

OPEN MEETING ITEM



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

ORIGINAL



ARIZONA CORPORATION COMMISSION

22

DATE: MARCH 24, 2008
DOCKET NO: W-04081A-07-0466
TO ALL PARTIES:

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

WINCHESTER WATER COMPANY, LLC
(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:

APRIL 2, 2008

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:

APRIL 8, 2008 and APRIL 9, 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.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

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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 WINCHESTER WATER COMPANY, LLC FOR A
10 RATE INCREASE.

DOCKET NO. W-04081A-07-0466

DECISION NO. _____

11 ORDER

12 Open Meeting
13 April 8 and 9, 2008
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 Winchester Water Company, LLC ("Winchester" or "Company") is an Arizona corporation
17 engaged in the business of providing water utility service to the public in an unincorporated portion
18 of Cochise County, Arizona. On August 7, 2007, the Arizona Corporation Commission
19 ("Commission") received from Winchester an application requesting authority to increase its rates
20 and charges ("Application").

21 On October 30, 2007, the Commission's Utilities Division Staff ("Staff") determined that
22 Winchester's Application was sufficient and classified the Company as a Class D utility.

23 On January 15, 2008, Staff filed its Staff Report, recommending an alternative rate schedule
24 be approved without a hearing.

25 * * * * *

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

28 **FINDINGS OF FACT**

1. Winchester is an Arizona limited liability company engaged in the business of
providing water utility service to the public in an unincorporated portion of Cochise, County,

1 Arizona, pursuant to authority granted by the Commission in Decision No. 65219. (September 24,
2 2002).

3 2. Winchester's present rates and charges for water service were approved in Decision
4 No. 65219 (September 24, 2002).

5 3. On August 7, 2007, the Commission received an Application from Winchester
6 requesting authority to increase its rates and charges and on September 4, 2007, Winchester filed an
7 amendment to its Application.

8 4. On September 7, 2007, Staff issued an Insufficiency Letter.

9 5. The Company responded to that letter on September 18, 2007.

10 6. On October 30, 2007, Staff determined that Winchester's Application was sufficient
11 and classified the Company as a Class D utility.

12 7. On January 15, 2008, Staff filed its Staff Report, recommending an alternative rate
13 schedule be approved without a hearing.

14 8. During the test year ended December 31, 2006, Winchester served 129 metered
15 customers. All 129 of those customers were served with 5/8" x 3/4" meters.

16 9. Average and median usage on the 5/8" x 3/4" meters during the test year were 13,510
17 and 10,532 gallons per month, respectively.

18 10. On August 6, 2007 and August 24, 2007, Winchester notified its customers of the
19 proposed rates and charges by first class U.S. mail, but no customer comments regarding the rate
20 changes have been received.

21 11. Staff conducted an investigation of Company's proposed rates and charges, and in its
22 Staff Report filed on January 15, 2008, recommended that an alternative rate schedule be approved
23 without a hearing.

24 12. The rates and charges for Company at present, as proposed in the Application, and as
25 recommended by the Staff are as follows:

26 ...

27 ...

28

	<u>Present Rates</u>	<u>Company</u>	<u>Proposed Rates Staff</u>	
1				
2				
3	<u>MONTHLY USAGE CHARGE:</u>			
4	5/8" x 3/4" Meter	\$11.35	\$16.96	\$12.00
5	3/4" Meter	15.00	20.00	18.00
6	1" Meter	20.00	25.00	30.00
7	1 1/2" Meter	33.00	35.00	60.00
8	2" Meter	67.00	73.00	96.00
9	3" Meter	101.00	110.00	192.00
10	4" Meter	161.00	170.00	300.00
11	6" Meter	308.00	315.00	600.00
12	<u>Company Proposed 5/8 x 3/4" Meters</u>			
13	First Tier – 1-8,000 gallons	\$0.65	\$1.95	
14	Second Tier – 8,001 – 13,000 gallons	1.00	2.55	
15	Third Tier – Over 13,000	1.25	2.95	
16	<u>Staff Recommended 5/8 x 3/4" Meters</u>			
17	Tier One Rate – 0-3,000 gallons			\$0.80
18	Tier Two Rate – 3,001 – 10,000 gallons			1.25
19	Tier Three Rate – Over 10,000 gallons			1.99
20	<u>Company Proposed 3/4" Meters</u>			
21	First Tier – 1-8,000 gallons	\$0.65	\$1.95	
22	Second Tier – 8,001 – 13,000 gallons	1.00	2.55	
23	Third Tier – Over 13,000	1.25	2.95	
24	<u>Staff Recommended 3/4" Meters</u>			
25	Tier One Rate – 0-3,000 gallons			\$0.80
26	Tier Two Rate – 3,001 – 10,000 gallons			1.25
27	Tier Three Rate – Over 10,000 gallons			1.99
28	<u>Company Proposed 1-inch Meters</u>			
29	First Tier – 1-8,000 gallons	\$0.65	\$1.95	
30	Second Tier – 8,001 – 13,000 gallons	1.00	2.55	
31	Third Tier – Over 13,000	1.25	2.95	
32	<u>Staff Recommended 1-inch Meters</u>			
33	Tier One Rate – 0-20,000 gallons			\$1.25
34	Tier Two Rate – Over 20,000 gallons			1.99
35	<u>Company Proposed 1.5-inch Meters</u>			
36	First Tier – 1-8,000 gallons	\$0.65	\$1.95	
37	Second Tier – 8,001 – 13,000 gallons	1.00	2.55	
38	Third Tier – Over 13,000	1.25	2.95	

