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

OPEN MEETING ITEM



ARIZONA CORPORATION COMMISSION

DATE: AUGUST 7, 2008
DOCKET NO: W-02526A-08-0078
TO ALL PARTIES:

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

BELLEMONT WATER COMPANY
(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:

AUGUST 18, 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:

AUGUST 26, 2008 and AUGUST 27, 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

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

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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 BELLEMONT WATER COMPANY FOR
APPROVAL OF A PERMANENT RATE
INCREASE.

DOCKET NO. W-02526A-08-0078
DECISION NO. _____

ORDER

Open Meeting
August 26 and 27, 2008
Phoenix, Arizona

BY THE COMMISSION:

On February 8, 2008, Bellemont Water Company ("Applicant" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase.

On March 7, 2008, pursuant to A.A.C. R14-2-103, the Commission's Utilities Division ("Staff") issued a Notice of Insufficiency to the Company.

On May 12, 2008, Staff issued a Notice of Sufficiency to the Applicant and classified the Company as a Class E water utility, and indicated that a Staff Report would be filed by July 11, 2008.

On June 6, 2008, Staff filed a Motion to Extend Time to File Staff Report ("Motion").

On June 18, 2008, Staff filed an amended Motion requesting until July 21, 2008, and indicated that the Company did not oppose the Motion.

On June 19, 2008, by Procedural order, Staff's amended Motion was granted and the timeframe suspended pursuant to A.A.C. R14-2-103.

On July 21, 2008, Staff filed its Staff Report recommending that Staff's proposed rates and charges be approved. There were no objections filed to the Staff Report.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the

1 Commission finds, concludes, and orders that:

2 **FINDINGS OF FACT**

3 1. Pursuant to authority granted by the Commission, Applicant is an Arizona Corporation
4 engaged in the business of providing water service to seven metered commercial customers and no
5 metered residential customers approximately 10 miles west of Flagstaff in Coconino County,
6 Arizona. The Company previously had approximately 200 standpipe customers from the surrounding
7 area, but discontinued service to them during a water shortage and was subsequently ordered by the
8 Commission to discontinue standpipe service in Decision No. 69673 (June 28, 2007).¹

9 2. Applicant's last permanent rates for water service were approved in Decision 65853
10 (April 25, 2003) until they were modified by the emergency commodity rate authorized in Decision
11 No. 69673.

12 3. On February 8, 2008, the Company filed an application requesting authority to
13 increase its rates and charges for water service.

14 4. On April 3, 2008, Applicant provided notice to its customers of its application for a
15 proposed rate increase by first class U.S. mail and, in response thereto, no protests have been
16 received by the Commission. The notice informed customers that approved rates could be higher
17 than those proposed by the Company.

18 5. On May 12, 2008, Staff filed notice that the Company's rate application had met the
19 Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

20 6. During the test year ended September 30, 2007 ("TY"), Applicant provided service to
21 seven metered commercial customers who were primarily served by 3/4-inch meters. The Staff
22 Report indicates that average water usage by 3/4-inch users during the TY was 2,250 gallons per
23 month.

24 _____
25 ¹ Decision No. 69673 authorized an emergency rate of \$30.00 per 1,000 gallons of usage for metered customers only
26 due to the Company's dwindling water supply because its two wells were running dry and not recovering. Currently, the
27 Company has only one functioning well which produces approximately 10 gallons per minute ("GPM") of water and a
28 100,000 gallon storage tank which is inadequate to provide fire flow protection to its existing commercial customers, but
it is waiting for the Arizona Department of Environmental Quality ("ADEQ") approval of construction to start using an
additional new 150,000 gallon storage tank which has already been constructed. The Company obtained the funds for the
construction of the additional storage tank and a back-up generator from Schuff Steel Company, one of its customers, by
entering into an advance-in-aid-of-construction for \$220,065.

7. Staff conducted an investigation of Applicant's proposed rates and charges for water service and filed its Staff Report on the Company's rate application request on July 21, 2008, recommending that Staff's proposed rates and charges be approved. Staff also recommended that the Company's service line and meter installation charges be adjusted to Staff's recommended levels and that moderate changes be made to the Company's other service charges.

