

ORIGINAL

OPEN MEETING ITEM



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COMMISSIONERS  
KRISTIN K. MAYES - Chairman  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP



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Ernest G. Johnson  
Executive Director

ARIZONA CORPORATION COMMISSION

2009 OCT -1 A 11: 28

DATE: OCTOBER 1, 2009

DOCKET NOS: W-04254A-08-0361 and W-04254A-08-0362

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

TO ALL PARTIES:

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

MONTEZUMA RIMROCK WATER COMPANY, LLC  
(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 thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

OCTOBER 13, 2009

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 Open Meeting to be held on:

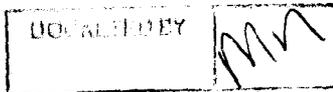
OCTOBER 20, 2009 and OCTOBER 21, 2009

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.

Arizona Corporation Commission

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OCT - 1 2009



ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

KRISTIN K. MAYES - Chairman  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP

IN THE MATTER OF THE APPLICATION OF  
MONTEZUMA RIMROCK WATER COMPANY,  
LLC FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-04254A-08-0361

IN THE MATTER OF THE APPLICATION OF  
MONTEZUMA RIMROCK WATER COMPANY,  
LLC FOR APPROVAL OF A FINANCING  
APPLICATION.

DOCKET NO. W-04254A-08-0362

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

**ORDER**

Open Meeting  
October 20 and 21, 2009  
Phoenix, Arizona

**BY THE COMMISSION:**

This consolidated matter involves a Rate Application and a Financing Application filed by Montezuma Rimrock Water Company, LLC ("Montezuma") on July 16, 2008. Montezuma, a Class D utility, requests to adopt tiered commodity rates to encourage water conservation and increase annual revenue by \$32,000, or approximately 33.24% over unaudited 2007 test year revenue. Montezuma also requests authority to obtain a \$165,000 loan from the Water Infrastructure Finance Authority of Arizona ("WIFA") to cover the cost of an arsenic treatment project to bring its water supply into compliance with the United States Environmental Protection Agency ("EPA") and Arizona Department of Environmental Quality ("ADEQ") maximum contaminant level ("MCL") of 10 parts per billion ("ppb") for arsenic.

\* \* \* \* \*

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

**FINDINGS OF FACT****Procedural History**

1  
2  
3       1.       On July 16, 2008, Montezuma filed a Rate Application using calendar year 2007 as its  
4 test year ("TY") and requesting a rate increase of \$32,000 to cover the cost of acquiring an arsenic  
5 treatment system and integrating the arsenic treatment system with its current facilities. Montezuma  
6 stated that the water produced by its active wells is currently exceeding the EPA and ADEQ MCL of  
7 10 ppb for arsenic. The Rate Application did not include a complete proposed rate schedule, only  
8 including information for commodity rates. The Rate Application included an affidavit stating that  
9 notice had been sent to Montezuma's customers on July 16, 2008, but the notice did not appear to  
10 include a copy of the current and proposed rates.

11       2.       Also on July 16, 2008, Montezuma filed a Financing Application, requesting approval  
12 to issue a \$150,000 promissory note to WIFA to cover the costs of acquiring and integrating an  
13 arsenic treatment system for its Well #1, which would be interconnected to Well #3. The Financing  
14 Application did not show that any customer notice had been provided.

15       3.       On August 5, 2008, one set of comments was filed in opposition to the rate increase.

16       4.       On August 14, 2008, the Commission's Utilities Division Staff ("Staff") filed a Letter  
17 of Deficiency and Data Request in the Rate Application Docket.

18       5.       On August 29, 2008, Montezuma filed revised Rate Application pages reducing its  
19 customer count for the TY, providing a proposed rate schedule, updating its TY bill counts, and  
20 stating that the water company had been purchased in July 2005 and that no records for the time prior  
21 to the purchase were available from the prior owners due to a fire.

22       6.       On September 29, 2008, Staff issued a Second Letter of Deficiency and Data Request  
23 in the Rate Application Docket.

24       7.       On December 4, 2008, Montezuma filed revised Rate Application pages increasing its  
25 TY operating revenues to \$96,265.23; reducing its TY customer count to 208; updating its TY bill  
26 counts; revising its TY operating expenses; and revising its proposed service line and meter  
27 installation charges.

28       8.       On December 30, 2008, Montezuma filed revised Rate Application pages updating its

1 TY bill counts and customer counts.

2 9. On January 14, 2009, in the Docket for its Financing Application, Montezuma filed a  
3 WIFA Drinking Water Application showing that it had applied to WIFA on June 3, 2008, for a loan  
4 in the amount of \$165,000 to pay for its arsenic treatment project.

5 10. On January 20, 2009, Staff issued a Letter of Sufficiency for Montezuma's Rate  
6 Application, classifying Montezuma as a Class D water system.

7 11. On January 23, 2009, a Procedural Order was issued requiring Montezuma and Staff  
8 to make filings regarding consolidation of the Rate Application Docket and Financing Docket and  
9 extending the Commission's time frame for issuing a Decision in this matter by 11 days.

10 12. On January 26, 2009, Staff filed in each Docket a Motion to Consolidate and Suspend  
11 Time Clock for 60 Days, stating that Staff desired for the two Dockets to be consolidated; that  
12 Montezuma did not object to consolidation; and that both Staff and Montezuma requested that the  
13 time clock be suspended for 60 days to allow Montezuma sufficient time to respond to Staff's first  
14 Data Request regarding the Financing Application and to allow Staff sufficient time to complete a  
15 Staff Report.

16 13. On February 4, 2009, a Procedural Order was issued consolidating the two Dockets  
17 and extending the deadline for the Staff Report and the time frame for a Decision by 60 days.

