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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

AUG 06 2009

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

DOCKETED BY
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IN THE MATTER OF THE APPLICATION
OF WILHOIT WATER COMPANY, INC.,
THUNDERBIRD MEADOWS SYSTEM,
FOR RETROACTIVE APPROVAL OF A
FINANCING APPLICATION.

DOCKET NO. W-02065A-07-0306

IN THE MATTER OF THE APPLICATION
OF WILHOIT WATER COMPANY, INC.,
THUNDERBIRD MEADOWS SYSTEM, FOR
APPROVAL OF A FINANCING APPLICATION.

DOCKET NO. W-02065A-07-0307

IN THE MATTER OF THE APPLICATION
OF WILHOIT WATER COMPANY, INC.,
THUNDERBIRD MEADOWS SYSTEM,
FOR APPROVAL OF A PERMANENT
RATE INCREASE

DOCKET NO. W-02065A-07-0312

IN THE MATTER OF THE APPLICATION
OF WILHOIT WATER COMPANY, INC.,
THUNDERBIRD MEADOWS SYSTEM,
FOR THE APPROVAL OF A FINANCING
APPLICATION.¹

DOCKET NO. W-02065A-08-0138

DECISION NO. 71234

ORDER

Open Meeting
July 28 and 29, 2009
Phoenix, Arizona

BY THE COMMISSION:

On May 21, 2007, Wilhoit Water Company, Inc., Thunderbird Meadows System ("Applicant" or "Company") filed the following applications: an application requesting approval of retroactive financing in the amount of \$15,000 (Docket No. W-02065A-07-0306); an application requesting approval of financing in the amount of \$131,059 (Docket No. W-02065A-07-0307); and an application requesting approval for a permanent rate increase (Docket No. W-02065A-07-0312).

¹ On February 4, 2009, this Docket was closed administratively.

1 On June 19, 2007, the Company filed certification that it had mailed public notice to its
2 customers of its rate application, but there was no indication that notice was provided on its financing
3 applications.

4 On June 20, 2007, pursuant to A.A.C. R14-2-103, the Commission's Utilities Division
5 ("Staff") issued a Notice of Insufficiency with respect to the Company's rate application.

6 On July 18, 2007, the Commission held a public comment hearing on the Company's rate
7 application at the Wilhoit Southern Baptist Church in Yavapai County, Arizona.

8 September 10, 2007, pursuant to A.A.C. R14-2-103, Staff issued a Notice of Sufficiency with
9 respect to the Company's rate application and classified the Company as a Class D Utility.

10 On September 19, 2007, Staff filed a Motion to Consolidate the above-captioned proceedings.

11 On September 25, 2007, by Procedural Order, the above-captioned proceedings were
12 consolidated.

13 On October 24, 2007, by Procedural Order, the Commission scheduled a second public
14 comment hearing on the consolidated dockets on November 15, 2007, at the Wilhoit Southern Baptist
15 Church in Yavapai County, Arizona.

16 On October 31, 2007, the Company filed certification that it had provided public notice of the
17 scheduled public comment hearing on November 15, 2007.

18 On November 9, 2007, Staff filed its initial Staff Report recommending approval of its
19 proposed rates and charges. Staff further recommended that the Company's retroactive financing
20 application for \$15,000 be denied and its financing application for \$131,059 be approved.
21 Additionally, Staff indicated that the Company needed to invest in a new water source with an
22 estimated cost of approximately \$100,000 and also recommended approval of this sum as long-term
23 debt. However, the Company had not filed an application for approval of the additional long-term
24 debt recommended by Staff.

25 On November 15, 2007, the Commission held the public comment hearing with respect to the
26 consolidated dockets as previously ordered.

27 On November 19, 2007, the Company filed objections to Staff's recommendations with
28 respect to Applicant's rate application and the denial of its financing application for \$15,000. The

1 Company also objected to Staff's estimate of the cost of a new water source as being insufficient.

2 As a result of Staff's recommendations for the financing of a new water source, a Procedural
3 Order was issued on January 7, 2008, ordering the Company to file an additional financing
4 application. The Company was further ordered to provide public notice of the previous financing
5 applications and the new financing application in a form and manner approved by Staff. Lastly, the
6 time-frame in the rate proceeding was suspended pending Staff's review of the Company's new
7 financing application.

8 On March 6, 2008, the Company filed an application with the Commission for an Order
9 authorizing applicant to issue \$345,000 in long-term debt to develop a new water source (Docket No.
10 W-02065A-08-0138).

11 On April 25, 2008, Staff filed its Amended Staff Report on the earlier filed applications and a
12 separate Staff Report on the Company's recently filed financing application (Docket No.
13 W-02065A-08-0138).

14 On April 28, 2008, Mr. Daniel E. Furnas filed a Motion to Intervene. No objections were
15 filed to Mr. Furnas' Motion.

16 On June 5, 2008, by Procedural Order, Mr. Furnas was granted intervention.

17 On June 12, 2008, by Procedural Order, the Company's financing application in Docket
18 No. W-02065A-08-0138 was consolidated with the above-referenced proceedings and a procedural
19 conference was scheduled on June 30, 2008, concerning the respective applications.

20 On June 30, 2008, the Company and Staff appeared at the procedural conference with counsel.
21 Mr. Furnas did not appear. The parties discussed the pending issues in the proceeding and the
22 Company's counsel indicated that the Company no longer had any objections to any of Staff's
23 recommendations in the proceeding and was in agreement with them. However, before further action
24 could be taken on the respective applications, it was determined that the Company would have to
25 provide Staff with updated expense figures on its financing request with respect to its proposed new
26 water source in Docket No. W-02065A-08-0138, which in part could be affected by the outcome of the
27 Company's then pending Complaint against Walden Meadows Community Co-op ("WMCC") in
28 Docket No. W-02369A-08-0260, et al. Following the Company's update, Staff was to file by August 4,

1 2008, a response which set forth its proposed alternatives for financing and Staff's recommended rates
2 and charges.

