

OPEN MEETING ITEM

ORIGINAL



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

ARIZONA CORPORATION COMMISSION

22

DATE: APRIL 11, 2008
DOCKET NO: W-01877A-07-0540
TO ALL PARTIES:

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

MOUNTAIN DELL WATER, INC.
(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 21, 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:

MAY 6, 2008 and MAY 7, 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.

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BRIAN C. McNEIL
EXECUTIVE DIRECTOR

Arizona Corporation Commission
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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
MOUNTAIN DELL WATER, INC. FOR A
RATE INCREASE.

DOCKET NO. W-01877A-07-0540

DECISION NO. _____

ORDER

Open Meeting
May 6 and 7, 2008
Phoenix, Arizona

BY THE COMMISSION:

On September 24, 2007, Mountain Dell Water, Inc. ("Mountain Dell") filed with the Arizona Corporation Commission ("Commission") a rate application for water companies with annual gross operating revenues of less than \$250,000 ("rate application").

On October 23, 2007, Staff for the Commission's Utilities Division ("Staff") issued a Letter of Deficiency stating that Mountain Dell's rate application had not met the sufficiency requirements outlined in Arizona Administrative Code ("A.A.C.") R14-2-103.

On November 8, 2007, Mountain Dell filed a response to the Letter of Deficiency.

On November 27, 2007, Mountain Dell filed revised pages to its rate application.

On December 10, 2007, Staff issued a Letter of Sufficiency stating that Mountain Dell's rate application, as supplemented, had met the sufficiency requirements of A.A.C. R14-2-103 and that Mountain Dell had been classified as a Class D utility.

On December 13, 2007, Mountain Dell again filed revised pages to its rate application.

On February 22, 2008, Staff filed a request for an extension of time to file its Staff Report, which was due on February 25, 2008, until February 29, 2008, due to illness of the Staff member assigned to this matter.

On February 25, 2008, a Procedural Order was issued extending the deadline for filing the

1 Staff Report to February 29, 2008.

2 On February 29, 2008, Staff filed its Staff Report recommending approval of Staff's
3 recommended rates and charges.

4 * * * * *

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

7 **FINDINGS OF FACT**

8 1. Mountain Dell is an Arizona corporation providing water utility service in a service
9 area of approximately 40 acres located approximately one mile south of Flagstaff in Coconino
10 County, Arizona, pursuant to authority granted by the Commission.

11 2. Mountain Dell's present rates and charges for water utility service were approved in
12 Decision No. 58148 (January 13, 1993).

13 3. Mountain Dell filed its rate application on September 24, 2007. Mountain Dell stated
14 therein that the age of its infrastructure and the rising costs of water-related equipment, fuel, heating,
15 and purchased power have created the need for increased rates.

16 4. Along with its application, Mountain Dell filed an affidavit attesting that it had
17 provided notice of the proposed rate increase to its customers by first class U.S. mail on September
18 21, 2007.

19 5. On October 23, 2007, Staff issued a Letter of Deficiency regarding the application.

20 6. On November 8 and 27, 2007, Mountain Dell filed additional information in support
21 of the rate application.

22 7. On December 10, 2007, Staff issued a Letter of Sufficiency and classified Mountain
23 Dell as a Class D water utility.

24 8. On December 13, 2007, Mountain Dell filed additional revised pages to its rate
25 application.

26 9. The Commission's Consumer Services Division did not receive any contacts from
27 customers regarding the proposed rate increase.

28 10. During the test year ended December 31, 2006, Mountain Dell served an average of 86

1 metered customers, the majority of whom are residential users served by 5/8" x 3/4" meters.

2 11. Average and median water usage by residential users during the test year were 4,812
3 gallons and 2,495 gallons of water per month, respectively.

4 12. Staff conducted an investigation of Mountain Dell's proposed rates and charges for
5 water service and filed a Staff Report on the Company's rate application on February 29, 2008.
6 Mountain Dell did not file objections to the Staff Report.

