" Meter	150.00	190.00	276.00
3" Meter)	200.00	255.00	517.50
4" Meter	300.00	385.00	862.50
6" Meter	400.00	510.00	1,172.50
<u>GALLONAGE CHARGES:</u> (per 1,000 Gallons)			
<u>All Meter Sizes</u>			
0 gallons to 2,000 gallons	\$ 3.25	\$ 3.58	N/A
2,001 gallons to 14,000 gallons	4.50	4.95	N/A
over 14,000 gallons	6.00	6.60	N/A
<u>5/8 x 3/4 Inch and 3/4 Inch Meters</u>			
0 gallons to 4,000 gallons	N/A	N/A	\$ 7.15
4,001 gallons to 7,000 gallons	N/A	N/A	10.73
over 7,000 gallons	N/A	N/A	12.87
<u>All Other Meter Sizes</u>			
0 gallons to 4,000 gallons	N/A	N/A	10.73
over 4,000 gallons	N/A	N/A	12.87
<u>Service Line and Meter Installation Charges:</u> (Refundable pursuant to A.A.C. R14-2-105)			
5/8" x 3/4" Meter	\$ 400.00	\$ 400.00	\$ 400.00
3/4" Meter	400.00	400.00	400.00
1" Meter	500.00	500.00	500.00
1 1/2" Meter	715.00	715.00	715.00
2" Meter	1,170.00	1,170.00	1,170.00
3" Meter	1,585.00	1,585.00	1,585.00
4" Meter	2,540.00	2,540.00	2,540.00
6" Meter	4,815.00	4,815.00	4,815.00
<u>Service Charges:</u>			
Establishment	\$ 30.00	\$ 50.00	\$ 50.00
Establishment (After Hours)	50.00	60.00	60.00
Reconnection (Delinquent)	50.00	60.00	60.00
Reconnection (Delinquent) After Hours	75.00	85.00	85.00
Meter Test (If Correct)	35.00	45.00	45.00
Deposit	*	*	*
Deposit Interest	6%	6%	6%
Re-Establishment (within 12 Months)	**	**	**
NSF check	15.00	25.00	25.00
Deferred Payment	0.0%	0.0%	0.0%
Meter Re-Read (If Correct)	6.00	10.00	10.00
Late Fee	N/A	N/A	***

1 Monthly Service Charge for Fire Sprinklers:

2	4" or smaller	****	****	****
	6"	****	****	****
3	8"	****	****	****
	10"	****	****	****
4	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.

9

10 9. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined

11 to be \$66,246 which is the same as its original cost rate base. The Company's FVRB reflects a

12 \$21,804 increase by Staff to Applicant's proposed FVRB due in large part to an adjustment to

13 Applicant's net plant by the removal of \$16,749 along with the addition of \$5,055 for working

14 capital.

15 10. Staff increased Applicant's TY operating expenses only minimally by \$244, re-

16 classifying \$2,542 of claimed miscellaneous expenses of \$3,253, \$620 for chemical expense and

17 \$1,922 for repairs and maintenance expense. Staff also increased depreciation expense by \$690.

18 11. Applicant's present water rates and charges produced operating revenues of \$40,152

19 and adjusted operating expenses of \$67,731 which resulted in an operating loss of \$27,579 during the

20 TY.

21 12. The water rates and charges Applicant proposed would produce operating revenues of

22 \$49,516 and adjusted operating expenses of \$69,935 which will result in an operating loss of \$20,419

23 or a negative return on FVRB.

24 13. The water rates and charges proposed by Staff would produce adjusted operating

25 revenues of \$78,452 and adjusted operating expenses of \$69,935 resulting in net operating income of

26 \$8,517 or a 12.86 percent rate of return on FVRB. Staff's proposed revenue requirement will allow

27 the revenues needed to meet the Company's stated need to repair its infrastructure and to meet an

28 increase in operational costs.

1 14. Applicant's proposed rates would increase the average monthly customer water bill by
2 25 percent, from \$21.63 to \$26.58.

3 15. Staff's recommended rates would increase the average monthly customer water bill by
4 96.4 percent, from \$21.63 to \$42.48.

5 16. Applicant's present rates and charges were approved in Decision No. 66035 (July 3,
6 2003).

7 17. According to the Staff Report, the Company is seeking a rate increase to repair
8 infrastructure and to offset increasing operational costs. Based on the fact that the Company's
9 proposed rates are insufficient to provide for these needs, Staff is recommending what it believes is
10 an operating margin (10.86 percent) which will enable the Company to proceed with improvements
11 and to offset increased costs.

12 18. The Staff Report indicates that the Company is providing water below the new
13 maximum arsenic contaminant level and also delivering water which meets the requirements of the
14 Safe Drinking Water Act.

15 19. Staff further indicates that the Company is in good standing with the Corporations
16 Division of the Commission and is in compliance with the Commission's rules with respect to the
17 operation of a water utility and is current on the payment of its property and sales taxes.