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

Monthly Customer Charge:	Present	- Proposed Rates -	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$ 17.00	\$ 27.00	\$ 27.00
3/4" Meter	26.00	40.00	45.00
1" Meter	44.00	60.00	75.00
1½" Meter	65.00	75.00	120.00
2" Meter	130.00	150.00	160.00
3" Meter	208.00	240.00	330.00
4" Meter	435.00	485.00	500.00
6" Meter	650.00	700.00	700.00
Gallons included in monthly customer charge for all meter sizes:	-0-	-0-	-0-
Emergency Rate:			
Commodity Charge (per 1,000 gallons)	\$ 30.00	N/A	N/A
Water Hauling Surcharge: ²	N/A	N/A	Cost (1)
(1) Per gallon rate calculated by dividing actual hauling costs less curtailment penalty fees collected by the total gallons sold for the month. Customer bill amount will be calculated by multiplying the gallons used for the month times the per gallon rate. Customers will be billed in the month following actual costs incurred.			
Commodity Charge: (per 1,000 gallons)			
Residential			
0 to 4,000 gallons	\$ 2.79	\$ 7.00	\$ 45.00
4,001 to 10,000 gallons	4.19	11.00	50.00
Over 10,000 gallons	5.02	13.00	55.00
Nonresidential			
0 to 10,000 gallons	\$ 4.19	\$ 11.00	\$ 50.00
Over 10,000 gallons	5.02	13.00	55.00
Standpipe Service: (per 1,000 gallons)	DISCONTINUED	\$ 15.00	DISCONTINUED

² Staff is recommending approval of a water hauling surcharge because the Company does not have a reliable source of water and has to haul water at times to avoid shortages.

Service Line And Meter Installation Charges:
(Refundable pursuant to A.A.C. R14-2-405)

	Present Rates	Company Proposed	Staff Recommended		
			Services	Meter	Total
5/8 x 3/4" Meter	\$ 420.00	\$ 450.00	\$ 415.00	\$ 105.00	\$ 520.00
3/4" Meter	485.00	500.00	415.00	205.00	620.00
1" Meter	635.00	750.00	465.00	265.00	730.00
1½" Meter	880.00	1,000.00	520.00	475.00	995.00
2" Turbine Meter	1,505.00	2,000.00	800.00	995.00	1,795.00
2" Compound Meter	0.00	0.00	800.00	1,840.00	2,640.00
3" Turbine Meter	2,145.00	3,000.00	1,015.00	1,620.00	2,635.00
3" Compound Meter	0.00	0.00	1,135.00	2,495.00	3,630.00
4" Turbine Meter	3,340.00	5,000.00	1,430.00	2,570.00	4,000.00
4" Compound Meter	0.00	0.00	1,610.00	3,545.00	5,155.00
6" Turbine Meter	6,010.00	10,000.00	2,150.00	4,925.00	7,075.00
6" Compound Meter	0.00	0.00	2,270.00	6,820.00	9,090.00

	Present Rates	-Proposed Rates-	
		Company	Staff
<u>Service Charges:</u>			
Establishment	\$25.00	\$50.00	\$30.00
Establishment (After Hours)	37.50	75.00	45.00
Reconnection (Delinquent)	25.00	50.00	30.00
Reconnection (Delinquent – After Hours)	0.00	50.00	45.00
Meter Test (If Correct)	40.00	50.00	40.00
Deposit	*	*	*
Deposit Interest	*	*	*
Reestablishment (Within 12 Months)	**	**	**
NSF Check	\$15.00	\$25.00	\$20.00
Deferred Payment (Per Month)	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	15.00	50.00	20.00
Late Fee	0.00%	1.50%	1.50%

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

** Number of months off system times the Monthly Minimum, per Commission rule A.A.C. R14-2-403(D).

9. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined to be \$87,304 which is the same as its original cost rate base. The Company's FVRB reflects a \$23,108 decrease by Staff to Applicant's proposed FVRB due in large part to an adjustment to Applicant's net plant by the removal of \$25,970, mainly for plant not in service, along with the addition of \$2,952 for working capital.