3 On August 4, 2008, after the Company provided Staff with updated expense figures related to
4 its financing for a new water source, Staff filed its response and recommended two surcharge
5 alternatives depending on the amount financed. However, the surcharge amount could not be
6 determined until the Company's Complaint against WMCC was resolved, after which the revenue
7 needed to service the debt on the amount to be financed could be determined.

8 On August 8, 2008, by Procedural Order, this proceeding and the time-frame were suspended
9 until further Order and until a resolution could be reached in Applicant's Complaint against WMCC.

10 On December 8, 2008, Applicant and WMCC filed a joint stipulation to dismiss the
11 Complaint in Docket No. W-02369A-08-0260, et al.

12 On December 16, 2008, by Procedural Order, the Complaint by the Company against
13 WMCC in Docket No. W-02369A-08-0260, et al. was dismissed.

14 On December 18, 2008, by Procedural Order, a status conference was scheduled on
15 January 21, 2009.

16 On January 21, 2009, the status conference was held as scheduled. Staff appeared with
17 counsel and a consultant appeared for the Company. Mr. Furnas did not attend. The parties
18 discussed the pending issues in the proceeding since the dismissal of the Company's Complaint
19 against WMCC. The Company agreed to withdraw its pending financing application for \$345,000
20 since the funds were no longer required to finance a new water source because the Company had
21 reached an agreement to purchase water from WMCC. The Company's consultant acknowledged
22 that the Company had no objections to Staff's recommendations in the two remaining financing
23 applications and its rate application. Subsequently, the Company's consultant filed a letter
24 withdrawing its application for financing approval in Docket No. W-02065A-08-0138 and indicating
25 its support of Staff's recommendations in the remaining three dockets in this proceeding.

26 During the discussion concerning this proceeding, the Company's consultant acknowledged
27 that the Company had not yet resolved its problem with the Yavapai County Treasurer to pay back
28 property taxes in excess of \$70,000 owed to Yavapai County as ordered in Decision Nos. 70384

1 (June 13, 2008) and 70658 (December 22, 2008) with regard to the Company's Yavapai Mobile
2 Home Estates System and Blue Hills No. 3 System, respectively. These Decisions authorized rate
3 increases for the respective systems, but conditioned the effective date of the increase upon the
4 Company securing and filing a copy of a finalized agreement with the Yavapai County Treasurer's
5 Office for the Company's payment of its delinquent property taxes for its three systems located in
6 Yavapai County, including the Thunderbird Meadows System. The matter was then taken under
7 advisement.

8 On February 4, 2009, by Procedural Order, the Company was informed that a recommended
9 Order would not be issued until a finalized agreement with the County Treasurer's Office was filed
10 for its three systems in Yavapai County as were previously ordered in Decision Nos. 70384 and
11 70658. It was further ordered that Docket No. W-02065A-08-0138 be closed administratively.

12 On March 31, 2009, the Company filed a report with the Commission which indicated that it
13 had entered into an agreement with the Yavapai County Treasurer, with payments to commence May
14 1, 2009, for the repayment of its delinquent property taxes in Yavapai County for its three systems.
15 The Company supplemented its report with an April 15, 2009, letter from the Yavapai County
16 Treasurer which states that no enforcement action will be taken so long as the Company adheres to its
17 repayment schedule. Additionally, the Company also filed copies of correspondence between Staff
18 and the attorneys for the City of Avondale ("Avondale") with respect to delinquent property taxes
19 which had not been paid by the Company to Maricopa County for its Glenarm Farms System
20 ("Glenarm"). Glenarm had been purchased by Avondale in 2003 and an application remains pending
21 for approval of the sale of the Company's Glenarm assets and cancellation of its Certificate of
22 Convenience and Necessity ("Certificate") for that system's service area (Docket No.
23 W-02065A-03-0490).

24 On April 6, 2009, the Company filed a supplemental report which confirms that a resolution
25 of the back property taxes owed by the Company on behalf of Glenarm to Maricopa County has been
26 reached by Avondale and Maricopa County. Under the terms of that agreement, \$50,000 is to be paid
27 by Avondale to satisfy the delinquent property taxes. A copy of a signed declaration by a Company
28 officer was also submitted certifying that the remaining conditions required to be met in that

1 proceeding had also been satisfied.

2 On May 29, 2009, Staff filed a Supplemental Staff Report which recommends approval of
3 Staff's recommended charges, Staff's financing recommendations, Staff's proposed Infrastructure
4 Surcharge Mechanism ("ISM") and the other remaining recommendations which include approving
5 the sale of assets and cancellation of that portion of the Company's Certificate related to its Glennarm
6 System in Docket No. W-02065A-03-0490. Staff further recommended that the Company secure and
7 file a copy of a modification of its 1986 Water Supply Agreement ("Agreement") with WMCC.

8 On June 8, 2009, the Company filed comments to the supplemental Staff Report and indicated
9 its agreement with Staff's recommendations concerning the back property tax issues and the adoption
10 of Staff's recommended rates, charges and Staff's proposed ISM. The Company further indicated
11 that it believes that a letter which it received from WMCC's attorney was sufficiently binding to
12 ensure the delivery of additional water in the event of a water shortage.

13 * * * * *

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

16 **FINDINGS OF FACT**

17 1. Pursuant to authority granted by the Commission, the Company is an Arizona
18 corporation in good standing engaged in the business of providing water service in the vicinity of
19 Wilhoit in Yavapai County, Arizona.²

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

22 3. On May 21, 2007, the Company filed the following applications: an application
23 requesting approval of retroactive financing for a well in the amount of \$15,000 (Docket No.
24 W-02065A-07-0306); an application requesting approval of financing for additional storage facilities
25 in the amount of \$131,059 (Docket No. W-02065A-07-0307); and an application requesting approval

26 _____
27 ² According to the Commission's corporation records, the Company is owned and managed by the Glenarm Land
28 Company, Inc. ("GLC") which is owned by the estate of Robert D. Conlin ("Estate") and David A. Conlin, Jr. Besides
operating the Thunderbird Meadows System, the Company also operates the Yavapai Mobile Home Estates System in the
vicinity of Chino Valley and the Blue Hills No. 3 System in the vicinity of Dewey. GLC also operates another water
company, the Dells Water Company, Inc. ("Dells") in the vicinity of Prescott.

