

ORIGINAL

OPEN MEETING ITEM



0000091420

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



ARIZONA CORPORATION COMMISSION

DATE: DECEMBER 2, 2008  
DOCKET NOS: W-02065A-07-0313 and W-02065A-08-0139  
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:

WILHOIT WATER COMPANY, INC.  
(RATES/FINANCE)

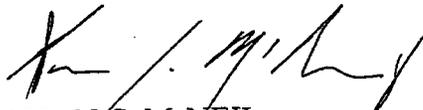
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

DECEMBER 11, 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:

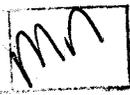
DECEMBER 16, 2008 and DECEMBER 17, 2008

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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**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  
WILHOIT WATER COMPANY, INC. ON  
BEHALF OF ITS BLUE HILLS NO. 3 SYSTEM  
FOR A PERMANENT RATE INCREASE.

DOCKET NO. W-02065A-07-0313

IN THE MATTER OF WILHOIT WATER  
COMPANY, INC. ON BEHALF OF ITS BLUE  
HILLS NO. 3 SYSTEM FOR APPROVAL OF A  
FINANCING APPLICATION.

DOCKET NO. W-02065A-08-0139

DECISION NO. \_\_\_\_\_

**ORDER**

Open Meeting  
December 16 and 17, 2008  
Phoenix, Arizona

**BY THE COMMISSION:**

On May 21, 2007, Wilhoit Water Company, Inc. ("Company" or "Applicant") on behalf of its Blue Hills No. 3 System ("Blue Hills") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase.

On June 19, 2007, the Company filed certification that it had mailed notice of the application to its customers. The Commission has not received any comments or protests in response to the application.

On June 20, 2007, the Commission's Utilities Division ("Staff") issued a Notice of Insufficiency to the Company that its application did not meet the sufficiency requirements of A.A.C. R14-2-103.

On September 10, 2007, Staff issued a Notice of Sufficiency on the Company's rate application and classified the Applicant as a Class E utility.

On November 9, 2007, Staff filed its Staff Report which recommended that Staff's proposed rates and charges be approved. No comments or objections were filed by the Company to Staff's

1 recommendation. Staff's Report included approval of an arsenic removal surcharge mechanism  
2 ("ARSM") to address the costs of the removal of arsenic from the Company's water supply.  
3 Additionally, Staff recommended approval of long-term debt for the Company related to its ARSM.  
4 However, the Applicant had not filed an application for financing approval with the Commission in  
5 conjunction with its rate case application. Further, while public notice was provided to the customers  
6 of its rate application, there had been no notification to customers of a financing application because  
7 the Company had not filed an application for approval of long-term debt.

8 On January 3, 2008, by Procedural Order, the Company was ordered to file a financing  
9 application in light of Staff's recommendations in its initial Staff Report. Additionally, public notice  
10 of the financing application was ordered to be given by the Company to the Company's customers in  
11 a form and manner approved by Staff. Lastly, the time-frame in the rate proceeding was suspended  
12 pending Staff's review of the Company's financing application after which Staff was directed to file  
13 an amended Staff Report concerning the Company's rate application and a Staff Report on the  
14 Company's financing application.

15 On March 6, 2008, the Company filed a financing application in Docket No.  
16 W-02065A-08-0139 requesting approval of \$40,000 in long-term debt to fund the costs of an arsenic  
17 treatment system.

18 On April 9, 2008, public notice of the financing application was mailed by the Company to its  
19 customers.

20 On May 7, 2008, Staff filed an amended Staff Report with respect to the Company's rate  
21 application and a Staff Report recommending approval of the Company's financing application in  
22 Docket No. W-020565A-08-0139. The Company did not file any objections to the Staff Reports.

23 On June 12, 2008, by Procedural Order, the above-referenced dockets were consolidated for  
24 further consideration by the Commission.

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  
2 1. Pursuant to authority granted by the Commission, Applicant is an Arizona corporation  
3 in good standing engaged in the business of providing water service to a 20 acre area in the vicinity  
4 of Dewey in Yavapai County, Arizona.<sup>1</sup>

5 2. Applicant's present rates and charges for water were approved in Decision No. 58102  
6 (December 9, 1992).

7 3. On May 21, 2007, the Company filed an application requesting authority to increase  
8 its rates and charges for water service.