1 Staff Recommended 1.5-inch Meters
 2 Tier One Rate – 0-55,000 gallons \$1.25
 3 Tier Two Rate – Over 55,000 gallons 1.99

4 Company Proposed 2-inch Meters
 4 First Tier – 1-8,000 gallons \$0.65 \$1.95
 5 Second Tier – 8,001 – 13,000 gallons 1.00 2.55
 5 Third Tier – Over 13,000 1.25 2.95

6 Staff Recommended 2-inch Meters
 7 Tier One Rate – 0-100,000 gallons \$1.25
 8 Tier Two Rate – Over 100,000 gallons 1.99

9 Company Proposed 3-inch Meters
 9 First Tier – 1-8,000 gallons \$0.65 \$1.95
 10 Second Tier – 8,001 – 13,000 gallons 1.00 2.55
 11 Third Tier – Over 13,000 1.25 2.95

12 Staff Recommended 3-inch Meters
 12 Tier One Rate – 0-220,000 gallons \$1.25
 13 Tier Two Rate – Over 220,000 gallons 1.99

14 Company Proposed 4-inch Meters
 14 First Tier – 1-8,000 gallons \$0.65 \$1.95
 15 Second Tier – 8,001 – 13,000 gallons 1.00 2.55
 16 Third Tier – Over 13,000 1.25 2.95

17 Staff Recommended 4-inch Meters
 17 Tier One Rate – 0-350,000 gallons \$1.25
 18 Tier Two Rate – Over 350,000 gallons 1.99

19 Company Proposed 6-inch Meters
 20 First Tier – 1-8,000 gallons \$0.65 \$1.95
 21 Second Tier – 8,001 – 13,000 gallons 1.00 2.55
 21 Third Tier – Over 13,000 1.25 2.95

22 Staff Recommended 6-inch Meters
 22 Tier One Rate – 0-730,000 gallons \$1.25
 23 Tier Two Rate – Over 730,000 gallons 1.99

24
 25 SERVICE LINE AND METER
 25 INSTALLATION CHARGES:
 26 5/8" x 3/4" Meter \$400.00 \$450.00 \$450.00
 27 3/4" Meter 470.00 500.00 500.00
 28 1" Meter 550.00 565.00 565.00

1	1 1/2" Meter	785.00	800.00	800.00
2	2" Meter	1,375.00	1,390.00	1,390.00
3	3" Meter	1,975.00	1,990.00	1,990.00
4	4" Meter	3,040.00	3,055.00	3,055.00
5	6" Meter	5,635.00	5,650.00	5,650.00

SERVICE CHARGE:

6	Establishment	\$25.00	\$25.00	\$25.00
7	Establishment (After Hours)	40.00	40.00	40.00
8	Reconnection (Delinquent)	25.00	30.00	30.00
9	Meter Test (If Correct)	25.00	25.00	25.00
10	Deposit	0.00	*	*
11	Deposit Interest	6.00%	*	*
12	Reestablishment (Within 12 Months)	0.00	**	**
13	NSF Check	10.00	20.00	20.00
14	Deferred Payment (Per Month)	1.50%	1.50%	1.50%
15	Meter Reread (If Correct)	10.00	20.00	20.00
16	Late Payment Penalty	1.50%	1.50%	1.50%

Monthly Service Charge for Fire

Sprinkler:

17	4" or Smaller	\$0.00	\$0.00	***
18	6"	0.00	0.00	***
19	8"	0.00	0.00	***
20	10"	0.00	0.00	***
21	Larger than 10"	0.00	0.00	***

* Per Commission rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

*** 1.00% of Monthly Minimum for a Comparable Size 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 for the primary water service line.