7 13. The water rates and charges for Mountain Dell at present, as proposed in the rate
8 application, and as recommended by Staff, are as follows:

	Present Rates	Company Proposed	Staff Recommended
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$19.00	\$28.50	\$24.00
3/4" Meter	19.00	28.50	36.20
1" Meter	26.00	71.50	60.30
1 1/2" Meter	50.00	N/A	120.60
2" Meter	80.00	N/A	192.95
3" Meter	N/A	N/A	385.90
4" Meter	N/A	N/A	603.00
6" Meter	N/A	N/A	1,206.00
Gallons included in minimum	1,000	0	0
Commodity Rate (per 1,000 gallons):			
<u>All Meter Sizes</u>			
Per 1,000 gallons in excess of gallons in monthly minimum	\$4.25	See Below	See Below
<u>5/8 x 3/4 Inch Meter</u>			
Up to 3,000 gallons	N/A	\$3.65	\$3.10
3,001 to 10,000 gallons	N/A	5.48	4.70
Over 10,000 gallons	N/A	6.57	6.00
<u>3/4 Inch Meter</u>			
Up to 3,000 gallons	N/A	3.65	3.10
3,001 to 10,000 gallons	N/A	5.48	4.70
Over 10,000 gallons	N/A	6.57	6.00
...			
...			

1	<u>1 Inch Meter</u>			
2	Up to 10,000 gallons	N/A	5.48	N/A
	Over 10,000 gallons	N/A	6.57	N/A
3	Up to 27,000 gallons	N/A	N/A	4.70
4	Over 27,000 gallons	N/A	N/A	6.00
5	<u>1 ½ Inch Meter</u>			
6	Up to 70,000 gallons	N/A	N/A	4.70
	Over 70,000 gallons	N/A	N/A	6.00
7	<u>2 Inch Meter</u>			
8	Up to 120,000 gallons	N/A	N/A	4.70
	Over 120,000 gallons	N/A	N/A	6.00
9	<u>3 Inch Meter</u>			
10	Up to 260,000 gallons	N/A	N/A	4.70
11	Over 260,000 gallons	N/A	N/A	6.00
12	<u>4 Inch Meter</u>			
13	Up to 420,000 gallons	N/A	N/A	4.70
	Over 420,000 gallons	N/A	N/A	6.00
14	<u>6 Inch Meter</u>			
15	Up to 850,000 gallons	N/A	N/A	4.70
	Over 850,000 gallons	N/A	N/A	6.00

SERVICE LINE AND METER INSTALLATION CHARGES:

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

	<u>Present Rates</u>	<u>Company</u>	<u>Staff Service Line Charge</u>	<u>Staff Meter Installation</u>	<u>Staff Total Recommended</u>	
20	5/8" x 3/4" Meter	\$330.00	\$330.00	\$260.00	\$70.00	\$330.00
21	3/4" Meter	360.00	360.00	280.00	80.00	360.00
22	1" Meter	411.00	411.00	280.00	131.00	411.00
23	1 ½" Meter	604.00	604.00	315.00	289.00	604.00
	2" Meter	831.00	831.00	340.00	491.00	831.00

SERVICE CHARGES:

	<u>Present Rates</u>	<u>Company</u>	<u>Staff</u>	
25	Establishment	\$30.00	\$45.00	\$30.00
26	Establishment (After Hours)	35.00	52.50	45.00
27	Reconnection (Delinquent)	30.00	45.00	45.00
	Reconnection (After Hours)	N/A	N/A	N/A
28	Meter Test (If Correct)	25.00	37.50	37.50

1	Deposit Requirement	*	*	*
	Deposit Interest	*	*	*
2	Reestablishment (Within 12 Months)	**	**	**
	NSF Check	10.00	15.00	15.00
3	Deferred Payment (Per Month)	N/A	N/A	N/A
	Meter Re-Read (If Correct)	10.00	15.00	15.00
4	Late Charge (Per Month)	N/A	N/A	N/A
5	Fire Sprinkler Charge (Per Month)	N/A	N/A	***

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

7 ** Months off system times the monthly minimum (R14-2-403(D)).