9 4. On June 18, 2007, Applicant mailed notice to its customers of its application for a  
10 proposed rate increase by first class U.S. Mail and, in response thereto, no objections or comments  
11 have been received by the Commission in opposition to the Company's application.

12 5. On September 10, 2007, Staff filed notice that the Company's rate application had met  
13 the Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

14 6. During the test year ("TY") ended December 31, 2006, Applicant served 64 metered  
15 customers who were all served by 5/8" by 3/4" meters. Average and median usage by residential users  
16 during the TY were 4,639 gallons and 3,404 gallons per month, respectively.

17 7. Staff conducted an investigation of Applicant's proposed rates and charges for water  
18 service and filed its initial Staff Report on the Company's rate application request on November 9,  
19 2007, and an amended Staff Report on May 7, 2008, recommending that Staff's proposed rates and  
20 charges be approved. Staff is also recommending that the Company's service line and meter  
21 installation charges be modified as requested by the Company and its other service charges be  
22 modified consistent with Staff's recommendations. Staff is further recommending the adoption of an  
23 ARSM to address the removal of arsenic from the Company's water supply.

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

26  
27 <sup>1</sup> According to the Commission corporation records, the Company is owned by the Estate of Robert D. Conlin ("Estate")  
28 and David A. Conlin, Jr. and is managed by the Glenarm Land Company, Inc. ("Glenarm") which the Estate and Mr.  
Conlin also own. They also own the Wilhoit Water Company ("Wilhoit") that owns three other public water systems,  
which provide water in the following areas: Thunderbird Meadows in the vicinity of Wilhoit; Yavapai Mobile Home  
Estates in the vicinity of Chino Valley; and the Dells Water Company, Inc. in the vicinity of Prescott in Yavapai County.

<u>MONTHLY USAGE CHARGE:</u>	Present	Proposed Rates	
	<u>Rates</u>	<u>Company</u>	<u>Staff</u>
5/8" x 3/4" Meter	\$ 8.00	\$ 10.00	\$ 12.00
3/4" Meter	8.00	10.00	12.00
1" Meter	18.00	22.50	30.00
1 1/2" Meter	40.00	50.00	60.00
2" Meter	64.00	80.00	96.00
3" Meter	120.00	150.00	192.00
4" Meter	200.00	250.00	300.00
5" Meter	300.00	375.00	450.00
6" Meter	400.00	500.00	600.00

Gallons included in minimum	0	0	0
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GALLONAGE CHARGES:  
(per 1,000 Gallons)

0 to 6,000 Gallons	\$ 2.95	\$ 6.65	N/A
over 6,000 Gallons	3.78	9.30	N/A
0 to 3,000 Gallons	N/A	N/A	\$ 3.00
3,001 to 10,000 Gallons	N/A	N/A	4.50
over 10,000 Gallons	N/A	N/A	5.40
Bulk rate per 1,000 Gallons	N/A	N/A	5.40

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

	Company		Staff's Recommended Charges		
	<u>Current</u>	<u>Proposed</u>	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
5/8" x 3/4" Meter	\$265.00	\$520.00	\$ 385.00	\$ 135.00	\$ 520.00
3/4" Meter	295.00	600.00	385.00	215.00	600.00
1" Meter	345.00	690.00	435.00	255.00	690.00
1 1/2" Meter	520.00	935.00	470.00	465.00	935.00
2" Meter	725.00	1,595.00	630.00	965.00	1,595.00
3" Meter	925.00	2,275.00	805.00	1,470.00	2,275.00
4" Meter	1,550.00	3,520.00	1,170.00	2,350.00	3,520.00
5" Meter	2,638.00	N/A	N/A	N/A	N/A
6" Meter	3,725.00	6,275.00	1,730.00	4,545.00	6,275.00

SERVICE CHARGES:

Establishment	\$ 30.00	\$ 100.00	\$ 30.00
Establishment (After Hours)	0.00	0.00	N/A
Reconnection (Delinquent)	30.00	100.00	30.00
Meter Test (If Correct)	50.00	150.00	50.00
Deposit	0.00	*	*
Deposit Interest	0.0%	*	*
Reestablishment (Within 12 Mos.)	0.00	**	**
NSF Check	15.00	35.00	30.00
Deferred Payment (Per Year)	6.0%	6.0%	6.0%
Meter Reread (If Correct)	15.00	35.00	15.00
Late Payment Penalty	0.00	10.00	***

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

1	4" or Smaller	N/A	N/A	****
2	6"	N/A	N/A	****
3	8"	N/A	N/A	****
4	10"	N/A	N/A	****
5	Larger than 10"	N/A	N/A	****

\* 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).