1 for a permanent rate increase (Docket No. W-02065A-07-0312).

2 4. On June 15, 2007, the Company mailed notice to its customers of its application for a
3 rate increase by first class U.S. mail and, in response thereto, the Commission received eight
4 complaints, eleven inquiries and twenty opinions opposing the proposed rate increase.

5 5. On June 20, 2007, pursuant to A.A.C. R14-2-103, Staff issued a notice of
6 insufficiency with respect to the Company's rate application.

7 6. On July 18, 2007, the Commission held a public comment hearing in Wilhoit,
8 Arizona.

9 7. On September 10, 2007, Staff issued a notice of sufficiency with respect to the
10 Company's rate application and classified the Company as a Class D utility.

11 8. On October 29 and 30, 2007, the Company published notice in a newspaper of general
12 circulation in its service area of its proposed rate increase, the request for approval of the initial long-
13 term financings in this proceeding, and notice of the second public comment hearing.

14 9. On November 15, 2007, the Commission held an additional public comment hearing
15 in Wilhoit.

16 10. During the test year ("TY") ended December 31, 2006, Applicant served 128 metered
17 customers who were all served by 5/8" x 3/4" meters.

18 11. Average and median water usage by residential users during the TY were 4,033
19 gallons of water and 3,114 gallons of water per month, respectively.

20 12. Staff conducted an investigation of the Company's proposed rates and charges for
21 water service and filed its initial Staff Report on the Company's rate application request on
22 November 9, 2007, an Amended Staff Report on April 25, 2008, and a Supplemental Staff Report on
23 May 29, 2009, recommending that Staff's proposed rates and charges be approved. Staff is also
24 recommending that the Company's service line and meter installation charges be modified and its
25 other service charges be modified consistent with Staff's recommendations. Staff is further
26 recommending the adoption of an ISM to pay for the financing of the long-term debt required for
27 additional storage facilities and other improvements.

28

1 13. The water rates and charges for the Applicant at present, as recommended by Staff and
2 as stipulated to by the Company are as follows:

	<u>Present Rates</u>	<u>Staff Recommended</u>
4 <u>MONTHLY USAGE CHARGE:</u>		
5 5/8" x 3/4" Meter	\$ 12.46	\$ 16.50
6 3/4" Meter	21.00	24.75
7 1" Meter	35.00	41.25
8 1-1/2" Meter	7.00	82.50
9 2" Meter	112.00	132.00
10 3" Meter	210.00	264.00
11 4" Meter	350.00	412.50
12 6" Meter	700.00	825.00
13 Gallons included in minimum	0	0
14 <u>GALLONAGE CHARGE:</u>		
15 (per 1,000 gallons)		
16 <u>All Meter Sizes</u>		
17 0 – 6,000 gallons	\$ 4.40	N/A
18 Over 6,000 gallons	5.50	N/A
19 <u>5/8" x 3/4" Meter and 3/4" Meter (Residential)</u>		
20 1 to 3,000 gallons	N/A	\$ 3.45
21 3,001 to 10,000 gallons	N/A	5.18
22 Over 10,000 gallons	N/A	6.20
23 <u>5/8" x 3/4" Meter and 3/4" Meter (Commercial)</u>		
24 1 to 10,000 gallons	N/A	5.18
25 Over 10,000 gallons	N/A	6.20
26 <u>1" Meter (Commercial)</u>		
27 1 – 25,000 gallons	N/A	5.18
28 Over 25,000 gallons	N/A	6.20
29 <u>1-1/2" Meter (Commercial)</u>		
30 1 to 63,000 gallons	N/A	5.18
31 Over 63,000 gallons	N/A	6.20
32 <u>2" Meter (Commercial)</u>		
33 1 to 109,000 gallons	N/A	5.18
34 Over 109,000 gallons	N/A	6.20
35 <u>3" Meter (Commercial)</u>		
36 1 to 237,000 gallons	N/A	5.18
37 Over 237,000 gallons	N/A	6.20
38 <u>4" Meter (Commercial)</u>		
39 1 to 381,000 gallons	N/A	5.18
40 Over 381,000 gallons	N/A	6.20

6" Meter (Commercial)

1	1 to 780,000 gallons	N/A	\$ 5.18
2	Over 780,000 gallons	N/A	6.20

SERVICE LINE AND METER INSTALLATION CHARGES:

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

		<u>Staff's Recommended Rates</u>			
	<u>Present Rates</u>	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>	
5	5/8" x 3/4" Meter	\$ 278.00	\$ 385.00	\$ 135.00	\$ 520.00
6	3/4" Meter	309.00	385.00	215.00	600.00
7	1" Meter	360.00	435.00	255.00	690.00
8	1-1/2" Meter	552.00	470.00	465.00	935.00
9	2" Meter	779.00	630.00	965.00	1,595.00
	3" Meter	1,010.00	805.00	1,470.00	2,275.00
	4" Meter	1,703.00	1,170.00	2,350.00	3,520.00
	6" Meter	3,769.00	1,730.00	4,545.00	6,275.00

SERVICE CHARGES:

	<u>Present Rates</u>	<u>Staff Recommended</u>	
10	Establishment	\$ 30.00	\$ 30.00
11	Reconnection (Delinquent)	30.00	30.00
12	Meter Test (If Correct)	35.00	35.00
	Deposit	*	*
	Deposit Interest	*	*
	Re-establishment (Within 12 Months)	**	**
	NSF Check	15.00	30.00
	Deferred Payment (Per Month)	6.0%	6.0%
	Meter Re-Read (If Correct)	15.00	15.00
	Late Charge	0.00	***

Monthly Service Charge for Fire Sprinklers:

16	4" or Smaller	\$ 5.00	****
17	6"	7.00	****
	8"	7.00	****
	10"	7.00	****
18	Larger than 10"	7.00	****

* Per Commission Rule A.C.C. R14-2-403(B)

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

*** 1.5% of unpaid monthly balance.

**** 1.0% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

14. Pursuant to the amended Staff Report, Applicant's Fair Value Rate Base ("FVRB") is determined to be \$7,333 which is the same as its original cost rate base. The Company's FVRB reflects a \$17,239 adjustment by Staff to Applicant's proposed FVRB due in large part to a \$20,728 decrease to Applicant's net plant and a \$3,489 increase to the Company's working capital.