18 14. On June 15, 2009, Staff filed a Staff Report recommending approval of the Rate  
19 Application using Staff's recommended rates and charges, recommending approval of the Financing  
20 Application, and recommending an arsenic remediation surcharge mechanism ("ARSM") to address  
21 the debt service on the financing. In addition, Staff recommended that Montezuma be ordered to file,  
22 by December 31, 2009, an ADEQ Certificate of Approval of Construction ("AOC") for the arsenic  
23 treatment plant to be funded by the WIFA loan and an AOC for the new Well #4, which Staff stated  
24 was currently under construction. The Staff Report stated that notice of both Applications had been  
25 provided to Montezuma's customers on April 14, 2008.<sup>1</sup>

26 15. On August 13, 2009, a Procedural Order was issued requiring Montezuma to mail  
27

28 <sup>1</sup> This appears to have been an error, as there is no evidence in either Application of such notice having been provided before the Applications were filed.

1 specified notice of the Rate Application and Financing Application to each of its customers by  
2 August 27, 2009; to file certification of notice by September 10, 2009; and also to file, by September  
3 10, 2009, documentation regarding whether Montezuma had received an ADEQ Approval to  
4 Construct ("ATC") for Well #4, whether Montezuma had received an ATC for the arsenic treatment  
5 plant, the estimated length of time needed to complete construction of Well #4, the estimated start  
6 date for construction of the arsenic treatment plant, and the estimated length of time needed to  
7 complete construction of the arsenic treatment plant. The Procedural Order also extended the time  
8 frame for a Decision in this matter by 30 days.

9       16. On August 27, 2009, Montezuma filed an affidavit stating that notice had been sent to  
10 its customers by First Class U.S. Mail on August 26, 2009, as specified in the Procedural Order.

11       17. On September 10, 2009, Montezuma filed a document stating that it has not yet  
12 received an ATC for construction of Well #4, although it has applied to ADEQ for an ATC, and  
13 construction of the well has been completed. Montezuma also stated that engineering for the arsenic  
14 treatment system will not commence until Montezuma obtains approval of the WIFA loan and that  
15 Montezuma expects engineering, construction of the transmission line, and installation of the arsenic  
16 treatment system to be completed within four months after procuring the WIFA loan.

17 **Background**

18       18. Montezuma is an Arizona limited liability company providing water utility service to  
19 approximately 209 metered customers in a service area of approximately 3/8 square miles located  
20 near Rimrock, approximately 10 miles northeast of Camp Verde, in Yavapai County. Montezuma  
21 received a Certificate of Convenience and Necessity ("CC&N") to operate as a water utility in  
22 Commission Decision No. 67583 (February 15, 2005), in which the Commission approved the sale of  
23 Montezuma Estates Property Owners Association's ("MEPOA's") assets and the transfer of its  
24 CC&N to Montezuma. Decision No. 67583 required Montezuma to continue charging MEPOA's  
25 existing rates and charges until further Order of the Commission.

26       19. Montezuma's present rates and charges for water utility service were approved for  
27 MEPOA in Commission Decision No. 64665 (March 25, 2002), and became effective on April 1,  
28 2002. This is Montezuma's first permanent rate case.

1           20.     Staff made a field inspection of Montezuma's water system on September 10, 2008.

2           21.     Montezuma's water system consists of two operating wells (Well #1 and Well #3) that  
3 together produce 70 gallons per minute ("GPM"), four storage tanks with a combined capacity of  
4 30,400 gallons, and two booster pump systems. A new Well #4 was under construction at the time of  
5 the Staff Report and has since been completed, although it is not yet approved for operation. Well #4  
6 is expected to produce approximately 100 GPM once it is operative. Staff stated that the current well  
7 and storage capacity is adequate to serve only 92 service connections, far fewer than the  
8 approximately 209 service connections during the TY. According to Staff, with its current  
9 production, Montezuma's system would need another 30,000 gallons of storage capacity to serve the  
10 current level of service connections. Staff found, however, that Well #4, with its projected 100 GPM  
11 production capacity, would render the system capable of serving up to approximately 425 service  
12 connections. Staff projects that Montezuma could have approximately 310 customers by 2012.

13           22.     For the TY, Montezuma reported 15,009,000 gallons of water pumped and 14,239,000  
14 gallons of water sold, resulting in a water loss of 5.1 percent, which is within acceptable limits.

15           23.     Montezuma's system is not located within an Arizona Department of Water Resources  
16 ("ADWR") Active Management Area. According to ADWR, Montezuma is in compliance with  
17 ADWR's requirements governing water providers and/or community water systems.

18           24.     Montezuma reports the arsenic concentration for Well #1 at 35 ppb, for Well #3 at 43  
19 ppb, and for the new Well #4 at 16 ppb.

20           25.     According to an ADEQ Compliance Status Report dated August 18, 2008,  
21 Montezuma's water system has major deficiencies due to unresolved arsenic MCL issues. On  
22 December 17, 2008, ADEQ issued Montezuma a Notice of Violation for distributing water with  
23 arsenic content exceeding the MCL, requiring Montezuma to submit documentation to ADEQ  
24 describing the measures to be taken to resolve the arsenic exceedance. On February 11, 2009,  
25 Montezuma notified ADEQ that Montezuma is working with WIFA and the Commission to obtain  
26 approval for financing to construct arsenic treatment facilities.

27           26.     Montezuma is planning to interconnect Well #4 to Well #1 with 2,500 feet of  
28 transmission main and to construct a 160 GPM arsenic treatment system to treat water from Wells #1

1 and #4. Montezuma plans either to put Well #3 (with only 15 GPM capacity and an arsenic level of  
2 43 ppb) on standby once Well #4 and the arsenic treatment facility are operational or to blend its  
3 water with that from the other two wells. Montezuma intends to reach a decision after both Well #4  
4 and the arsenic treatment facility are operational.

5 27. Montezuma has an approved curtailment tariff that became effective on April 1, 2002.

6 28. Montezuma has an approved backflow prevention tariff that became effective on  
7 November 27, 1996.