\*\*\* 1.5% of unpaid monthly balance.

\*\*\*\* 1% 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.

9. Pursuant to the amended Staff Report, Applicant's fair value rate base ("FVRB") is determined to be \$5,108 which is the same as its original cost rate base. The Company's FVRB reflects a \$3,858 adjustment by Staff to Applicant's proposed FVRB due in large part to a \$1,597 increase to Applicant's Net Plant and a \$2,261 increase to the Company's working capital.

10. Staff decreased Applicant's TY operating expenses by \$6,821 after finding that the Company has failed to maintain separate books and records of revenues, expenses, and rate bases for each of its three systems in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA"). According to the Company, it assigned allocation factors in percentages based on relative customer counts for the systems at an unspecified historical date.

11. Staff developed an alternate allocation factor for allocating expenses that could not be directly attributed to one of the other two systems operated by the Company or the Dells system. According to Staff, since the customer counts used by Applicant are stale and because, in some instances, customer count is not the preferred allocation basis, Staff allocated 17.34 percent of shared expenses versus the Company's proposed 20 percent of shared expenses. As a result, the following expenses were substantially reduced by Staff: salaries and wages (\$2,106); repairs and maintenance (\$2,358); miscellaneous expense (\$2,073); and taxes other than income (\$1,355).

12. Applicant's present rates and charges produced adjusted operating revenues of \$20,950 and adjusted operating expenses of \$21,274 which resulted in an operating loss of \$324 for the TY.

1           13.     The water rates and charges Applicant proposed would produce operating revenues of  
2 \$31,403 and adjusted operating expenses of \$22,273, resulting in net operating income of \$9,130.  
3 This is a 178.86 percent rate of return on FVRB. This is not a meaningful figure due to the minimal  
4 size of the Company's rate base. It equates to a 29.09 percent operating margin.

5           14.     The water rates and charges proposed by Staff would produce adjusted operating  
6 revenues of \$26,242 and adjusted operating expenses of \$22,274, resulting in net operating income of  
7 \$3,968 or a 77.69 percent rate of return on FVRB. Staff's recommended revenue requirement results  
8 in an operating margin of 15.12 percent, and provides ample funds to manage contingencies,  
9 operating expenses and below the line expenses.

10          15.     Applicant's proposed rate schedule would increase the average monthly customer  
11 water bill by 88.4 percent, from \$21.68 to \$40.85, and median monthly customer water bill by  
12 80.9 percent, from \$18.04 to \$32.62.

13          16.     Staff's recommended rates would increase the average monthly customer water bill by  
14 30.9 percent, from \$21.68 to \$28.37, and the median monthly customer water bill by 26.5 percent,  
15 from \$18.04 to \$22.82.

16          17.     According to the initial and amended Staff Reports, the Company is failing to provide  
17 water which meets the new arsenic standard. The Arizona Department of Environmental Quality  
18 ("ADEQ") Monitoring Assistance Program ("MAP") analysis report for 2007 indicated that the  
19 Company's composite arsenic level from its two wells is 18 parts per billion ("ppb").

20          18.     In order to address this problem, in the initial Staff Report, Staff determined that the  
21 Company would need funds for the engineering, construction and installation of arsenic treatment  
22 system, and recommended that the Company seek long-term financing from the Water Infrastructure  
23 and Finance Authority of Arizona ("WIFA") to fund the arsenic treatment system. As of the date of  
24 the initial Staff Report, Staff determined that \$40,000 is a reasonable estimate for the costs of an  
25 arsenic treatment system for Blue Hills.

26          19.     Based on Staff's recommendation, the Company has contacted WIFA to begin the  
27 process to secure a WIFA loan of up to \$40,000 to purchase and construct an arsenic treatment  
28

1 system.

2 20. On March 6, 2008, the Company filed an application for approval to finance \$40,000  
3 in long-term debt to fund the costs of an arsenic treatment system as recommended by Staff.

4 21. Staff is recommending an ARSM for the Company due to its current size and limited  
5 financial situation and because it does not have access to alternate funding sources to correct the  
6 arsenic problem.

7 22. With an ARSM, a methodology will be in place to detail how the surcharge will  
8 provide funds for the debt service on the WIFA loan. Upon the Company's determining the final cost  
9 needed for a loan to fund the purchase and installation of an arsenic treatment system, the Company  
10 can submit an arsenic removal surcharge application to the Commission.