1 15. Staff decreased Applicant's TY operating expenses by \$14,136 after finding that the
2 Company has failed to maintain separate books and records of revenue, expenses and rate bases for
3 each of its three systems in accordance with the National Association of Regulatory Utility
4 Commissioners ("NARUC") Uniform System of Accounts ("USOA"). According to the Company, it
5 assigned allocation factors and percentages based on relative customer accounts for the three systems
6 at an unspecified historical date.

7 16. Staff developed an alternate allocation factor for allocating expenses that could not be
8 directly attributed to one of the other two systems operated by the Company or the Dells system.
9 According to Staff, since the customer counts used by Applicant are stale and because, in some
10 instances, customer count is not the preferred application basis, Staff allocated 34.69 percent of
11 shared expenses versus the Company's proposed 45.0 percent of shared expenses. As a result, the
12 following expenses were substantially reduced by Staff: Salaries and Wages (\$4,208); Repairs and
13 Maintenance (\$6,030); Rents (\$1,320); Miscellaneous Expenses (\$1,180); Depreciation Expense
14 (\$1,418); and Taxes Other Than Income (\$3,152).

15 17. Applicant's present rates and charges produced operating revenues of \$48,161 and
16 adjusted operating expenses of \$43,260 which resulted in operating income of \$4,901 for the TY.

17 18. The water rates and charges proposed by Staff and stipulated to by the Company
18 would produce operating revenues of \$51,800 and adjusted operating expenses of \$44,021, resulting
19 in net operating income of \$7,779 or a 106.08 percent rate of return on FVRB. This is not a
20 meaningful figure due to the minimal size of the Company's rate base. However, this equates to an
21 operating margin of 15.02 percent, and provides ample funds to manage contingencies, operating
22 expenses and below-the-line expenses.

23 19. Staff's recommended rates would increase the average monthly customer water bill by
24 6.59 percent, from \$30.21 to \$32.20, and the median monthly customer water bill by 4.89 percent,
25 from \$26.16 to \$27.44.

26 20. With the filing of the rate application, the Company filed two concurrent requests for
27 Commission financing approval as follows: in Docket No. W-02065A-07-0306, a retroactive request
28 for approval of financing in the amount of \$15,000 to reimburse the Company for a loan it received

1 from its parent company, GLC, to drill a well; and in Docket No. W-02065A-07-0307, a request for
2 approval of long-term financing to be obtained from the Water Infrastructure Authority ("WIFA") in
3 the amount of \$131,059 for the construction and installation of two 25,000 gallon steel storage tanks,
4 a 14,000 galvanized storage tank with ring, and the costs of miscellaneous plumbing and electrical
5 components. These projects are needed to *remedy current maintenance issues.*

6 21. The financing request for retroactive approval of \$15,000 of long-term debt to GLC
7 was at a 10 percent annual interest rate and was to be repaid over a period of 10 years. Initially, the
8 second financing request for \$131,059 was to be financed at a 10 percent annual interest rate and
9 repaid over 10 years with funding from GLC, but the Company subsequently determined that it
10 would apply for a WIFA loan.

11 22. The Company used the proceeds of the first loan from GLC to drill a well which was
12 to be used to provide its customers with an additional water source, but it proved to be an ineffective
13 source of water and could not be used.

14 23. In both the initial and amended Staff Reports filed on November 9, 2007, and on
15 April 25, 2008, respectively, Staff recommended that the first request for long-term financing
16 approval in the amount of \$15,000 should be denied. Staff further recommended that the funds be
17 treated as paid-in-capital by the Company's owner, GLC, because the well was not used and useful
18 and it is not connected to the system. Additionally, Staff excluded it from plant and rate base
19 considerations.

20 24. With respect to the second request for long-term financing approval, Staff
21 recommends approval of this expense for the additional storage facilities³ finding them to be
22 reasonable and appropriate. Staff recommends an ISM to pay for these facilities subject to two
23 requirements: first, the filing of a copy of the executed loan agreement with WIFA; and second, the
24 filing of copies of the Approval to Construct ("ATC") and the Approval of Construction ("AOC")
25 when the documents are issued by ADEQ. However, Staff indicated that it was not making any
26 "used and useful" determination from which any conclusion should be inferred for rate making or
27

28 ³ In the Supplemental Staff Report, Staff recommends that the Company should add at least 60,000 gallons of additional water storage facilities in a form to be determined by the Company.

1 rate-base purposes. As compliance items, Staff recommends that a copy of the ATC be filed by
2 December 31, 2009, and a copy of the AOC be filed December 31, 2010.

3 25. Although Staff initially determined that the Company would require another source of
4 water to meet peak demands for its customers and recommended that the Company drill another well,
5 this recommendation was later withdrawn after the Company resolved its complaint against WMCC,
6 which is to supply Applicant with additional water to meet peak demands.

7 26. The Company agrees with Staff that the application for approval of long-term debt in
8 the amount of \$15,000 should be denied and the application for approval of long-term debt in the
9 amount of \$131,059 should be approved.