10. Staff decreased Applicant's TY operating expenses by \$5,712 primarily by removing \$3,950 for purchased water expense, \$1,830 for undocumented office expense, \$2,143 for rental expense and \$1,653 for property tax expense. Staff also increased miscellaneous expenses by \$958.

1 11. Applicant's present water rates and charges produced adjusted operating revenues of
2 \$19,905 and adjusted operating expenses of \$34,522 which resulted in an operating loss of \$14,617
3 during the TY.

4 12. The water rates and charges Applicant proposed would produce operating revenues of
5 \$28,749 and adjusted operating expenses of \$36,782 which will result in an operating loss of \$8,033
6 or a negative return on FVRB.

7 13. The water rates and charges proposed by Staff would produce adjusted operating
8 revenues of \$45,512 and adjusted operating expenses of \$36,782 resulting in net operating income of
9 \$8,730 or a 10 percent rate of return on FVRB.³

10 14. Applicant's proposed rates would decrease the average monthly customer water bill by
11 40.4 percent, from \$93.50 to \$55.75.

12 15. Staff's recommended rates would increase the average monthly customer water bill by
13 56.4 percent, from \$93.50 to \$146.25.

14 16. According to the Staff Report, the Company filed its application for a rate increase to
15 to comply with Decision No. 69673 and to offset increasing operational costs. Based on the fact that
16 the Company's proposed rates are insufficient to provide for operational needs, Staff is
17 recommending what it believes is an operating margin (19.18 percent) which will enable the
18 Company to meet its operating needs and to become financially viable since the majority of its
19 former customer base, 200 standpipe customers, can no longer be served by the Company with its
20 limited water supply until the Company secures a more reliable and adequate water supply.⁴

21 17. The Staff Report indicates that the Company is providing water which meets the
22 requirements of the Safe Drinking Water Act.

23 18. Staff further indicates that the Company is in good standing with the Corporations
24 Division of the Commission and is in compliance with the Commission's rules with respect to the
25

26 ³ This equates to a 19.18 percent operating margin resulting from Staff recommended 128.65 percent rate increase for
the Company's seven metered customers due to the discontinuance of standpipe service which formerly generated
approximately 70 to 80 percent of the Company's revenues.

27 ⁴ According to the Staff Report, the Company has depleted its water sources over time and presently relies on its one
28 remaining well that produces only 10 GPM of water. Recent drilling efforts have failed and the Company is attempting to
secure an interconnection with a U.S. Army Depot, Camp Navajo, located to the south of the Company's service area.

1 operation of a water utility. While the Company is current on the payment of its sales taxes, the
2 Company is not current on the payment of its 2007 property taxes; however, Staff indicates that the
3 Applicant is working to resolve the situation.

4 19. Staff found further that the Company still is not utilizing the National Association of
5 Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") and has
6 failed to comply with Decision No. 65853 in which the Commission previously ordered the Applicant
7 to maintain its records in accordance with the NARUC standards.

8 20. The Company has previously had its Curtailment Tariff approved by the Commission
9 in 2003.

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

- 11 • that Applicant notify its customers of the approved water rates and charges and
12 their effective date by means of an insert in the monthly billing which proceeds the
13 month in which they become effective and file a copy of the notice sent to its
14 customers with the Commission's Docket Control as a compliance item in this
15 docket;
- 16 • that Applicant file, within 30 days of the effective date of this Decision, as a
17 compliance item in this docket, with the Commission's Docket Control, a copy of
18 the schedule of its approved rates and charges;
- 19 • that the Company maintain its books and records accordance with the NARUC
20 USOA and file, within 60 days of the effective date of this Decision, with the
21 Commission's Docket Control, as a compliance item in this docket, a plan which
22 describes how the Company will keep its books and records in accordance with the
23 NARUC USOA;
- 24 • that the Company retain a competent professional who is experienced in water
25 utility accounting to record or to assist in the recording of its financial transactions
26 in accordance with GAAP and the NARUC USOA and who can provide training
27 in water utility accounting to its current staff;
- 28 • that the Company adjust its books and records to conform with the Commission's
Order in this case and file, by May 15, 2009, with the Commission's Docket
Control, as a compliance item in this docket, plans showing the adjusted entries
(i.e. the accounts debited and credited) and the resulting general ledger balances;
- that the Company install a wellhead meter and file, by December 31, 2008, with
the Commission's Docket Control, as a compliance item in this docket,
documentation which demonstrates that the wellhead meter has been installed;
- that the Company's standpipe service not be reinstated until further Order by the
Commission;
- 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).