11 23. Staff's analysis is based on Staff's recommendation of rates in this proceeding and the  
12 Company's TY financial statements and utilizes pro forma schedules to show the effect of a \$40,000  
13 WIFA loan.

14 24. Based on a projected interest rate of eight percent, Staff projects the Company would  
15 need additional annual revenues of \$4,239 or approximately \$354 per month to meet the debt service  
16 on its hypothetical debt for an arsenic treatment system.<sup>2</sup>

17 25. Based on a \$40,000 WIFA loan, Staff calculated the monthly surcharge for a 5/8" x  
18 3/4" meter customer to be \$5.52.

19 26. According to Staff, if its recommended rates and charges are adopted and a surcharge  
20 mechanism utilized as projected by Staff in its report is implemented, the Company's cash flow will  
21 provide Applicant with a times interest earned ratio ("TIER") of 2.92 and debt service coverage  
22 ("DSC") of 2.32.<sup>3</sup> This is sufficient cash flow to support the Company's financing request.

23 27. According to the amended Staff Report, the Company's DSC represents the number of  
24 times internally generated cash will cover required principal and interest payments on the long-term  
25 debt.

26 \_\_\_\_\_  
27 <sup>2</sup> Staff used a \$40,000 long-term loan from WIFA repaid over 20 years with a stated annual interest rate of eight  
percent.

28 <sup>3</sup> Staff states a TIER greater than 1.0 means that operating income is greater than interest expense, and that a DSC  
greater than 1.0 or more indicates sufficient cash to cover debt obligations.

1           28.     According to Staff, the pro forma effects on a monthly bill with an ARSM to fund a  
2 \$40,000 loan for an arsenic treatment system will add the following surcharges:

3	5/8" x 3/4" Meter	\$ 5.52
4	3/4" Meter	8.28
5	1" Meter	13.80
6	1 1/2" Meter	27.50
7	2" Meter	44.15
8	3" Meter	82.79
9	4" Meter	137.98
10	6" Meter	275.95

11           29.     According to the amended Staff Report, the Company has failed in numerous  
12 instances to comply with prior Commission Orders. Additionally, in other instances, the Company  
13 has failed to respond to other Commission actions and more particularly in Docket No.  
14 W-02056A-03-0490, a proceeding in which the Company had filed an application for approval of the  
15 sale to the City of Avondale ("City") of that portion of its assets used to serve the Glenarm Farms  
16 Water System and to cancel that portion of its Certificate of Convenience and Necessity  
17 ("Certificate"). At that time, the assets were encumbered by Maricopa County tax liens totaling  
18 approximately \$215,000.

19           30.     Staff had recommended that the Company file evidence that the State of Arizona  
20 would be paid amounts to satisfy the outstanding personal property tax obligation before the close of  
21 escrow. The City had argued that the delinquent tax would be extinguished upon the sale of the  
22 Company's assets, but Staff argued that the City was required to pay delinquent property taxes  
23 attached to the property that they acquire. In fact, the City had already begun to provide service to  
24 the Company's former customers.

25           31.     On January 7, 2004, a Recommended Opinion and Order was issued which  
26 conditioned approval of the sale of assets and cancellation of the Company's Certificate for the  
27 respective service area with filing of evidence showing that the outstanding tax liens would be  
28 satisfied before the close of escrow or 30 days of the effective date of the Decision, whichever  
occurred first. Subsequently, the matter was pulled from the Commission's Open Meeting agenda at  
the request of the Company. The Company has ignored requests by Staff for information concerning  
the transaction. As a result, Staff is recommending that the Docket be administratively closed and the

1 appropriate certificated area removed from the Company's service territory on the Commission's  
2 maps since the City is serving the area and the Company's system in that area has been abandoned  
3 and not included in the current rate request.

4 32. Staff also pointed out that on February 14, 1991, the Commission issued Decision  
5 No. 57237 which expressed concern over the probable cross-subsidization among the Company's  
6 water systems. In a subsequent rate proceeding, the Commission issued Decision No. 58102  
7 (December 9, 1992) which found that the Company was in compliance in keeping its books and  
8 records separately for its separate systems. Staff now notes that the Company is no longer in  
9 compliance with the NARUC USOA in maintaining its books and records.