10 27. Staff's recommended ISM is similar in nature to an Arsenic Surcharge Remediation
11 Mechanism ("ASRM") as previously approved by the Commission in other cases which require the
12 repayment of long-term debt to WIFA for loans used to fund arsenic removal equipment, but in this
13 case the loan will be used to pay for much needed storage infrastructure.

14 28. In Staff's initial Report filed on November 9, 2007, Staff conducted a *pro forma*
15 analysis of the proposed \$131,059 loan to be secured from WIFA utilizing a 20-year loan at an
16 interest rate of 8.0 percent. As a result of Staff's analysis, Staff determined that the Company would
17 require an annual increase in revenue of \$13,155 in order to fund the long-term debt and determined
18 that a surcharge of \$8.56 per month would be required of residential customers with 5/8" x 3/4"
19 meters. Staff used the NARUC multiplier based on flow size to determine the surcharge amounts for
20 all meter sizes increasing all bills as follows:

21 Pro Forma Effects of Surcharge added to Monthly Bill:

22	5/8" x 3/4" Meter	\$ 8.56
23	3/4" Meter	12.85
24	1" Meter	21.41
25	1-1/2" Meter	42.82
26	2" Meter	68.51
27	3" Meter	128.46
28	4" Meter	214.11
	6" Meter	428.21

29. Subsequently, in Staff's Supplemental Staff Report filed on May 29, 2009, Staff
conducted a *pro forma* analysis of the proposed \$131,059 loan to be secured from WIFA utilizing a

1 20-year loan at a current, lower interest rate of 2.0 percent. As a result of Staff's second scenario,
 2 Staff determined that the Company would only require an annual increase in revenue of \$7,956 in
 3 order to fund the long-term debt and determined that a surcharge of \$5.18 per month would be
 4 required of residential customers with 5/8" x 3/4" meters. Staff used the NARUC multiplier based on
 5 flow size to determine the surcharge amounts for all meter sizes increasing all bills as follows:

6 Pro Forma Effects of Surcharge added to Monthly Bill:

7	5/8" x 3/4" Meter	\$ 5.18
8	3/4" Meter	7.77
9	1" Meter	12.95
10	1-1/2" Meter	25.90
	2" Meter	41.44
	3" Meter	77.70
	4" Meter	129.49
	6" Meter	258.99

11 30. Staff's recommended rates when coupled with the surcharge described in the
 12 Supplemental Staff Report would increase the average monthly customer water bill by 23.73 percent,
 13 from \$30.21 to \$37.38, and the median monthly customer water bill by 24.69 percent, from \$26.16 to
 14 \$32.62.

15 31. In its report, Staff is recommending approval of an ISM for the Applicant as the
 16 collection device for the Company's financing needs instead of including the financing in rates as is
 17 typically done in rate and financing cases, because the Company in the past has shown a pattern of
 18 not utilizing revenue collected from ratepayers to pay its expenses.

19 32. The debt service coverage ("DSC") ratio represents the number of times internally
 20 generated cash will cover required principal and interest payments as long-term debt. A DSC ratio
 21 greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations. A DSC less
 22 than 1.0 means that debt service cannot be met from operations and that another source of funds is
 23 need to avoid default.

24 33. The times interest earned ratio ("TIER") represents the number of times earnings will
 25 cover interest expense on short-term and long-term debt. A Tier greater than 1.0 means that
 26 operating income is greater than interest expense. A TIER of less than 1.0 is not sustainable in the
 27 long-term, but does not necessarily mean that debt obligations cannot be met in a short-term.
 28

1 34. The Supplemental Staff Report analyzed the Company's *pro forma* impact of drawing
2 down the proposed \$131,059 in long-term debt at the lower rate of interest and found that it results in
3 a TIER of 6.92 and a DSC of 2.25, which indicate that the Company will have adequate cash flow to
4 meet its obligations.⁴

5 35. According to the Amended Staff Report, the Company has failed in numerous
6 instances to comply with prior Commission Orders. Additionally, in other instances, the Company
7 has failed to respond to other Commission actions and more particularly in Docket No. W-02056A-
8 03-0490, a proceeding in which the Company had filed an application for approval of the sale of that
9 portion of its assets used to serve the Glenarm area to Avondale and to cancel that portion of its
10 Certificate. At that time, the Company's Glenarm assets were encumbered by Maricopa County tax
11 liens totaling approximately \$215,000.

12 36. Staff had recommended that the Company file evidence that the outstanding personal
13 property tax obligation would be paid before the close of escrow. Avondale had argued that the
14 delinquent taxes would be extinguished upon the sale of the Company's assets, but Staff argued that
15 Avondale was required to pay delinquent property taxes attached to the property that they were to
16 acquire. In fact, according to the testimony of an Avondale witness in the sale proceeding, Avondale
17 had already begun to provide service to the Company's former customers in the Glenarm service area
18 in approximately September 2003.

19 37. On January 7, 2004, a Recommended Opinion and Order was issued which
20 conditioned approval of the sale of assets and cancellation of the Company's Certificate for the
21 Glenarm service area with filing of evidence showing that the outstanding tax liens would be satisfied
22 before the close of escrow or within 30 days of the effective date of the Decision, whichever occurred
23 first. Subsequently, the matter was pulled from the Commission's Open Meeting agenda at the
24 request of the Company. Although the Company ignored previous requests by Staff for information
25 concerning the transaction, while this case has been pending, the Company responded to a data
26 request providing a copy of its sales agreement with Avondale dated July 3, 2003, with the sale
27 consummated on September 10, 2004. However, Avondale's attorneys had been unable to resolve

28 ⁴ Supplemental Staff Report, Schedule JMM-1.