8 29. Staff's Compliance Section shows no delinquent compliance issues for Montezuma.

9 30. Montezuma has adopted Staff's typical and customary depreciation rates.

10 31. Staff reports that a review of the Consumer Services Section database for the period  
11 from January 1, 2006, through June 15, 2009, showed two customer complaints in 2007, both of  
12 which have been resolved and closed.

13 32. Staff reports that Montezuma is current on its property and sales tax payments and is  
14 in good standing with the Commission's Corporations Division.

15 33. In Decision No. 59883 (November 26, 1996), the Commission authorized MEPOA to  
16 collect nonrefundable Off-Site Facilities & Original Main Replacement Hook-Up Fees ("HUFs")<sup>2</sup> to  
17 be used for line replacement and long-term capital improvements. The Commission increased the  
18 amount of the HUFs in Decision No. 64665 (March 25, 2002), due to rising costs for material and  
19 labor, and ordered that MEPOA be required to use the HUFs solely for the installation of backbone  
20 off-site plant and replacement of original mains, valves, and fittings.<sup>3</sup> In this matter, Staff audited the  
21 HUF account and determined that Montezuma has been using the HUF-generated funds as required  
22 by the Commission and continues to need the HUF-generated funds. Staff also found, however, that  
23 Montezuma's rate base has degraded as a result of the HUF-generated funds collected<sup>4</sup> and suggested  
24 that, when possible, Montezuma should consider equity investment as an alternative to HUFs when  
25 funding installation of backbone plant and replacement of improperly installed mains. Staff did not

26 <sup>2</sup> The HUFs ranged from \$1,500 to \$60,000 depending on meter size.

27 <sup>3</sup> With the increase, the HUFs range from \$2,000 to \$80,000 depending on meter size.

28 <sup>4</sup> In Decision No. 59883 (November 26, 1996), the Commission found that MEPOA had a fair value rate base of \$96,417. In Decision No. 64665 (March 25, 2002), the Commission found that MEPOA had a fair value rate base of \$51,044. In this matter, Staff determined that Montezuma has an adjusted original cost rate base of \$4,084.

1 recommend any changes in Montezuma's HUFs, instead stating that Montezuma's next rate case  
2 should be filed sooner than seven years hence.

3 34. Staff stated that documentation on plant additions was unavailable for 2001 through  
4 2005 because MEPOA did not transfer records to Montezuma at the time of acquisition. Staff used  
5 annual reports to calculate plant balances for the years in which no other verifiable documentation  
6 exists.

7 **Rate Application**

8 35. In its Rate Application, as revised, Montezuma proposed an increase in revenues of  
9 \$32,000, equal to approximately 33.24 percent of its unaudited TY total operating revenues of  
10 \$96,265, to bring its revenues to \$128,265. Montezuma reported TY total operating expenses of  
11 \$105,064, resulting in an operating loss of \$8,799 and no rate of return for the TY.

12 36. During the TY, Montezuma served approximately 209 customers, 197 of whom were  
13 served by 5/8" x 3/4" meters, 11 of whom were served by 3/4" meters, and 1 of whom was served by a  
14 1" meter. Montezuma's system also serves 4 standard fire hydrants.

15 37. Average and median water usage during the TY for a residential customer served by a  
16 5/8" x 3/4" meter were 5,813 gallons and 4,415 gallons of water per month, respectively.

17 38. The water rates and charges for Montezuma at present, as proposed in the Rate  
18 Application, and as recommended by Staff in the Staff Report are as follows:

19

	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
<b><u>MONTHLY USAGE CHARGE:</u></b>			
22 5/8" x 3/4" Meter	\$ 27.25	\$ 27.25	\$ 27.25
23 3/4" Meter	40.88	40.88	40.88
24 1" Meter	68.13	68.13	68.13
25 1 1/2" Meter	136.25	136.25	136.25
26 2" Meter	216.39	216.39	218.00
27 3" Meter	408.75	408.75	436.00
28 4" Meter	681.25	681.25 <sup>5</sup>	681.25
29 6" Meter	1,362.50	1,362.50	1,362.50

30 \_\_\_\_\_  
31  
32 <sup>5</sup> In its Rate Application, as revised, Montezuma showed \$618.25 for both present and proposed monthly usage charges  
33 for a 4" meter. We have corrected the apparent typo.

**COMMODITY RATES: (Per 1,000 Gallons)**

1			
2	All Usage	\$1.85	
3	1 to 10,000 Gallons	\$1.85	
4	10,001 to 20,000 Gallons	3.70	
5	Over 20,000 Gallons	5.55	
6	1 to 4,000 Gallons		\$1.50
7	4,001 to 10,000 Gallons		2.50
8	Over 10,000 Gallons		4.00

**SERVICE LINE AND METER INSTALLATION CHARGES:<sup>6</sup>**

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

**STAFF RECOMMENDED**

	<u>Present</u>	<u>Company Proposed</u>	<u>Service Line Charge</u>	<u>Meter Installation</u>	<u>Total</u>
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<sup>6</sup> Charges are differentiated for service lines on the same side of the road as the water main and on the other side of the road from the water main.

<sup>7</sup> Although the ordering paragraph establishing rates and charges in Decision No. 64665 omitted this charge, the charge was included in the Findings of Fact in Decision No. 64665. It appears to have been an inadvertent omission and thus is included here.