10 33. Staff cited several other instances of non-compliance which relate to Decision  
11 No. 58102 wherein the Company was required to file copies of the "paid-in-full" tax statements for  
12 property tax payments within 90 days of the tax statement due date (due February 1, 1993). The  
13 Company was also required to make arrangements with the appropriate taxing authorities to repay  
14 accrued property taxes and associated interest and to provide written summaries to the Director of the  
15 Utilities Division of the details of such arrangements by June 9, 1993. Staff also points out that the  
16 Company is not current on its property and sales tax payments going back to the early 1990s and  
17 states that the related systems of the Company owe a total of \$76,343 in back taxes as of April 9,  
18 2008.<sup>4</sup>

19 34. The Company, in response to a Staff Data Request, indicates that it has contacted the  
20 Yavapai County Treasurer's Office and that Mr. Ross Jacobs, the County Treasurer, has "indicated a  
21 desire to work with the water companies to pay the back taxes in a timely fashion and indicated that  
22 he would be open to abating, an as yet undefined portion of the penalties and interest, if a reasonable  
23 re-payment plan could be fashioned."

24 35. According to the Company, it can not commit to a re-payment schedule unless current  
25 rate requests pending before the Commission are successful. As a result, Staff has concluded that it is  
26 appropriate to defer the effective date for any new rates approved regarding any of the Company's  
27

28 <sup>4</sup> On February 1, 2008, the Company filed a copy of a letter from the Yavapai County Treasurer that back taxes on the Dells system had been paid in full in compliance with Decision No. 70102 (December 21, 2007).

1 systems until the month subsequent to the date a copy of the final agreement between the Company  
 2 and the Yavapai County Treasurer's Office regarding payment of delinquent taxes is filed in this  
 3 docket.

4 36. According to the amended Staff Report, the Company is delivering water which meets  
 5 the water quality standards required by the Safe Drinking Water Act.

6 37. Staff further indicates that while the Company has a Back-Flow Prevention Tariff on  
 7 file with the Commission, it does not have an approved Curtailment Tariff for this system.

8 38. Staff is additionally recommending that the Commission order the following:

- 9 • that the Applicant file within 30 days of the effective date of this Decision, as a  
 10 compliance item in this Docket, with the Commission's Docket Control, a copy of the  
 11 schedule of its approved rates and charges;
- 12 • that the Company adopt Staff's allocation methodology for shared expenses for its  
 13 Blue Hills system;
- 14 • that the Commission administratively close Docket No. W-02056A-03-0490 and  
 15 remove the appropriate area from the Company's service territory as shown on the  
 16 Commission's Certificate maps;
- 17 • that the Company maintain separate books and records for each of its water systems  
 18 and the Dells system reflecting separate revenues, expenses and rate bases and  
 19 additionally provide separate balance sheets for each water system, and, as a  
 20 compliance item in this Docket, file with the Commission's Docket Control, separate  
 21 annual reports;
- 22 • that any new rates authorized hereinafter not go into effect for the Company until after  
 23 an agreement between the Company and the Yavapai County Treasurer's Office is  
 24 executed for payment for all of its delinquent property taxes on its utility property in  
 25 Yavapai County and filed with the Commission's Docket Control as a compliance  
 26 item in this docket;
- 27 • that the Company utilize depreciation rates by individual NARUC category as  
 28 delineated in Table B of the Engineering Report attached to the Staff Report;
- that the Company monitor its system and submit the gallons pumped and sold to  
 determine the actual water loss for one full year. The results of this monitoring and  
 reporting should be docketed with the Commission's Docket Control as a compliance  
 item in this docket, within 13 months of the effective of this Decision. If the reported  
 water loss for the period is greater than 10 percent, the Company shall prepare a report  
 containing a detailed analysis and plan to reduce water loss to 10 percent or less. If  
 the Company believes that it is not cost effective to reduce water loss to less than  
 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In  
 no case shall the Company allow water loss to be greater than 15 percent. The water  
 loss reduction report or the detailed analysis, whichever is submitted, shall be  
 docketed as a compliance item within 13 months of the effective date of this Decision;
- that the Company be required to report its customer count by system in future  
 submittal of its Commission annual reports;
- that the Company file, by December 31, 2008, with the Commission's Docket Control,  
 as a compliance item in this docket, a letter from the Arizona Department of Water