8 *** 1.0 percent of monthly minimum for a comparably 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 14. According to the Staff Report, Staff determined Mountain Dell's original cost rate
10 base ("OCRB") to be \$84,121, which is the same as its fair value rate base ("FVRB"). This is an
11 \$18,900 increase to Mountain Dell's proposed OCRB of \$65,221, due to Staff's adjustments to plant
12 in service, accumulated depreciation, and cash working capital allowance. Staff's proposed
13 adjustments to rate base are reasonable and will be adopted.

14 15. Staff increased Mountain Dell's metered water revenue by \$671, from \$38,666 to
15 \$39,337, to reflect revenue generated by the test year billing determinants in Mountain Dell's filing.
16 Staff's adjustment to metered water revenue is reasonable and will be adopted.

17 16. Staff increased Mountain Dell's test year operating expenses by \$6,778, to \$44,096,
18 due to a number of minor expense adjustments to purchased power, repairs and maintenance, office
19 supplies and expenses, outside services, water testing, miscellaneous expenses, and depreciation
20 expenses. Staff's proposed adjustments to operating expenses are reasonable and will be adopted.

21 17. Based on Staff's analysis, Mountain Dell's present water rates and charges produced
22 operating revenue of \$39,967 and adjusted operating expenses of \$44,096, which resulted in net
23 operating income of negative \$4,129, for no return on FVRB during the test year.

24 18. The water rates and charges Mountain Dell proposed would produce adjusted
25 operating revenue of \$58,945 and adjusted operating expenses of \$37,318, resulting in operating
26 income of \$21,627 or a 33.16 percent rate of return on FVRB.

27 19. The water rates and charges Staff recommended would produce operating revenue of
28 \$50,925 and adjusted operating expenses of \$44,096, resulting in operating income of \$6,829, or an

1 8.12 percent rate of return on FVRB.

2 20. Mountain Dell's proposed rate schedules would increase the average monthly
3 customer water bill by \$14.18, or 40.3 percent, from \$35.20 to \$49.38 and the median monthly
4 customer water bill by \$12.26, or 48.4 percent, from \$25.35 to \$37.61.

5 21. Staff's recommended rates would increase the average monthly customer water bill by
6 \$6.62, or 18.8 percent, from \$35.20 to \$41.82 and the median monthly customer water bill by \$6.38,
7 or 25.2 percent, from \$25.35 to \$31.73.

8 22. Staff recommended approval of its proposed rates and charges and also recommended
9 the following:

10 a. That, in addition to collecting its regular rates and charges, Mountain Dell may
11 collect from its customers a proportionate share of any privilege, sales, or use tax as provided
12 for in A.A.C. R14-2-409(D)(5);¹

13 b. That Mountain Dell file with Docket Control, as a compliance item in this
14 docket, a schedule of its approved rates and charges within 30 days after the Decision in this
15 matter is issued; and

16 c. That Mountain Dell use, on a going forward basis, the depreciation rates by
17 individual National Association of Regulatory Utility Commissioners ("NARUC") category
18 listed in the Staff Engineering Report.

19 23. According to Staff, non-account water should be 10 percent or less and never more
20 than 15 percent of gallons pumped. For 2006, Mountain Dell reported 7,349,000 gallons pumped and
21 5,371,000 gallons sold, resulting in a water loss of 26.92 percent. Staff stated that Mountain Dell
22 believes that the majority of its water loss is due to bad service connection meters.

23 24. Staff recommended that Mountain Dell file with Docket Control, within 90 days of
24 this Decision, as a compliance item in this docket, a detailed plan demonstrating how Mountain Dell
25 will reduce its water loss to less than 10 percent. Staff further recommended that if Mountain Dell
26 finds that reduction of water loss to less than 10 percent is not cost effective, Mountain Dell should

27 _____
28 ¹ In Commission Decision No. 58148 (January 13, 1993), Mountain Dell was ordered to file a schedule for the collection of any proportionate share of any privilege, sales, or use tax pursuant to A.A.C. R14-2-409(D)(5).