1 the delinquent tax issue until only recently. As a result, Staff is recommending that the Docket be
 2 administratively closed in that proceeding and the appropriate certificated area removed from the
 3 Company's service territory on the Commission's maps since Avondale is serving the area and the
 4 Company's system in that area has been abandoned and not included in the current rate request.⁵

5 38. Staff, in its amended report, stated that, on February 14, 1991, the Commission issued
 6 Decision No. 57237 which expressed concern over the probable cross-subsidization among the
 7 Company's water systems. In the Company's 1992 rate proceeding, the Commission issued Decision
 8 No. 58102 which found the Company was in compliance by keeping its books and records separately
 9 for its individual systems. However, Staff then noted that presently the Company was no longer in
 10 compliance with the NARUC USOA in maintaining its books and records.⁶

11 39. Staff cited several other instances of non-compliance which relate to Decision No.
 12 58102 wherein the Company was required to file copies of the "paid-in-full" tax statements for
 13 property taxes within 90 days of the tax statement due date. The Company was also required to make
 14 arrangements with the appropriate taxing authorities to pay the accrued property taxes and associated
 15 interest and to provide written summaries to the Director of the Utilities Division of the details of
 16 such arrangements by June 9, 1993. Staff further stated that the Company was not current on its
 17 property and sales tax payments going back to the early 1990s and that its related systems in Yavapai
 18 County owed a total of \$76,343 in back taxes as of April 9, 2008.

19 40. On April 6, 2009, the Company filed its supplemental report which included a copy of
 20 a form agreement from the Yavapai County Treasurer's Office that established a monthly payment
 21 plan for the Company to pay its delinquent county property taxes commencing May 1, 2009. As a
 22 further exhibit to the supplemental report, the Company included an endorsement by the County

23
 24 ⁵ On April 6, 2009, the Company filed a supplemental report in the docket which contains as an exhibit, a copy of a
 25 letter dated April 1, 2009, from Avondale's attorney to the Commission's Chief of Consumer Services that Avondale is
 26 awaiting the approval of Maricopa County to settle the outstanding tax delinquency for \$50,000 upon approval by the
 Board of Supervisors of an abatement resolution. A separate exhibit to the Company's report contained certification from
 a vice president of the Company indicating that the other conditions required by the Recommended Opinion and Order
 that the Company refund any outstanding customer deposits, refund any outstanding main extension agreements and file a
 copy of a backflow prevention tariff have all been satisfied.

27 Additionally, in the Supplemental Staff Report, it is indicated that Staff has confirmed that Avondale has assumed the
 Company's liability to the County for the delinquent taxes and has received a copy of Avondale's letter of transmittal to
 the Maricopa County Treasurer enclosing a \$50,000 check to pay all back taxes.

28 ⁶ According to the Company, this situation has recently been remedied, since on April 21, 2009, the Company filed an
 affidavit signed by its bookkeeper that its books and records are now being kept in accordance with the NARUC USOA.

1 Treasurer, Ross. D. Jacobs, who indicates that the County considers the form agreement to be binding
2 on the Company.

3 41. According to the initial Staff Report, the Company was delivering water which met
4 the water quality standards required by the Safe Drinking Water Act. However, in the engineering
5 section of the Amended Staff Report, it was noted that on February 27, 2007, the Company had
6 received from ADEQ a Notice of Violation ("NOV") which Staff notes is an "informal compliance
7 assurance tool" used by ADEQ to put the responsible party on notice that it believes a violation of an
8 environmental requirement has occurred. Staff indicated that of the seven noted deficiencies, five
9 would be resolved with the installation of the new storage tanks and of the remaining two
10 deficiencies, the first could be solved by filling in a sink hole by a Company well and the second
11 could be solved by caulking electrical wiring which penetrates the well seal.

12 42. According to Staff, in its initial Report, the Company has an approved curtailment
13 tariff on file with the Commission.

14 43. Staff is also recommending that the Commission order the following:

- 15 (a) that in addition to collection of its regular rates and charges, the Company
16 may collect from its customers a proportionate share of any privilege, sales, or
17 use tax as provided for in A.A.C. F14-2-409(D);
- 18 (b) that the Company file, within 30 days of the effective date of this Decision,
19 with the Commission's Docket Control, as a compliance item in this docket, a
20 schedule of its approved rates and charges;
- 21 (c) that the Commission administratively close Docket No. W-02056A-03-0490
22 and remove the appropriate area from the Company's service territory as
23 shown on the Commission's Certificate maps;
- 24 (d) that the Company be ordered to maintain separate revenues, expenses, and
25 rate bases for each of the Company's water systems and additionally provide
26 separate balance sheets for each water system, as a compliance item in this
27 docket, and file separate annual reports with the Commission;
- 28 (e) that the Company file a report annually, beginning in May 1, 2010, with the
Commission's Docket Control, as a compliance item in this docket, which
shows the amount paid monthly to the Yavapai County Treasurer's Office for
back taxes, for each of the previous 12 months, and accompanied by copies of
the cancelled checks;
- (f) that Thunderbird reclassify the loan amount of \$15,000 as paid-in-capital in
the equity section of its balance sheet;
- (g) that once the WIFA loan is approved, the Company file the appropriate loan
documentation, with the Commission's Docket Control, as a compliance item

1 in this docket. Staff will then apply the interest rate determined by WIFA to
2 calculate the actual surcharge. Staff will file its surcharge calculation within
3 30 days after the Company files the appropriate WIFA documentation. Staff
4 recommends that the Company be allowed to implement this surcharge on the
5 first day of the month following Staff's filing;