1 Resources indicating that the Company's water use and monitoring requirements have  
2 been resolved;

- 3 • that the Company file, within 45 days of the effective date of this Decision, with  
4 the Commission's Docket Control, as a compliance item in this docket, a  
5 Curtailment Tariff in the form found on the Commission's website at  
6 [www.azcc.gov/divisions/utilities/forms/Curtailment-Std.Pdf](http://www.azcc.gov/divisions/utilities/forms/Curtailment-Std.Pdf) for review and  
7 certification by Staff;
- 8 • that the Company file, beginning 90 days after the effective date of this Decision, with  
9 the Commission's Docket Control, as a compliance item in this docket, the monthly  
10 revenues from its standpipe service on a quarterly basis and continue until further  
11 notice from Commission;
- 12 • that the Company maintain its books and records including its standpipe service  
13 operations in compliance with the NARUC USOA;
- 14 • that the Company be authorized to incur long-term debt in the form of a WIFA loan  
15 not to exceed \$40,000 for 20 years at a maximum interest rate of prime plus two  
16 percent with the understanding that the Commission will also subsequently consider  
17 an arsenic removal surcharge to enable the Company to meet its principal and interest  
18 obligations on the WIFA loan and incremental income taxes on the surcharge;
- 19 • that the Company file with the Commission an arsenic removal surcharge tariff  
20 application that would enable the Company to meet its principal and interest  
21 obligations on the \$40,000 WIFA loan and income taxes on the surcharge;
- 22 • that the Company follow the methodology presented in the amended Staff Report and  
23 as shown on Schedules DRE-6, DRE-7 and DRE-8 to calculate the additional revenue  
24 to meet its interest, principal, and additional income tax obligations on the WIFA loan  
25 using actual loan amounts and use the results to develop its arsenic removal surcharge  
26 tariff application. The increase in revenue calculation should be included in the  
27 arsenic removal surcharge tariff application;
- 28 • that the arsenic surcharge be a separate line item charge on the customers' monthly  
bill, labeled as "arsenic surcharge";
- that the Company file, with the Commission's Docket Control, as a compliance item  
in this docket, copies of its calculation of its revenue requirement for principal and  
interest obligations on the WIFA loan and incremental income taxes on the surcharge  
within 60 days after the loan agreement is signed by both WIFA and the Company;
- that the Company file, within 60 days after the loan agreement is signed, with the  
Commission's Docket Control, as a compliance item in this docket, copies of all  
executed financing documents;
- that the Company file, within five years of the effective date of this Decision, rate  
cases for all of its systems and its Dells system;
- that if the Company fails to file the above rate cases, the arsenic surcharge  
automatically cease;
- that the Company file, by December 31, 2008, with the Commission's Docket Control,  
as a compliance item in this docket, a copy of the ADEQ Certificate of Approval of  
Construction for the arsenic treatment system;
- that the Company be authorized to execute any documents necessary to effectuate the  
authorizations granted herein; and
- that Applicant, in addition to the collection of its regular rates and charges, collect  
from its customers, the proportionate share of any privilege, sales, or use tax as  
provided for in A.A.C. R14-2-409(D).

1           39.     Because an allowance for the property tax expense of Applicant is included in the  
2 Company's rates and will be collected from its customers, the Commission seeks assurances from the  
3 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing  
4 authority. It has come to the Commission's attention, that a number of water companies including  
5 this one have been unwilling or unable to fulfill their obligations to pay the taxes that were collected  
6 from ratepayers, some for as many as 20 years. It is reasonable, therefore, that as a preventive  
7 measure, the Company shall annually file, as part of its annual report, an affidavit with the Utilities  
8 Division attesting that the Company is current in paying its property taxes in Arizona.

9           40.     Under the circumstances, after our review of the applications and the amended Staff  
10 Report, we believe Staff's proposed rates are reasonable and together with Staff's additional  
11 recommendations should be adopted. However, based on the Company's history, and its failure to  
12 maintain its books and records in accordance with the NARUC USOA and its failure to pay property  
13 taxes, we shall direct Staff to continue to monitor the conduct and operations of the Company as a  
14 regulated public utility which provides water to its customers on its three separate systems in Yavapai  
15 County. If Staff determines that the Company continues to fail to lawfully discharge its duties as a  
16 public service corporation and fails to maintain its books and records in accordance with the NARUC  
17 USOA then Staff shall immediately institute a Complaint and/or Order to Show Cause ("OSC")  
18 against Applicant for appropriate relief.