1	Same side of road	3,175.00	5,100.00	1,055.00	2,120.00	3,175.00
	Other side of road	5,100.00	5,100.00	2,980.00	2,120.00	5,100.00
2	<u>4" Meter Compound</u>					
	Same side of road	4,025.00	6,425.00	1,095.00	2,930.00	4,025.00
3	Other side of road	6,425.00	N/A	3,495.00	2,930.00	6,425.00
4	<u>6" Meter Turbo</u>					
	Same side of road	6,025.00	9,625.00	1,600.00	4,425.00	6,025.00
5	Other side of road	9,625.00	9,625.00	5,200.00	4,425.00	9,625.00
6	<u>6" Meter Compound</u>					
	Same side of road	7,850.00	12,550.00	1,730.00	6,120.00	7,850.00
7	Other side of road	12,550.00	N/A	6,430.00	6,120.00	12,550.00

**OFF-SITE FACILITIES & ORIGINAL MAIN REPLACEMENT HOOK-UP FEE**

	<u>Present</u>	<u>Company Proposed<sup>8</sup></u>	<u>Staff Recommended</u>	
9	5/8" x 3/4" Meter	\$ 2,000.00	N/A	\$ 2,000.00
10	3/4" Meter	2,400.00	N/A	2,400.00
	1" Meter	4,000.00	N/A	4,000.00
11	1 1/2" Meter	8,000.00	N/A	8,000.00
12	2" Meter	12,800.00	N/A	12,800.00
	3" Meter	24,000.00	N/A	24,000.00
13	4" Meter	40,000.00	N/A	40,000.00
	6" Meter	80,000.00	N/A	80,000.00

**SERVICE CHARGES:**

	<u>Present</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>	
16	Establishment	\$ 40.00	\$ 40.00	\$ 40.00
17	Establishment (After Hours)	60.00	60.00	60.00
	Reconnection (Delinquent)	50.00	50.00	50.00
18	Meter Test (If Correct)	30.00	30.00	30.00
	Deposit	*	*	*
19	Deposit Interest	*	*	*
	Reestablishment (Within 12 Months)	**	**	**
20	NSF Check	\$25.00	\$25.00	\$25.00
21	Deferred Payment (Per Month)	1.50%	1.50%	1.50%
	Meter Reread (If Correct)	\$15.00	\$15.00	\$15.00
22	Late Fee (Per Month)	***	***	***
23	Monthly Service Charge for Fire Sprinkler (All Meter Sizes)	****	N/A	****

- 24 \* Per Commission rule A.A.C. R-14-2-403(B).
- 25 \*\* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).
- 26 \*\*\* 1.50% of the unpaid balance per month, after 15 days.

28 <sup>8</sup> Montezuma did not refer to the HUFs in its Rate Application.

1 \*\*\*\* 1.00% of the monthly minimum for a comparably sized meter connection, but no less  
2 than \$5.00 per month. The service charge for fire sprinklers is only applicable for  
3 service lines separate and distinct from the primary water service line.

3 39. Staff determined Montezuma's original cost rate base ("OCRB") to be \$4,084. This  
4 was a decrease of \$21,773 from Montezuma's proposed OCRB of \$25,857. Staff made numerous  
5 adjustments to Montezuma's proposed OCRB, including a \$216,020 overall increase in plant in  
6 service made through numerous adjustments to make the account balance consistent with Decision  
7 No. 64665 and to reflect only supported plant additions; a \$124,610 increase in accumulated  
8 depreciation based upon Staff's adjustments to plant in service; a \$38,502 increase in advances in aid  
9 of construction ("AIAC") based upon the balance established in Decision No. 64665 and  
10 documentation provided by Montezuma; a \$127,550 increase in contributions in aid of construction  
11 ("CIAC") based upon the balance established in Decision No. 64665 and documentation provided by  
12 Montezuma; a \$42,983 increase in amortization of CIAC based upon Staff's adjustments to CIAC;  
13 and a \$9,886 increase in cash working capital calculated using the formula method. Staff's proposed  
14 adjustments to rate base are reasonable, and we will adopt Staff's OCRB.

15 40. Montezuma expressly waived use of reconstruction cost new rate base to determine its  
16 fair value rate base ("FVRB"). We find that Montezuma's FVRB is equal to its OCRB of \$4,084 and  
17 is too low to be useful in establishing rates.

18 41. Staff increased Montezuma's TY revenue by \$5,034 to reflect the metered water  
19 revenue reflected in Montezuma's submitted bill count, bringing Montezuma's TY total operating  
20 revenue to \$101,299. Staff's adjustment to Montezuma's TY revenue is reasonable and will be  
21 adopted.

22 42. Staff recommended a number of adjustments to Montezuma's TY total operating  
23 expenses, resulting in an overall decrease of \$11,838. Staff found Montezuma's TY total operating  
24 expenses to be \$93,226 and its TY total operating income to be \$8,073, which reflects an operating  
25 margin of 7.97 percent. Staff made adjustments to salaries and wages, purchased water, purchased  
26 power, repairs and maintenance, and transportation expenses to reflect Staff's computations based on  
27 documentation submitted by Montezuma. Staff adjusted outside services expense to remove  
28 unsupported claimed expenses, adjusted water testing expense to reflect Staff's annual water testing

1 expense, adjusted depreciation expense to reflect a pro forma annual depreciation expense based  
2 upon Staff's adjusted plant in service, and adjusted taxes other than income to reflect removal of sales  
3 taxes included in operating expense. Staff's adjustments to Montezuma's TY operating expenses are  
4 reasonable and will be adopted.

5 43. Although Montezuma requests total operating revenue of \$128,265, Staff determined  
6 that the water rates and charges proposed by Montezuma would produce total operating revenue of  
7 only \$102,519, or \$25,746 less revenue than Montezuma has requested. Using the adjusted total  
8 operating expenses of \$93,226 adopted herein, this would result in operating income of \$9,293,  
9 which represents a 9.06 percent operating margin.<sup>9</sup>

10 44. The water rates and charges Staff recommends would produce total operating revenue  
11 of \$106,850, an increase of \$5,551, or 5.48 percent, over TY revenue. Using the total operating  
12 expenses of \$93,226 adopted herein, this would result in operating income of \$13,624, and a 12.75  
13 percent operating margin. Staff believes that a 12.75 percent operating margin will provide  
14 Montezuma sufficient funds to manage contingencies, operating expenses, and below the line  
15 expenses. In addition, Staff points out that the HUFs provide funds toward the installation of  
16 backbone plant and replacement of original mains, valves, and fittings and thus mitigate  
17 Montezuma's need to use operating funds on such items. Staff used an operating margin analysis to  
18 determine Montezuma's revenue requirement because Montezuma's extremely low rate base would  
19 not produce sufficient revenues for Montezuma's operating needs when applying a rate of return on  
20 rate base.