13. Staff determined Winchester's original cost rate base to be \$156,713 which is the same as its fair value rate base ("FVRB"). This is an \$8,600 increase to the Company's proposed FVRB of \$148,113, primarily to account for adjustments to accumulated depreciation and working capital. Staff's proposed adjustments to rate base are reasonable and will be adopted.

1 14. Staff made several adjustments to Winchester's proposed test year operating revenues,
2 resulting in a net decrease of \$5.00, from \$36,366 to \$36,361. Staff's proposed adjustments to
3 operating revenues are reasonable and will be adopted.

4 15. Staff decreased Winchester's test year operating expenses by \$291, from \$29,737 to
5 \$29,446, due to adjustments to outside services, water testing expenses and depreciation expense.
6 Staff's proposed adjustments to operating expenses are reasonable and will be adopted.

7 16. Based on Staff's analysis, Winchester's present water rates and charges produced
8 operating revenues of \$36,361 and adjusted operating expenses of \$29,446, which resulted in a net
9 operating income of \$6,915, and a rate of return on FVRB of 4.41 percent.

10 17. The water rates and charges the Company proposed would produce adjusted operating
11 revenues of \$73,086 and adjusted operating expenses of \$29,737, resulting in operating income of
12 \$43,349 or a 29.27 percent rate of return on FVRB.

13 18. The water rates and charges Staff recommends would produce operating revenues of
14 \$48,104 and adjusted operating expenses of \$29,446, resulting in operating income of \$18,658, or
15 and 11.50 percent rate of return on FVRB.

16 19. The Company's proposed rate schedules would increase the median monthly customer
17 bill by \$23.75, or 110.20 percent, from \$21.55 to \$45.30.¹

18 20. Staff's recommended rates would increase the median monthly customer bill by \$3.54,
19 or 16.4 percent, from \$21.55 to \$25.09.

20 21. The rates and charges proposed by Staff are reasonable and will be adopted.

21 22. The Company's members advanced \$161,005 in personal loans to the Company,
22 funding new facilities and emergency repairs. The Company issued promissory notes for the loans.
23 However, the Company did not seek Commission approval to incur the debt as required by A.R.S. §
24 40-301 and it does not seek authorization in this proceeding.

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27
28 ¹ Median monthly bills are for customers with 5/8" x 3/4" meters.

1 23. Classification of the loan funds as debt would create a highly leveraged capital
2 structure resulting in a negative 3.7 percent equity. Without this classification, the capital structure is
3 100 percent equity.

4 24. As such, Staff recommends that no debt authorization be granted for the funds infused
5 into the Company nor should the evidences of indebtedness be treated by the Company as promissory
6 notes without first obtaining Commission authorization to incur long-term debt. Staff's
7 recommendation is reasonable and will be adopted.

8 25. Staff has additionally recommended that Company be ordered to:

- 9 (a) Collect from its customers a proportionate share of any privilege, sales or use tax
10 as provided for in Arizona Administrative Code ("A.A.C.") R-14-2-409(D).
11 (b) File with Docket Control, as a compliance item in this docket, a tariff schedule of
12 its new rates and charges within 30 days after the effective date of the Decision in
13 this proceeding; and,
14 (c) Use the depreciation rates shown in Table B of the Engineering Report.

15 26. Winchester did not object to Staff's recommendations.

16 27. Staff's recommendations are reasonable and will be adopted.

17 28. According to the Staff Engineering Report, the Company's current system can
18 adequately serve its present customer base.

19 29. According to the Staff Report, Winchester is in compliance with Commission filing
20 requirements and prior Commission Orders.

21 30. Staff states that the Arizona Department of Environmental Quality reported no
22 deficiencies for the Company and determined that its water system is currently delivering water that
23 meets the water quality standards required by A.A.C., Title 18, Chapter 4.

24 31. The Company is not within an Active Management Area, and, as such, is not subject
25 to Arizona Department of Water Resources reporting and conservation requirements.

26 32. Winchester's two wells are both in compliance with the new maximum contaminant
27 level ("MCL") for arsenic as they both produce water with arsenic levels below the MCL.
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32. Winchester has a Commission-approved curtailment tariff.

33. According to the Staff Report, Winchester is current on the payment of its property taxes and is in good standing with the Arizona Department of Revenue and the Corporation Division of the Commission.

34. Staff's recommendations in Findings of Fact Nos. 21, 24 and 25 are reasonable and will be adopted.

35. Because an allowance for the property tax expense for Winchester 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 ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water and/or wastewater companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure Winchester should 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.