19           41.     Staff is further recommending that the Commission administratively close Docket No.  
20 W-02056A-03-0490 and remove the appropriate area from the Company's Certificated Service Area  
21 as shown on the Commission's Certificate maps reasoning that the case is over four years old, the  
22 wells and distribution system have been abandoned, and the City of Avondale provides water service  
23 to the Glenarm Farms area for which the Company continues to hold a Certificate.

24           42.     We cannot agree with the recommendation by Staff to administratively close Docket  
25 No. W-02056A-03-0490 with respect to the Company since there is no indication that the past-due  
26 taxes owed by the Company on its property for its Glenarm Farms area have ever been paid.  
27 Additionally, the assets were transferred without Commission approval and despite Staff's position  
28 that service is now being provided by the City of Avondale to the Glenarm Farms area through the

1 City's distribution system, the law requires that we cancel the Certificate for this area and not merely  
2 administratively close the docket. Therefore, the docket shall remain open until the application in  
3 that docket for the approval of the transfer of assets and cancellation of that portion of the Company's  
4 Certificate to provide service in that area is resolved, or another application filed by the Company  
5 leads to a resolution of the issue.

6 **CONCLUSIONS OF LAW**

7 1. Applicant is a public service corporation within the meaning of Article IV of the  
8 Arizona Constitution and A.R.S. §§40-250, 40-251, 40-301 and 40-302.

9 2. The Commission has jurisdiction over Applicant and the subject matter of the  
10 applications.

11 3. Notices of the applications were provided in the manner prescribed by law.

12 4. Under the circumstances as described herein, the rates and charges proposed by Staff  
13 and authorized hereinafter are just and reasonable.

14 5. The proposed long-term financing is for lawful purposes within Applicant's corporate  
15 power, is compatible with the public interest, with sound financial interests and proper performance  
16 by Applicant of service as a public service corporation and will not impair Applicant's ability to  
17 perform that service. The recommended financing approved hereinafter is for the purposes stated and  
18 is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably  
19 chargeable to operating expenses or to income.

20 6. Staff's recommendations as set forth in Findings of Fact No. 38 are reasonable and  
21 should be adopted, except that no rate increase shall be effective until the Company has made  
22 arrangements with the Yavapai County Treasurer for the payment of back property taxes and filed  
23 evidence of same as described hereinabove, and that Docket No. W-02056A-03-0490 remains open.

24 7. Based on our findings and in light of Staff's recommendations, no hearing is necessary.

25 **ORDER**

26 IT IS THEREFORE ORDERED that Wilhoit Water Company, Inc.'s Blue Hills No. 3  
27 System is hereby directed to file, with Docket Control, as a compliance item in this docket, on or  
28 before January 1, 2008, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

1	5/8" x 3/4" Meter	\$	12.00
2	3/4" Meter		12.00
	1" Meter		30.00
3	1 1/2" Meter		60.00
	2" Meter		96.00
4	3" Meter		192.00
	4" Meter		300.00
5	5" Meter		450.00
	6" Meter		600.00

GALLONAGE CHARGES:

(per 1,000 Gallons)

8	0 to 3,000 Gallons	\$	3.00
	3,001 to 10,000 Gallons		4.50
9	Excess of 10,000 Gallons		5.40

Bulk water rate per 1,000 Gallons \$ 5.40

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

	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>	
12	5/8" x 3/4" Meter	\$ 385.00	\$ 135.00	\$ 520.00
13	3/4" Meter	385.00	215.00	600.00
	1" Meter	435.00	255.00	690.00
14	1 1/2" Meter	470.00	465.00	935.00
	2" Meter	630.00	965.00	1,595.00
15	3" Meter	805.00	1,470.00	2,275.00
	4" Meter	1,170.00	2,350.00	3,520.00
16	5" Meter	N/A	N/A	N/A
	6" Meter	1,730.00	4,545.00	6,275.00

SERVICE CHARGES:

18	Establishment	\$	30.00
19	Establishment (After Hours)		N/A
	Reconnection (Delinquent)		30.00
20	Meter Test (If Correct)		50.00
	Deposit		*
21	Deposit Interest		*
	Reestablishment (Within 12 Months)		**
22	NSF Check		30.00
	Deferred Payment (Per Year)		6.0%
23	Meter Reread (If Correct)		15.00
	Late Payment Penalty		***

Monthly Service Charge for Fire Sprinklers:

25	4" or Smaller	****
	6"	****
26	8"	****
	10"	****
27	Larger than 10"	****

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

1       \*\* Number of months off system times the monthly minimum per Commission rule  
A.A.C. R14-2-403(D).