1 submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than
2 10 percent is not cost effective. Staff stated that Mountain Dell must reduce its water loss to less than
3 15 percent by December 31, 2009.

4 25. According to the Staff Engineering Report, Mountain Dell's current system has
5 adequate production capacity and storage capacity based on water use data for the year 2006.
6 According to the Staff Engineering Report, Mountain Dell is projected to have little to no growth in
7 the foreseeable future.

8 26. According to the Staff Report, Mountain Dell has no outstanding compliance issues,
9 and no complaints or opinions have been filed against Mountain Dell between January 1, 2005, and
10 the present.

11 27. On July 17, 2007, the Arizona Department of Environmental Quality determined that
12 Mountain Dell's water system has no deficiencies and is currently delivering water that meets the
13 water quality standards required by 18 A.A.C. 4.

14 28. Mountain Dell is not within an Active Management Area and thus is not subject to
15 Arizona Department of Water Resources reporting and conservation requirements.

16 29. The U.S. Environmental Protection Agency has reduced the arsenic maximum
17 contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb.

18 30. Test results from June 2007 show that the arsenic concentration for Mountain Dell's
19 system is 4.0 ppb, which is below the new MCL of 10 ppb.

20 31. Mountain Dell has Commission-approved curtailment and back-flow prevention
21 tariffs.

22 32. According to the Staff Report, Mountain Dell is current on the payment of its property
23 taxes and sales taxes and is in good standing with the Commission's Corporations Division.

24 33. Because an allowance for property tax expense is included in Mountain Dell's rates
25 and will be collected from its customers, the Commission seeks assurances from Mountain Dell that
26 any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has
27 come to the Commission's attention that a number of water companies have been unwilling or unable
28 to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as 20

1 years. It is reasonable, therefore, that as a preventive measure Mountain Dell shall annually file, as
 2 part of its annual report, an affidavit with the Utilities Division attesting that Mountain Dell is current
 3 in paying its property taxes in Arizona.

4 34. Staff's recommendations in Finding of Fact Nos. 22 and 24 are reasonable and should
 5 be adopted.

6 **CONCLUSIONS OF LAW**

7 1. Mountain Dell is a public service corporation within the meaning of Article XV of the
 8 Arizona Constitution and A.R.S. §§ 40-250, 40-251, and 40-256.

9 2. The Commission has jurisdiction over Mountain Dell and the subject matter of the
 10 application.

11 3. Notice of the application was given in accordance with the law.

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

14 5. Staff's recommendations, as set forth in Finding of Fact Nos. 22 and 24, are
 15 reasonable and should be adopted.

16 **ORDER**

17 IT IS THEREFORE ORDERED that Mountain Dell Water, Inc. is hereby directed to file with
 18 Docket Control, as a compliance item in this docket, on or before May 30, 2008, revised rate
 19 schedules setting forth the following rates and charges:

20 **MONTHLY USAGE CHARGE:**

21	5/8" x 3/4" Meter	\$24.00
22	3/4" Meter	36.20
	1" Meter	60.30
23	1 1/2" Meter	120.60
24	2" Meter	192.95
	3" Meter	385.90
25	4" Meter	603.00
	6" Meter	1,206.00

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Commodity Rate (per 1,000 gallons):

<u>5/8 x 3/4 Inch Meter</u>		
Up to 3,000 gallons		\$3.10
3,001 to 10,000 gallons		4.70
Over 10,000 gallons		6.00
<u>3/4 Inch Meter</u>		
Up to 3,000 gallons		3.10
3,001 to 10,000 gallons		4.70
Over 10,000 gallons		6.00
<u>1 Inch Meter</u>		
Up to 27,000 gallons		4.70
Over 27,000 gallons		6.00
<u>1 1/2 Inch Meter</u>		
Up to 70,000 gallons		4.70
Over 70,000 gallons		6.00
<u>2 Inch Meter</u>		
Up to 120,000 gallons		4.70
Over 120,000 gallons		6.00
<u>3 Inch Meter</u>		
Up to 260,000 gallons		4.70
Over 260,000 gallons		6.00
<u>4 Inch Meter</u>		
Up to 420,000 gallons		4.70
Over 420,000 gallons		6.00
<u>6 Inch Meter</u>		
Up to 850,000 gallons		4.70
Over 850,000 gallons		6.00