21 45. Montezuma's proposed rates would not increase the average monthly customer water  
22 bill (for 5,813 gallons) or the median monthly customer water bill (for 4,415 gallons) because  
23 average and median usage levels are less than the 10,001-gallon breakover point to reach the  
24 Company's proposed second-tier commodity rate, and the Company has not proposed to increase its  
25 monthly usage charges.<sup>10</sup>

26  
27 <sup>9</sup> If we were to assume that Montezuma's proposed rates would produce its requested total operating revenue of  
28 \$128,265, the result would be operating income of \$23,201 and an 18.09 percent operating margin.

<sup>10</sup> Montezuma's proposed rates also would not result in the annual revenue requested by Montezuma.

1           46.     Staff's recommended rates would decrease the average monthly customer water bill by  
 2 \$0.22, or 0.6 percent, from \$38.00 to \$37.78, and the median monthly customer water bill by \$1.13,  
 3 or 3.2 percent, from \$35.42 to \$34.29. This is because Staff's recommended first-tier rate of \$1.50 is  
 4 lower than the current flat rate of \$1.85 per 1,000 gallons. Staff's recommended rates would result in  
 5 decreased monthly bills up to 6,000 gallons of consumption and increased monthly bills starting at  
 6 approximately 7,000 gallons of consumption.

7           47.     Staff recommends approval of Staff's recommended rates and charges and further  
 8 recommends the following:

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

12           (b)     That Montezuma be ordered to file with Docket Control, as a compliance item  
 13 in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of  
 14 this Decision;

15           (c)     That Montezuma continue to use the typical and customary depreciation rates  
 16 as delineated in Table B of the Engineering Report portion of the Staff Report;

17           (d)     That Montezuma be required to file with Docket Control, as a compliance item  
 18 in this Docket, by December 31, 2009, a copy of the AOC for the new Well #4;

19           (e)     That Montezuma be required to file with Docket Control, as a compliance item  
 20 in this Docket, by December 31, 2009, a copy of the AOC for the arsenic treatment project to address  
 21 Montezuma's currently delivering water that exceeds the MCL for arsenic; and

22           (f)     That Montezuma be ordered to file a rate application with the Commission by  
 23 May 31, 2012, using a test year ending December 31, 2011, so that Staff has the opportunity to  
 24 examine whether the need for HUFs still exists at that time.

25     **Financing Application**

26           48.     In its Financing Application, as revised, Montezuma has requested authority to borrow  
 27 \$165,000 from WIFA to fund an arsenic treatment system to bring the arsenic level for its water  
 28

1 supply to a point below the arsenic MCL.<sup>11</sup> The proposed WIFA loan would have a term of 20 years.

2 49. Montezuma intends to use the proceeds from the WIFA loan to pay for the following  
3 items needed for its arsenic treatment project:

Item	Cost
Arsenic treatment system at 160 GPM	\$ 81,746
Grading and concrete slab at Well #1	5,816
Plumbing modifications and electrical upgrade	6,812
Water line interconnecting Well #1 and Well #4 (2,500 feet of 4-inch PVC pipe)	42,870
New pump house, 10' x 20'	5,907
Radio telemetry	8,158
Engineering (8.3%)	13,691
<b>Total</b>	<b>\$165,000</b>

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11 50. Staff explained that Montezuma is proposing to construct a 160 GPM arsenic  
12 treatment system at Wellsite #1 to treat water from Well #1 and Well #4, which will be  
13 interconnected using 2,500 feet of transmission main.

14 51. Staff believes that the construction of an arsenic treatment system is necessary for  
15 Montezuma to comply with the MCL for arsenic of 10 ppb.

16 52. Staff has determined that the arsenic treatment project is appropriate and that the cost  
17 estimate totaling \$165,000 is reasonable. Staff has not made a "used and useful" determination  
18 regarding the proposed arsenic treatment project items and stated that no particular treatment  
19 regarding those items should be inferred for future ratemaking or rate base purposes.

20 53. Staff believes that Montezuma should be granted authority to obtain a WIFA loan for  
21 an amount up to \$165,000, with a term of 20 years and a maximum interest rate of the prime rate plus  
22 200 basis points,<sup>12</sup> to purchase an arsenic treatment system to bring its water into compliance with the  
23 MCL for arsenic. Staff stated that the issuance of the proposed debt financing for the purposes stated  
24 by Montezuma is compatible with the public interest, is consistent with sound financial practices, and  
25 will not impair Montezuma's ability to provide public service.

26  
27 <sup>11</sup> Specifically, Montezuma has indicated that it plans to acquire an arsenic adsorption treatment system from Adedge  
Technologies, which Montezuma believes will reduce up to 99 percent of total arsenic.

28 <sup>12</sup> Staff stated that the actual interest rate will not be known until a time closer to the final closing date for the WIFA  
loan.

1           54. Staff recommends that Montezuma's Financing Application be approved and further  
2 recommends an ARSM to provide for the debt service on the WIFA loan. According to Staff, the  
3 ARSM will establish the methodology for how the surcharge will be calculated and applied to the  
4 rates established in this Decision. Staff states that because of Montezuma's size and limited financial  
5 situation, Montezuma does not have access to other funding sources to remedy the arsenic problem.  
6 Staff states that Montezuma can submit an ARSM application in this Docket to obtain approval of the  
7 specific arsenic surcharge amount pursuant to Staff's recommended methodology.