2       \*\*\* 1.5% of unpaid monthly balance

3       \*\*\*\* 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less  
4       than \$5.00 per month. The service charge for fire sprinklers is only applicable for  
5       service lines separate and distinct for the primary water service line.

6       IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Blue Hills No. 3 System  
7       shall notify its customers of the rates and charges authorized hereinabove and the effective date of  
8       same by means of an insert in a regular monthly billing which precedes the month in which they  
9       become effective and file a copy of the notice when sent to its customers with the Commission's  
10       Docket Control as a compliance item in this docket.

11       IT IS FURTHER ORDERED that the rates and charges authorized herein shall not go into  
12       effect until the first day of the month following the filing with the Commission's Docket Control, as a  
13       compliance item in this docket, copies of any and all finalized agreements with the Yavapai County  
14       Treasurer's Office to pay delinquent property taxes for the Wilhoit Water Company, Inc.'s Blue Hills  
15       No. 3 System and any other of its systems which it operates in Yavapai County.

16       IT IS FURTHER ORDERED that the rate increase authorized herein shall be interim and  
17       subject to refund if the Company is unable to complete an arsenic treatment facility and meet all  
18       ADEQ requirements in compliance with Staff's recommendations in Findings of Fact No. 38.

19       IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Blue Hills No. 3 System  
20       shall comply with each of the recommendations appearing in Findings of Fact No. 38.

21       IT IS FURTHER ORDERED that the Wilhoit Water Company, Inc.'s Blue Hills No. 3  
22       System shall maintain its books and records in compliance with the NARUC USOA.

23       IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Blue Hills No. 3 be, and  
24       the same hereby, is authorized to issue long-term debt in an amount not to exceed \$40,000 for a term  
25       of 20 years at no greater rate of interest than prime plus two percent per annum for the construction of  
26       an arsenic treatment system.

27       IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Blue Hills No. 3 System is  
28       hereby authorized to engage in any transactions and to execute any documents necessary to effectuate  
the authorization granted hereinabove and file, within 60 days of the loan agreement execution, with

1 the Commission's Docket Control, as a compliance item in this docket, copies of all executed loan  
2 documents certifying that the transactions have been completed.

3 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon Wilhoit  
4 Water Company, Inc.'s Blue Hills No. 3 System using the proceeds for the purposes set forth herein.

5 IT IS FURTHER ORDERED that the approval of the financing set forth hereinabove does not  
6 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
7 proceeds derived thereby for purposes of establishing just and reasonable rates.

8 IT IS FURTHER ORDERED that Wilhoit Water Company, Inc., Blue Hills No. 3 System, is  
9 hereby authorized to file an ACRM to provide for the recovery of arsenic remediation costs as set  
10 forth the in the amended Staff Report and further described in Appendix B to the Staff Report.

11 IT IS FURTHER ORDERED that this docket shall remain open to facilitate the  
12 implementation of an ACRM for the Wilhoit Water Company, Inc., Blue Hills No. 3 System.

13 IT IS FURTHER ORDERED that the Utilities Division's Staff shall monitor the conduct and  
14 operations of Wilhoit Water Company, Inc. including the delinquent taxes owed in Docket No.  
15 W-02056A-03-0490 and in the event that Staff determines that Wilhoit Water Company, Inc. is  
16 failing to lawfully discharge its duties or failing to maintain its books and records in accordance with  
17 the NARUC USOA, or failing to provide service to its customers in a lawful manner, then Staff shall  
18 institute a Complaint and/or Order to Show Cause against Wilhoit Water Company, Inc. for  
19 appropriate relief.

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IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Blue Hills No. 3 System in addition to the collection of its regular rates and charges, shall collect from its customers their proportionate share any privilege, sales, or use as provided for in A.A.C. R14-2-409(D).

IT IS FURHTER ORDERD that Wilhoit Water Company, Inc.'s Blue Hills No. 3 System shall annually file as part as its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN \_\_\_\_\_ COMMISSIONER

COMMISSIONER \_\_\_\_\_ COMMISSIONER \_\_\_\_\_ COMMISSIONER

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 \_\_\_\_\_

MES:db

1 SERVICE LIST FOR: WILHOIT WATER COMPANY, INC. – BLUE HILLS NO. 3 SYSTEM

2 DOCKET NOS.: W-02065A-07-0313 AND W-02065A-08-0139

3

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