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	<u>Service Line Charge</u>	<u>Meter Installation</u>	<u>Total</u>
5/8" x 3/4" Meter	\$260.00	\$70.00	\$330.00
3/4" Meter	280.00	80.00	360.00
1" Meter	280.00	131.00	411.00
1 1/2" Meter	315.00	289.00	604.00
2" Meter	340.00	491.00	831.00

SERVICE CHARGES:

1		
2	Establishment	\$30.00
3	Establishment (After Hours)	45.00
4	Reconnection (Delinquent)	45.00
5	Reconnection (After Hours)	N/A
6	Meter Test (If Correct)	37.50
7	Deposit Requirement	*
8	Deposit Interest	*
9	Reestablishment (Within 12 Months)	**
10	NSF Check	15.00
11	Deferred Payment (Per Month)	N/A
12	Meter Re-Read (If Correct)	15.00
13	Late Charge (Per Month)	N/A
14	Fire Sprinkler Charge (Per Month)	***

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

** Months off system times the monthly minimum (R14-2-403(D)).

*** 1.0 percent of monthly minimum for a comparably 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 for all service provided on and after June 1, 2008.

IT IS FURTHER ORDERED that Mountain Dell Water, Inc. shall notify its customers of the rates and charges authorized hereinabove and their effective date in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regular scheduled billing.

IT IS FURTHER ORDERED that, in addition to collecting its regular rates and charges, Mountain Dell Water, Inc. shall collect from its customers a proportionate share of any privilege, sales, or use tax per A.A.C. R14-2-409(D)(5).

IT IS FURTHER ORDERED that Mountain Dell Water, Inc. shall continue to use the depreciation rates by individual NARUC category on a going-forward basis.

IT IS FURTHER ORDERED that Mountain Dell Water, Inc. shall file with Docket Control, within 90 days after the effective date of this Decision, as a compliance item in this docket, a detailed plan demonstrating how Mountain Dell Water, Inc. will reduce its water loss to less than 10 percent or, if Mountain Dell Water, Inc. finds that reduction of water loss to less than 10 percent is not cost effective, a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost effective.

1 IT IS FURTHER ORDERED that Mountain Dell Water, Inc. shall reduce its water loss to less
2 than 15 percent by December 31, 2009.

3 IT IS FURTHER ORDERED that Mountain Dell Water, Inc. shall annually file, as part of its
4 annual report, an affidavit with the Utilities Division attesting that it is current on paying its property
5 taxes in Arizona.

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

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
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9

10 CHAIRMAN _____ COMMISSIONER _____

11
12 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

13
14 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
15 Director of the Arizona Corporation Commission, have
16 hereunto set my hand and caused the official seal of the
17 Commission to be affixed at the Capitol, in the City of Phoenix,
18 this ____ day of _____, 2008.

19 _____
20 BRIAN C. McNEIL
21 EXECUTIVE DIRECTOR

22 DISSENT _____

23 DISSENT _____

24 SNH:db

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1 SERVICE LIST FOR: MOUNTAIN DELL WATER, INC.

2 DOCKET NOS.: W-01877A-07-0540

3

4 Peter Reznick, President
MOUNTAIN DELL WATER, INC.
1492 West Palmer Avenue
5 Flagstaff, AZ 86001

6 Christopher Kempley, Chief Counsel
Legal Division
7 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
8 Phoenix, AZ 85007

9 Ernest G. Johnson, Director
Utilities Division
10 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
11 Phoenix, AZ 85007

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