8           55. In the Staff Report, Staff sets forth a methodology for determining the surcharge  
9 amount once Montezuma knows the final loan amount and terms. Staff's methodology involves: (1)  
10 calculating the total annual debt service requirement for the loan, (2) calculating the annual interest  
11 expense on the loan, (3) calculating the annual principal payment on the loan, (4) calculating the debt  
12 service component of the annual surcharge revenue by adding the annual interest expense and annual  
13 principal payment, (5) calculating the total annual equivalent bills by multiplying the American  
14 Water Works Association ("AWWA") meter capacity multiplier for each meter size by the number of  
15 current customers for the meter size and the months of the year and combining the totals, (6)  
16 calculating the monthly surcharge for 5/8" x 3/4" customers by dividing the total annual surcharge  
17 revenue requirement for the loan by the total number of equivalent bills, and (7) calculating the  
18 monthly surcharge for the remaining meter sizes by multiplying the surcharge for a 5/8" x 3/4"  
19 customer by the AWWA meter capacity multiplier for each other meter size.

20           56. Staff calculated that the annual debt service on a \$165,000 loan with a term of 20  
21 years at an 8.00 percent interest rate would be \$16,562; that the annual interest expense on the loan  
22 would be \$13,074; that the annual principal payment on the loan would be \$3,488; and that the  
23 surcharge for a 5/8" x 3/4" customer would be \$6.41. These figures are only examples, however, as it  
24 is not yet known what the interest rate on the WIFA loan will be or how many customers will be  
25 included in the calculation of total equivalent bills.<sup>13</sup>

26           57. Staff's financial analysis, completed based on Staff's recommended rates in this  
27

28 <sup>13</sup> Montezuma will need to perform its own calculation using the actual figures from the WIFA loan and using a current customer count for each meter size to calculate total equivalent bills.

1 matter and Montezuma's financial statements from the end of the TY, indicates that with annual  
2 arsenic surcharge revenue of \$16,562, Montezuma would have a Times Interest Earned Ratio  
3 ("TIER") of 2.31 and a Debt Service Coverage ("DSC") Ratio of 2.22.<sup>14</sup> According to Staff, the  
4 TIER and DSC show that with the revenue increase resulting from Staff's recommended rates and the  
5 Staff-recommended arsenic surcharge, Montezuma would have sufficient earnings and operating cash  
6 flow to meet the long-term debt obligations of a \$165,000 loan. Staff states that the ARSM is  
7 designed to generate only the level of funds necessary to provide for the interest expense and  
8 principal repayment on the requested WIFA loan and that it thus will not change Montezuma's  
9 financial position. Rather, the ARSM would allow Montezuma to have the same amount of cash  
10 flow as before the WIFA loan, assuming that Staff's recommended rates are adopted.

11 58. Assuming a \$6.41 arsenic surcharge as calculated by Staff, and assuming adoption of  
12 Staff's recommended rates and charges, the average monthly customer bill for a 5/8" x 3/4" meter  
13 would increase from \$38.00 to \$44.19, or by 16.29 percent, and the median monthly customer bill for  
14 a 5/8" x 3/4" meter would increase from \$35.42 to \$40.70, or by 14.91 percent.

15 59. Staff concludes that the construction of an arsenic treatment system is necessary for  
16 Montezuma to comply with the MCL for arsenic, that Montezuma will need a WIFA loan of up to  
17 \$165,000 to purchase an arsenic treatment system, and that an ARSM is appropriate for Montezuma  
18 to provide for the debt service on the requested WIFA loan.

19 60. Staff recommends:

20 (a) That Montezuma be authorized to incur long-term debt in the form of a WIFA  
21 loan in an amount up to \$165,000;

22 (b) That Montezuma be ordered to file in this Docket, within 60 days after  
23 securing the WIFA loan, (1) an arsenic remediation surcharge application requesting approval of a  
24 surcharge that will provide the funds needed to enable Montezuma to meet its principal and interest

25  
26 <sup>14</sup> TIER represents the number of times earnings before income tax expense cover interest expense on debt. A TIER  
27 greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in  
28 the long term but does not necessarily mean that debt obligations cannot be met in the short term. DSC represents the  
number of times internally generated cash (i.e., earnings before interest, income tax, depreciation, and amortization  
expenses) covers required principal and interest payments on debt. A DSC greater than 1.0 means operating cash flow is  
sufficient to cover debt obligations.

1 obligations on the WIFA loan, and (2) copies of each loan document or agreement;

2 (c) That Montezuma calculate the additional revenue needed to cover the principal  
3 and interest obligations on the WIFA loan using the methodology presented in the Staff Report in this  
4 matter and include the calculation with its arsenic remediation surcharge application;

5 (d) That the maximum interest rate used to calculate the arsenic remediation  
6 surcharge be set at the prime rate plus 200 basis points;

7 (e) That the arsenic surcharge be a separate line item charge on customer's  
8 monthly bills and labeled as "arsenic surcharge";

9 (f) That if Montezuma fails to file a rate application by May 31, 2012, using a test  
10 year ending December 31, 2011, any approved arsenic surcharge automatically cease; and

11 (g) That Montezuma be authorized to execute any documents necessary to  
12 effectuate the authorizations granted in this Decision.<sup>15</sup>

### 13 Discussion and Resolution

14 61. We are concerned that the recommended December 31, 2009, deadline for Montezuma  
15 to file a copy of the AOC for the arsenic treatment system may not allow sufficient time to obtain the  
16 AOC and, if adopted, may result in an application for an extension of time or simply noncompliance.  
17 Montezuma anticipates that the engineering, transmission line construction, and installation of the  
18 arsenic treatment system can be completed within four months after procuring the WIFA loan.  
19 Because Montezuma must obtain the WIFA loan, obtain the ATC, and complete the arsenic treatment  
20 system before it can obtain an AOC for the arsenic treatment system, we believe that it would be  
21 more appropriate to require Montezuma to file the AOC for the arsenic treatment system by April 30,  
22 2010. This allows Montezuma a small amount of additional time to finalize the WIFA loan; interface  
23 with ADEQ to obtain both the ATC and AOC for the arsenic treatment system; complete the  
24 engineering, construction, and installation of the arsenic treatment system; and get the AOC to the  
25

26 <sup>15</sup> Staff additionally recommended that Montezuma be required to file, as compliance items in this Docket, within 30  
27 days after the loan agreement is signed, copies of its calculation of revenue requirement for principal and interest  
28 obligations on the WIFA loan and copies of all executed financing documents. Those recommendations were not set  
forth separately here because Staff had already recommended that those items be filed within 60 days as part of the  
arsenic remediation surcharge application, which is also to be filed in this Docket.