- 6 (h) that the Company deposit all surcharge revenues collected from customers
7 separately in an interest bearing bank account, and that the amounts collected
8 shall only be expended for debt service on system improvements;
- 9 (i) that the Company commence filing, one year from the effective date of this
10 Decision, with the Commission's Docket Control, as a compliance item in this
11 docket, annual reports with the Commission reflecting the surcharge amounts
12 collected and the amount expended by the Company and include any
13 remaining balance;
- 14 (j) that the Company should be evaluated from a global perspective to determine
15 system adequacy and efficiency. Staff further recommends that the Company
16 take immediate action to seek assistance from ADEQ through its system
17 evaluation program. Upon completion of the ADEQ system evaluation, Staff
18 further recommends that the Company immediately apply for a Technical
19 Assistance Grant from WIFA to assist in designing projects that will improve
20 system performance;
- 21 (k) that within 60 days of the effective date of the Decision in this matter the
22 Company address ADEQ NOV deficiencies numbered one and two and file,
23 with the Commission's Docket Control, as a compliance item in this docket,
24 documentation demonstrating that the improvements have been completed;
- 25 (l) that within 60 days of the effective date of the Decision in this matter, the
26 Company make all necessary corrections to ADWR registration records to
27 reflect ownership of all wells by the Company and file, with the
28 Commission's Docket Control, as a compliance item in this docket,
documentation demonstrating that such corrections have been made;
- (m) that the Company monitor its system and submit the gallons pumped and sold
to determine the non-account water for 1 full year. The results of this
monitoring and reporting shall be filed with the Commission's Docket
Control, as a compliance item in this docket, within 13 months of the effective
date of the Decision in this proceeding. If the reported water loss 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 it is not cost effective to reduce the 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 filed, with the Commission's Docket Control, as a compliance item in
this docket, within 13 months of the effective date of the Decision in this
proceeding;
- (n) that the Company be required to report its customer count by system in future
Annual Reports;
- (o) that the Company utilize the depreciation rates delineated in the Engineering
Report on a going-forward basis;
- (p) that by December 31, 2009, the Company complete the needed improvements
identified during Staff's site inspection and file, with the Commission's

1 Docket Control, as a compliance item in this docket, documentation
demonstrating that the improvements have been completed;

- 2 (q) that the Company install at a minimum 60,000 gallons of new storage capacity
3 in order to address the ADEQ NOV and to remedy the current maintenance
4 issues;
- 5 (r) that the Company file, by December 31, 2009, with the Commission's Docket
6 Control, as a compliance item in this docket, the ADEQ ATC for the plant
7 related to the Company's development of new storage capacity;
- 8 (s) that the Company file, by December 31, 2010, with the Commission's Docket
9 Control, as a compliance item in this docket, the ADEQ AOC for the plant
10 related to the Company's development of new storage capacity;
- 11 (t) that the Company file, within 60 days of the effective date of this Decision,
12 with the Commission's Docket Control, as a compliance item in this docket, a
signed Agreement that modifies the Agreement between WMCC and the
Company dated May 18, 1986. The May 28, 1986 Agreement should be
modified to include the "Bulk Water Sale Conditions" included in the letter
dated December 23, 2008, from Steve Wene (Attorney representing WMCC)
to Douglas G. Martin (Attorney representing the Company), and enumerate
the specific conditions which will increase the amount of water above 400,000
gallons WMCC will supply to the Company without an emergency condition.

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

21 45. Under the circumstances, after our review of the applications and the Staff Report, as
22 amended and supplemented, we believe that Staff's proposed rates are reasonable and, together with
23 Staff's additional recommendations, should be adopted. Further, based on the Company's history, its
24 failure to maintain its books and records in accordance with the NARUC USOA and its failure to pay
25 property taxes, we shall direct Staff to continue to monitor the conduct and operations of the
26 Company as a regulated public utility which provides water to its customers on its three separate
27 systems in Yavapai County. If Staff determines that the Company continues to fail to lawfully
28 discharge its duties as a public service corporation and fails to maintain its books and records in

1	<u>5/8" x 3/4" Meter and 3/4" Meter (Commercial)</u>	
	1 to 10,000 gallons	5.18
2	Over 10,000 gallons	6.20
3	<u>1" Meter (Commercial)</u>	
	1 - 25,000 gallons	5.18
4	Over 25,000 gallons	6.20
5	<u>1-1/2" Meter (Commercial)</u>	
	1 to 63,000 gallons	5.18
6	Over 63,000 gallons	6.20
7	<u>2" Meter (Commercial)</u>	
	1 to 109,000 gallons	5.18
8	Over 109,000 gallons	6.20
9	<u>3" Meter (Commercial)</u>	
	1 to 237,000 gallons	5.18
10	Over 237,000 gallons	6.20
11	<u>4" Meter (Commercial)</u>	
	1 to 381,000 gallons	5.18
12	Over 381,000 gallons	6.20
13	<u>6" Meter (Commercial)</u>	
	1 to 780,000 gallons	5.18
14	Over 780,000 gallons	6.20

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>	
16	5/8" x 3/4" Meter	\$ 385.00	\$ 135.00	\$ 520.00
17	3/4" Meter	385.00	215.00	600.00
	1" Meter	435.00	255.00	690.00
18	1-1/2" Meter	470.00	465.00	935.00
	2" Meter	630.00	965.00	1,595.00
19	3" Meter	805.00	1,470.00	2,275.00
	4" Meter	1,170.00	2,350.00	3,520.00
20	6" Meter	1,730.00	4,545.00	6,275.00

SERVICE CHARGES:

21	Establishment	\$ 30.00
22	Reconnection (Delinquent)	30.00
	Meter Test (If Correct)	35.00
23	Deposit	*
	Deposit Interest	*
24	Re-establishment (Within 12 Months)	**
	NSF Check	30.00
25	Deferred Payment (Per Month)	6.0%
	Meter Re-Read (If Correct)	15.00
26	Late Charge	***

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

27	4" or Smaller	****
28	6"	****

8"
10"
Larger than 10"

- * Per Commission Rule A.C.C. R14-2-403(B)
- ** Number of months off system times the monthly minimum per Commission Rule A.C.C. (R14-2-403.D)
- *** 1.5% of unpaid monthly balance.
- **** 1.0% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line

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

IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Thunderbird Meadows System shall notify its customers of the rates and charges authorized hereinabove and the effective date of same in a form approved by Staff by means of an insert in its next regular monthly billing which precedes the month in which they become effective.