CONCLUSIONS OF LAW

1. Winchester Water Company, LLC 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 Winchester Water Company, LLC and of the subject matter of the Application.

3. Notice of the Application was provided in accordance with the law.

4. The rates and charges authorized herein are just and reasonable and should be approved without a hearing.

5. Staff's recommendations, as set forth in Findings of Fact Nos. 21, 24, and 25 are reasonable and will be adopted.

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ORDER

IT IS THEREFORE ORDERED that Winchester Water Company, LLC is hereby directed to file with Docket Control, as a compliance item in this docket, within 30 days of the effective date of this Decision, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$12.00
3/4" Meter	18.00
1" Meter	30.00
1 1/2" Meter	60.00
2" Meter	96.00
3" Meter	192.00
4" Meter	300.00
6" Meter	600.00

Tier One Rate – 0-3,000 gallons	\$0.80
Tier Two Rate – 3,001 – 10,000 gallons	1.25
Tier Three Rate – Over 10,000 gallons	1.99

Tier One Rate – 0-3,000 gallons	\$0.80
Tier Two Rate – 3,001 – 10,000 gallons	1.25
Tier Three Rate – Over 10,000 gallons	1.99

Tier One Rate – 0-20,000 gallons	\$1.25
Tier Two Rate – Over 20,000 gallons	1.99

Tier One Rate – 0-55,000 gallons	\$1.25
Tier Two Rate – Over 55,000 gallons	1.99

Tier One Rate – 0-100,000 gallons	\$1.25
Tier Two Rate – Over 100,000 gallons	1.99

Tier One Rate – 0-220,000 gallons	\$1.25
Tier Two Rate – Over 220,000 gallons	1.99

Tier One Rate – 0-350,000 gallons	\$1.25
Tier Two Rate – Over 350,000 gallons	1.99

Tier One Rate – 0-730,000 gallons	\$1.25
Tier Two Rate – Over 730,000 gallons	1.99

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

1	5/8" x 3/4" Meter	\$450.00
	3/4" Meter	500.00
2	1" Meter	565.00
	1 1/2" Meter	800.00
3	2" Meter	1,390.00
	3" Meter	1,990.00
4	4" Meter	3,055.00
5	6" Meter	5,650.00

6 SERVICE CHARGE:

7	Establishment	\$25.00
	Establishment (After Hours)	40.00
8	Reconnection (Delinquent)	30.00
9	Meter Test (If Correct)	
	Deposit	
10	Deposit Interest	
	Reestablishment (Within 12 Months)	**
11	NSF Check	20.00
	Deferred Payment	1.50%
12	Meter Reread (If Correct)	20.00
13	Late Payment Penalty	1.50%

14 Monthly Service Charge for Fire Sprinkler:

15	4" or Smaller	***
16	6"	***
17	8"	***
	10"	***
	Larger than 10"	***

18 * Per Commission rule A.A.C. R-14-2-403(B).

19 ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

20 *** 1.00 % of Monthly Minimum for a Comparable Size Meter Connection, but no less
 21 than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for
 22 service lines separate and distinct for the primary water service line.

23 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
 24 provided on and after May 1, 2008.

25 IT IS FURTHER ORDERED that Winchester Water Company, LLC shall notify its
 26 customers of the rates and charges authorized hereinabove and the effective date in a form acceptable
 27 to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled
 28 billing.

1 IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges,
2 Winchester Water Company shall collect from its customers a proportionate share of any privilege,
3 sales or use tax per A.A.C. R14-2-409(D).

4 IT IS FURTHER ORDERED that Winchester Water Company shall use the depreciation rates
5 shown in Table B of the Engineering Report on a going-forward basis.

6 IT IS FURTHER ORDERED that Winchester Water Company shall file as a part of its annual
7 report, affidavits with the Utilities Division attesting that it is current on payment of its property taxes
8 in Arizona.

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1 IT IS FURTHER ORDERED that no debt authorization is granted for the funds infused into
2 the Company nor are the evidences of indebtedness to be treated by the Company as promissory
3 notes without first obtaining Commission authorization to incur long-term debt.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6 _____
7 CHAIRMAN COMMISSIONER

8 _____
9 COMMISSIONER COMMISSIONER COMMISSIONER

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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 _____, 2008.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: WINCHESTER WATER COMPANY, LLC

2 DOCKET NO. W-04081A-07-0466

3

4 Charles D. Cardinal
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5 6700 North Oracle Road, Suite 234
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6

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