1 Commission.<sup>16</sup> While we would have preferred for Montezuma to resolve its arsenic problem in a  
2 much more expeditious manner, we believe that it is appropriate to consider the practicalities of its  
3 obtaining the AOC so that further Montezuma and Commission resources should not need to be  
4 devoted to processing an extension of the AOC-filing deadline established herein. Because  
5 Montezuma has already completed construction of Well #4, we believe that Staff's recommended  
6 December 31, 2009, deadline to file the AOC for Well #4 is reasonable and should be followed.

7 62. Staff's recommendations set forth in Findings of Fact No. 47, as modified in Findings  
8 of Fact No. 61, and Staff's recommendations set forth in Findings of Fact No. 60 are reasonable and  
9 will be adopted.

10 63. Because an allowance for property tax expense is included in Montezuma's rates and  
11 will be collected from its customers, the Commission seeks assurances from Montezuma that any  
12 taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to  
13 the Commission's attention that a number of water companies have been unwilling or unable to fulfill  
14 their obligation to pay the taxes that were collected from ratepayers, some for as many as 20 years. It  
15 is reasonable, therefore, that as a preventive measure, Montezuma shall annually file, as part of its  
16 annual report, an affidavit with the Utilities Division attesting that Montezuma is current in paying its  
17 property taxes in Arizona.

#### 18 CONCLUSIONS OF LAW

19 1. Montezuma is a public service corporation pursuant to Article XV of the Arizona  
20 Constitution and A.R.S. §§ 40-250, 40-251, 40-301, 40-302, and 40-303.

21 2. The Commission has jurisdiction over Montezuma and the subject matter of the Rate  
22 Application and Financing Application.

23 3. Notice of the Rate Application and Financing Application was given in accordance  
24 with the law.

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

27 \_\_\_\_\_  
28 <sup>16</sup> We note that ADEQ's rules allow it 53 days overall to process an application for a drinking water ATC, AOC, or new source approval. (See 18 A.A.C. 1, Article 5, Table 5.)



1	<u>3/4" Meter</u>			
2	Same side of road	370.00	180.00	550.00
	Other side of road	695.00	180.00	875.00
3	<u>1" Meter</u>			
	Same side of road	400.00	225.00	625.00
4	Other side of road	775.00	225.00	1,000.00
5	<u>1 1/2" Meter</u>			
	Same side of road	450.00	450.00	900.00
6	Other side of road	975.00	450.00	1,425.00
	<u>2" Meter Turbo</u>			
7	Same side of road	550.00	900.00	1,450.00
	Other side of road	1,450.00	900.00	2,350.00
8	<u>2" Meter Compound</u>			
	Same side of road	550.00	1,575.00	2,125.00
9	Other side of road	1,825.00	1,575.00	3,400.00
10	<u>3" Meter Turbo</u>			
	Same side of road	765.00	1,210.00	1,975.00
11	Other side of road	1,965.00	1,210.00	3,175.00
	<u>3" Meter Compound</u>			
12	Same side of road	795.00	1,955.00	2,750.00
13	Other side of road	2,420.00	1,955.00	4,375.00
	<u>4" Meter Turbo</u>			
14	Same side of road	1,055.00	2,120.00	3,175.00
	Other side of road	2,980.00	2,120.00	5,100.00
15	<u>4" Meter Compound</u>			
	Same side of road	1,095.00	2,930.00	4,025.00
16	Other side of road	3,495.00	2,930.00	6,425.00
17	<u>6" Meter Turbo</u>			
	Same side of road	1,600.00	4,425.00	6,025.00
18	Other side of road	5,200.00	4,425.00	9,625.00
	<u>6" Meter Compound</u>			
19	Same side of road	1,730.00	6,120.00	7,850.00
20	Other side of road	6,430.00	6,120.00	12,550.00

**OFF-SITE FACILITIES & ORIGINAL MAIN REPLACEMENT HOOK-UP FEE**

22	5/8" x 3/4" Meter	\$ 2,000.00
	3/4" Meter	2,400.00
23	1" Meter	4,000.00
	1 1/2" Meter	8,000.00
24	2" Meter	12,800.00
	3" Meter	24,000.00
25	4" Meter	40,000.00
26	6" Meter	80,000.00

27  
28

**SERVICE CHARGES:**

1		
2	Establishment	\$ 40.00
3	Establishment (After Hours)	60.00
	Reconnection (Delinquent)	50.00
4	Meter Test (If Correct)	30.00
	Deposit	*
5	Deposit Interest	*
	Reestablishment (Within 12 Months)	**
6	NSF Check	\$25.00
7	Deferred Payment (Per Month)	1.50%
	Meter Reread (If Correct)	\$15.00
8	Late Fee (Per Month)	***
9	Monthly Service Charge for Fire Sprinkler (All Meter Sizes)	****

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

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

12 \*\*\* 1.50% of the unpaid balance per month, after 15 days.

13 \*\*\*\* 1.00% of the monthly minimum for a comparably sized meter connection, but no less  
14 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.

15 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service  
16 provided on and after November 1, 2009.