18 20. However, Staff found that the Company is not utilizing the National Association of
19 Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

20 21. The Company has previously had a Curtailment Tariff approved by the Commission.

21 22. Staff is recommending that the Commission order the following:

- 22 • that Applicant notify its customers of the approved water rates and charges and
23 their effective date by means of an insert in the monthly billing which proceeds the
24 month in which they become effective and file a copy of the notice sent to its
25 customers with the Commission's Docket Control as a compliance item in this
26 docket;
- 27 • that Applicant file, within 30 days of the effective date of this Decision, as a
28 compliance item in this docket, with the Commission's Docket Control, a copy of
the schedule of its approved rates and charges;
- that the Company maintain its books and records accordance with the NARUC
USOA and file, within 6 months of the effective date of this Decision, with the

Commission's Docket Control, as a compliance item in this docket, an affidavit, which attests that the Company is keeping its books and records in accordance with the NARUC USOA;

- that the Company utilize the depreciation rates delineated in Table B of the Engineering Report attached to the Staff Report on a going-forward basis; and
- that Applicant, 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).

23. Because an allowance for the property tax expense of Applicant is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from rate payers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from rate payers, some for as many as 20 years. It is reasonable, therefore, that as a preventative measure the 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.

24. Under the circumstances, after our review of the application and the Staff Report, we believe Staff's proposed rates are reasonable and together with their additional recommendations should be adopted.

CONCLUSIONS OF LAW

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

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

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

4. Under the circumstances discussed herein, the rates and charges proposed by Staff and authorized hereinafter are just and reasonable.

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

...

ORDER

IT IS THEREFORE ORDERED that Mormon Lake Water Company is hereby directed to file on or before January 1, 2008, with the Commission's Docket Control, as a compliance item in this docket, revised rate schedule setting forth the following rates and charges:

Monthly Usage Charge:

5/8" x 3/4" Meter	\$ 34.50
3/4" Meter	51.75
1" Meter	86.25
1½" Meter	172.50
2" Meter (Turbo)	276.00
3" Meter (Turbo)	517.50
4" Meter (Turbo)	862.50
6" Meter (Turbo)	1,172.50

GALLONAGE CHARGES:

(per 1,000 gallons)

5/8 x 3/4 Inch and 3/4 Inch Meters

0 gallons to 4,000 gallons	\$ 7.15
4,001 gallons to 7,000 gallons	10.73
over 7,000 gallons	12.87

All Other Sizes

0 gallons to 4,000 gallons	10.73
over 4,000 gallons	12.87

Service Line and Meter Installation Charges:

(Refundable pursuant to A.A.C. R14-2-105)

5/8" x 3/4" Meter	\$ 400.00
3/4" Meter	400.00
1" Meter	500.00
1½" Meter	715.00
2" Meter	1,170.00
3" Meter	1,585.00
4" Meter	2,540.00
6" Meter	4,815.00

Service Charges:

Establishment	\$ 50.00
Establishment (After Hours)	60.00
Reconnection (Delinquent)	60.00
Reconnection (Delinquent) After Hours	85.00
Meter Test (If Correct)	45.00
Deposit	*
Deposit Interest	6%
Re-Establishment (within 12 Months)	**
NSF check	25.00
Deferred Payment	0.0%
Meter Re-Read (If Correct)	10.00
Late Fee	***

Monthly Service Charge for Fire Sprinklers:

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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 above rates and charges shall be effective on January 1, 2008, for all water service.

IT IS FURTHER ORDERED that Mormon Lake Water Company shall notify its customers of the rates and charges authorized hereinabove and the effective date of same by means of an insert in a form acceptable to Staff in the next regular monthly billing 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 Mormon Lake Water Company shall comply with each of the recommendations appearing in Finding of Fact No. 22.

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

IT IS FURTHER ORDERED that Mormon Lake Water Company, shall, 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 Mormon Lake Water Company shall annually file as part
2 of 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 James Gleason William M. ...
CHAIRMAN COMMISSIONER
9
10 Jeffrey M. Hatch Miller ... Gary ...
COMMISSIONER COMMISSIONER COMMISSIONER

11 IN WITNESS WHEREOF, I, DEAN S. MILLER, Interim
12 Executive Director of the Arizona Corporation Commission,
13 have hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this 21st day of Dec., 2007.

15
16 Dean S. Miller
17 DEAN S. MILLER
18 INTERIM EXECUTIVE DIRECTOR

19 DISSENT _____

20 DISSENT _____

21 MES:db

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23
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1 SERVICE LIST FOR: MORMON LAKE WATER COMPANY

2 DOCKET NO.: W-01472A-07-0208

3
4 Scott Gold, General Manager & President
5 MORMON LAKE WATER COMPANY
6 P.O. Box 38012
7 Mormon Lake, AZ 86038

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

13 Ernest G. Johnson, Director
14 Utilities Division
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