IT IS FURTHER ORDERED that the rates and charges authorized hereinabove shall not go into effect until the first day of the month following the filing with the Commission's Docket Control, as a compliance item in this docket, a copy of the most recent receipt and/or cancelled check payable to the Yavapai County Treasurer's Office towards the Company's delinquent property taxes for Wilhoit Water Company, Inc.'s Thunderbird Meadows System and any other of its systems which operates in Yavapai County.

IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Thunderbird Meadows System shall comply with each of the recommendations appearing in Findings of Fact No. 43.

IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Thunderbird Meadows System shall maintain its books and records in compliance with the NARUC USOA.

IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Thunderbird Meadows System is authorized to issue long-term debt in an amount not to exceed \$145,877 for a term of 20 years at no greater rate of interest than prime plus two percent per annum for the construction of its storage tanks.

IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Thunderbird Meadows System is hereby authorized to engage in any transactions and to execute any documents necessary to

1 effectuate the authorization granted herein.

2 IT IS FURTHER ORDERED that such authority is expressly contingent upon Wilhoit Water
3 Company, Inc.'s Thunderbird Meadows System use of the proceeds for the purposes set forth in its
4 application.

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.'s Thunderbird Meadows
9 System shall file, within 60 days of obtaining such financing, with the Commission's Docket Control,
10 as a compliance item in this docket, copies of all executed financing documents setting forth the
11 terms of the financing.

12 IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Thunderbird Meadows
13 System's application for approval of long-term debt in the amount of \$15,000 in Docket No.
14 W-02605A-07-0306 is hereby denied.

15 IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Thunderbird Meadows
16 System shall file, within 60 days of the effective date of this Decision, with the Commission's Docket
17 Control, as a compliance item in this docket, a signed modification of its 1986 Agreement with
18 Walden Meadows Community Co-op to ensure a reliable back-up supply of water, and if the
19 Company is unable to secure said modification, it shall immediately file notice with the Commission
20 so that all necessary steps can be taken to alleviate the possibility of a shortage.

21 IT IS FURTHER ORDERED that Wilhoit Water Company Inc.'s Thunderbird Meadows
22 System is hereby authorized to incorporate an Infrastructure Surcharge Mechanism as set forth herein
23 and below.

24 IT IS FURTHER ORDERED that upon approval by WIFA of the long-term financing for
25 Wilhoit Water Company Inc.'s Thunderbird Meadows System and the Company's filing of the
26 appropriate WIFA loan documentation, Staff shall calculate the actual surcharge and file the
27 appropriate surcharge amount to be collected from customers according to their meter size within 30
28 days of the filing.

1 IT IS FURTHER ORDERED that surcharge rates shall not go into effect until the first day of
2 the month following Staff's filing and notice has been provided by Wilhoit Water Company, Inc.'s
3 Thunderbird Meadows system to its customers in a form approved by Staff.

4 IT IS FURTHER ORDERED that the Wilhoit Water Company Inc.'s Thunderbird Meadows
5 System shall deposit all surcharge revenues into a separate interest-bearing account and funds
6 expended from said account shall only be expended for debt service on system improvements.

7 IT IS FURTHER ORDERED that the Wilhoit Water Company Inc.'s Thunderbird Meadows
8 System shall commence filing, no later than 30 days after the first twelve months during which the
9 surcharge is collected, with the Commission's Docket Control, as a compliance item in this docket,
10 annual reports with the Commission reflecting the surcharge amounts collected, the amount expended
11 by the Company and the remaining balance.

12 IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Thunderbird Meadows
13 System shall annually file as part as its annual report, an affidavit with the Utilities Division attesting
14 that the Company is current in paying its property taxes in Arizona.

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

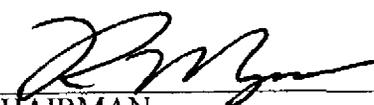
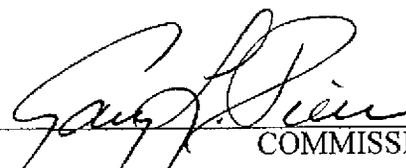
22 IT IS FURTHER ORDERED that Wilhoit Water Company, Inc.'s Thunderbird Meadows
23 System, in addition to the collection of its regular rates and charges, shall collect from its customers
24 their proportionate share any privilege, sales, or use as provided for in A.A.C. R14-2-409(D).

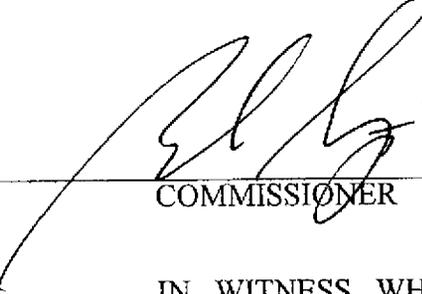
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28 ...

1 IT IS FURTHER ORDERED that the Hearing Division shall prepare a Recommended
2 Opinion and Order for further action by the Commission in Docket No. W-02056A-03-0490.

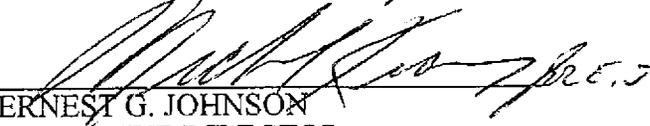
3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

5
6 
7 CHAIRMAN  COMMISSIONER

8
9  COMMISSIONER  COMMISSIONER  COMMISSIONER

11 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
12 Executive Director of the Arizona Corporation Commission,
13 have hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of
15 Phoenix, this 6th day of August, 2009.

16 
17 ERNEST G. JOHNSON
18 EXECUTIVE DIRECTOR

19 DISSENT _____

20 DISSENT _____
21 MES/db

1 SERVICE LIST FOR: WILHOIT WATER COMPANY, INC.,
2 THUNDERBIRD MEADOWS SYSTEM

3 DOCKET NOS.: W-02065A-07-0306, W-02065A-07-0307, W-02065A-
4 07-0312 and W-02065A-08-0138

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