17 IT IS FURTHER ORDERED that Montezuma Rimrock Water Company, LLC shall notify its  
18 customers of the revised rates and charges authorized herein and their effective date, in a form  
19 acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regular  
20 scheduled billing.

21 IT IS FURTHER ORDERED that in addition to collecting its regular rates and charges,  
22 Montezuma Rimrock Water Company, LLC shall collect from its customers a proportionate share of  
23 any privilege, sales, or use tax as provided for in A.A.C. R14-2-409(D).

24 IT IS FURTHER ORDERED that Montezuma Rimrock Water Company, LLC shall continue  
25 to use the typical and customary depreciation rates delineated in Table B of the Engineering Report  
26 portion of the Staff Report filed in this matter.

27

28

1 IT IS FURTHER ORDERED that Montezuma Rimrock Water Company, LLC shall file with  
2 Docket Control, as a compliance item in this Docket, by December 31, 2009, a copy of the Arizona  
3 Department of Environmental Quality Certificate of Approval of Construction for the new Well #4.

4 IT IS FURTHER ORDERED that Montezuma Rimrock Water Company, LLC shall file with  
5 Docket Control, as a compliance item in this Docket, by April 30, 2010, a copy of the Arizona  
6 Department of Environmental Quality Certificate of Approval of Construction for the arsenic  
7 treatment project described herein.

8 IT IS FURTHER ORDERED that Montezuma Rimrock Water Company, LLC shall file with  
9 the Commission, by May 31, 2012, a rate application using a test year ending December 31, 2011.

10 IT IS FURTHER ORDERED that the Commission's Utilities Division Staff shall, in  
11 analyzing the rate application required to be filed hereinabove, specifically examine whether  
12 Montezuma Rimrock Water Company, LLC continues to need the revenues generated through the  
13 Off-Site Facilities & Original Main Replacement Hook-Up Fees that are authorized to continue  
14 herein.

15 IT IS FURTHER ORDERED that Montezuma Rimrock Water Company, LLC is hereby  
16 authorized to incur long-term debt in the form of a Water Infrastructure Finance Authority of Arizona  
17 loan in an amount up to \$165,000, with a term of 20 years and on such terms and interest rates as are  
18 prevailing at the time the Water Infrastructure Finance Authority approves the loan.

19 IT IS FURTHER ORDERED that such financing authority is expressly contingent upon  
20 Montezuma Rimrock Water Company, LLC's use of the proceeds of the loan for the purpose of  
21 completing the arsenic treatment project described herein.

22 IT IS FURTHER ORDERED that approval of the financing herein does not constitute or  
23 imply approval or disapproval by the Commission of any particular expenditure of the proceeds  
24 derived thereby for purposes of establishing just and reasonable rates.

25 IT IS FURTHER ORDERED that Montezuma Rimrock Water Company, LLC is hereby  
26 authorized to execute any documents necessary to effectuate the authorization granted herein.

27 IT IS FURTHER ORDERED that Montezuma Rimrock Water Company, LLC shall file the  
28 following with the Commission's Docket Control, as compliance items in this Docket, within 60 days

1 after executing the documents finalizing the Water Infrastructure Finance Authority of Arizona loan:  
2 (1) an arsenic remediation surcharge application requesting approval of a surcharge that will provide  
3 the funds needed to enable Montezuma Rimrock Water Company, LLC to meet its principal and  
4 interest obligations on the loan, and (2) copies of each executed loan document or agreement setting  
5 forth the terms of the financing obtained.

6 IT IS FURTHER ORDERED that, for purposes of its arsenic remediation surcharge  
7 application, Montezuma Rimrock Water Company, LLC shall calculate the additional revenue  
8 needed to cover the principal and interest obligations on the Water Infrastructure Finance Authority  
9 loan using the methodology presented in the Staff Report filed in this Docket.

10 IT IS FURTHER ORDERED that Montezuma Rimrock Water Company, LLC shall include  
11 with its arsenic remediation surcharge application its calculation of the additional revenue needed to  
12 cover the principal and interest obligations on the Water Infrastructure Finance Authority loan.

13 IT IS FURTHER ORDERED that the maximum interest rate used by Montezuma Rimrock  
14 Water Company, LLC to calculate the arsenic remediation surcharge it requests shall be the prime  
15 rate plus 200 basis points.

16 IT IS FURTHER ORDERED that any arsenic remediation surcharge approved for  
17 Montezuma Rimrock Water Company, LLC pursuant to the arsenic remediation surcharge  
18 application required to be filed as provided herein shall be a separate line item charge on customer's  
19 monthly bills and labeled as "arsenic surcharge."

20 IT IS FURTHER ORDERED that any arsenic remediation surcharge approved for  
21 Montezuma Rimrock Water Company, LLC pursuant to the arsenic remediation surcharge  
22 application required to be filed as provided herein shall automatically cease effective June 1, 2012, if  
23 Montezuma fails to file a rate application by May 31, 2012, as required herein.

24 ...  
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26 ...  
27 ...  
28 ...

1 IT IS FURTHER ORDERED that Montezuma Rimrock Water Company, LLC shall annually  
2 file, as part of its annual report, an affidavit with the Commission's Utilities Division attesting that it  
3 is current in paying its property taxes in Arizona.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.  
6  
7

8 CHAIRMAN

COMMISSIONER

9  
10 COMMISSIONER

COMMISSIONER

COMMISSIONER

11  
12 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
13 Executive Director of the Arizona Corporation Commission,  
14 have 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 \_\_\_\_\_, 2009.

17 \_\_\_\_\_  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

18 DISSENT \_\_\_\_\_

19  
20 DISSENT \_\_\_\_\_  
21  
22  
23  
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28

1 SERVICE LIST FOR:

MONTEZUMA RIMROCK WATER COMPANY,  
LLC

2

3 DOCKET NOS.:

W-04254A-08-0361 and W-04254A-08-0362

4

5 Patricia D. Olsen, Manager  
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