Monthly Customer Charge:

5/8" x 3/4" Meter	\$ 27.00
3/4" Meter	45.00
1" Meter	75.00
1½" Meter	120.00
2" Meter	160.00
3" Meter	330.00
4" Meter	500.00
6" Meter	700.00

Commodity Charge:

(per 1,000 gallons)

Residential

0 to 4,000 gallons	\$ 45.00
4,001 to 10,000 gallons	50.00
Over 10,000 gallons	55.00

Nonresidential

0 to 4,000 gallons	\$ 50.00
Over 10,000 gallons	55.00

Water Hauling Surcharge:

Cost (1)

(1) Per gallon rate calculated by dividing actual hauling costs less curtailment penalty fees collected by the total gallons sold for the month. Customer bill amount will be calculated by multiplying the gallons used for the month times the per gallon rate. Customers will be billed in the month following actual costs incurred.

Standpipe Service:

DISCONTINUED UNTIL FURTHER ORDER

Service Line And Meter Installation Charges:

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

	<u>Services</u>	<u>Meter</u>	<u>Total</u>
5/8 x 3/4" Meter	\$ 415.00	\$ 105.00	\$ 520.00
3/4" Meter	415.00	205.00	620.00
1" Meter	465.00	265.00	730.00
1½" Meter	520.00	475.00	995.00
2" Turbine Meter	800.00	995.00	1,795.00
2" Compound Meter	800.00	1,840.00	2,640.00
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6" Turbine Meter	2,150.00	4,925.00	7,075.00
6" Compound Meter	2,270.00	6,820.00	9,090.00

Service Charges:

Establishment	\$ 30.00
Establishment (After Hours)	45.00
Reconnection (Delinquent)	30.00

1	Reconnection (Delinquent – After Hours)	45.00
	Meter Test (If Correct)	40.00
2	Deposit	*
	Deposit Interest	*
3	Reestablishment (Within 12 Months)	**
	NSF Check	\$20.00
4	Deferred Payment (Per Month)	1.50%
	Meter Re-Read (If Correct)	\$20.00
5	Late Fee	1.50%

* 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).

8 IT IS FURTHER ORDERED that the above rates and charges shall be effective on September
9 1, 2008, for all water service.

10 IT IS FURTHER ORDERED that Bellemont Water Company shall notify its customers of the
11 rates and charges authorized hereinabove and the effective date of same by means of an insert in a
12 form acceptable to Staff in the next regular monthly billing and file a copy of the notice when sent to
13 its customers with the Commission’s Docket Control as a compliance item in this docket.

14 IT IS FURTHER ORDERED that Bellemont Water Company shall comply with each of the
15 recommendations appearing in Finding of Fact No. 21.

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

18 IT IS FURTHER ORDERED that Bellemont Water Company, shall, in addition to the
19 collection of its regular rates and charges, collect from its customers their proportionate share of any
20 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 Bellemont Water Company 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.
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7

8 CHAIRMAN _____ COMMISSIONER

9
10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER

11
12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
13 Director of the Arizona Corporation Commission, have
14 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 _____, 2008.

17 _____
18 BRIAN C. McNEIL
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____

22 MES:db

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1 SERVICE LIST FOR: BELLEMONT WATER COMPANY

2 DOCKET NO.: W-02526A-08-0078

3
4 Rodney C. Wilson, C.P.A.
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