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**Transcript Exhibit(s)**

**Docket #(s):** W-02031A-09-0285

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Arizona Corporation Commission

**DOCKETED**

SEP - 1 2009

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**Exhibit # :** 51

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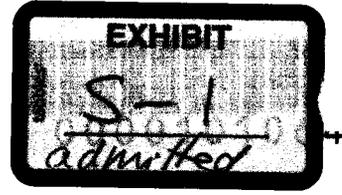


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AZ CORP COMMISSION  
DOCKET CONTROL

2009 SEP - 1 P 3:50

**RECEIVED**



28

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson  
Director  
*for* Utilities Division

DATE: July 24, 2009

RE: STAFF REPORT FOR INDIADA WATER COMPANY, INC.'S APPLICATION FOR AN EMERGENCY RATE INCREASE (DOCKET NO. W-02031A-09-0285)

Attached is the Staff Report for Indiada Water Company, Inc.'s ("Indiada" or "Company") application for an emergency rate increase. Staff recommends approval of the Company's request for an emergency rate increase using Staff's recommended rates, along with Staff's additional recommendations.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before August 3, 2009.

EGJ:DRE:tdp

Originator: Darak R. Eaddy

Attachment: Original and ten copies

Arizona Corporation Commission  
DOCKETED

JUL 24 2009

DOCKETED BY *M*

AZ CORP COMMISSION  
DOCKET CONTROL

2009 JUL 24 P 2:55

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Service List for: Indiada Water Company, Inc.  
Docket No. W-02031A-09-0285

Indiada Water Company, Inc.  
Ms. Bonnie O'Conner, Company Representative  
Post Office Box 385160  
Tucson, Arizona 85754

Ms. Janice Alward  
Chief, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**INDIADA WATER COMPANY, INC.**

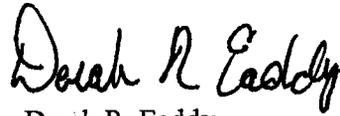
**DOCKET NO. W-02031A-09-0285**

**APPLICATION FOR AN  
EMERGENCY RATE INCREASE**

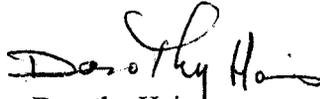
**JULY 24, 2009**

## STAFF ACKNOWLEDGMENT

The Staff Report for Indiada Water Company, Inc., Docket No. W-02031A-09-0285, was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis. Deb Reagan was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy  
Public Utilities Analyst II



Dorothy Hains  
Utilities Engineer



Deb Reagan  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY  
INDIADA WATER COMPANY, INC.  
APPLICATION FOR AN EMERGENCY RATE INCREASE  
DOCKET NO. W-02031A-09-0285**

Indiada Water Company ("Indiada" or "Company") is a Class E water utility located in Sierra Vista in Cochise County, Arizona. Indiada provides potable water to approximately 56 metered customers in its certificated area.

Indiada filed a request for an emergency rate increase on June 2, 2009. The Company stated in its emergency rate application that the Company's owner, Bob Watkins, no longer possessed the ability to fund the ailing water system. Consequently, Indiada anticipates that the Company will become insolvent, without emergency rate relief, as the Company has been unable to generate revenues sufficient to meet its operating expenses. The Company also stated that Indiada was in desperate need of additional storage and its owner lacked the funds to acquire it at this time. Finally, according to the Company, the water table in the area has dropped significantly and Indiada's only other water source is a temporary emergency interconnect established with Antelope Run Water Company ("ARWC"), another water system owned by Mr. Watkins. However, this is not a sustainable solution as ARWC is experiencing the same dire situation as Indiada. The current plan is to loop the water systems while upgrading the entire system resulting in a dependable water source for both systems.

Indiada's application requested an emergency rate increase be added to the Company's existing minimum charge. The emergency surcharge requested is \$23.30 per customer per month, which would result in a monthly minimum charge of \$38.30 per customer, an increase of 155.3 percent over the current minimum charge of \$15.00 per month. The Company's proposed rates would increase the typical residential bill<sup>1</sup> with 8,000 gallons of usage from \$39.50 to \$62.80, an increase of \$23.30 or 59.0 percent. The emergency rate increase would produce an additional \$1,305 per month in revenues.

Staff has recommended an emergency surcharge of \$7.83 be added to the Company's existing minimum charge. Staff's recommended emergency surcharge would result in a monthly minimum charge of \$22.83 per customer, an increase of 52.2 percent over the current minimum charge of \$15.00 per month. Staff's recommended rates would increase the typical residential bill<sup>2</sup> with 8,000 gallons of usage from \$39.50 to \$47.33, an increase of \$7.83 or 19.8 percent. The emergency rate increase would produce an additional \$439 per month in revenues.

Staff recommends approval of the emergency rate increase in the amount recommended by Staff. Staff also has made several other recommendations to address the long-term viability of the Company.

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<sup>1</sup> 5/8 x 3/4-inch meter.

<sup>2</sup> 5/8 x 3/4-inch meter.

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## **INTRODUCTION**

On June 2, 2009, Indiada Water Company, Inc. ("Indiada" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission"). On June 30, 2009, a Procedural Order was issued setting August 18, 2009, as the date for the hearing on the application.

Indiada has stated that the Company will become insolvent and/or run out of water without emergency rate relief. The Company is unable to generate sufficient funds to meet its operating expenses with its current rates, and the Company's owner Bob Watkins no longer has the ability to fund the Company's operations. The application states that the Watkins family has advanced Indiada a total of \$5,000 to fund operating shortfalls either directly or by funneling money via loans from its other companies. The Company has also accumulated an accounts payable balance of \$7,000.

In addition to operating shortfalls, Indiada stated the water table in the Company's area is dropping drastically and the Company's wells have consistently not been able to meet its customers' demands. The Company fears that its wells will run dry with the heat of the summer months. The situation is further exacerbated by the Company's inadequate storage for the system. The system's storage is old, outdated, and some of the storage is possibly unsafe due to constant bacteria problems. The system's only other water source is a temporary emergency interconnect established with Antelope Run Water Company ("ARWC"), another water system owned by Mr. Watkins. However, this is not a sustainable solution, according to the Company, as ARWC also is in need of many system-wide improvements.

## **BACKGROUND**

Indiada is an Arizona class E utility engaged in the business of providing potable water service. Indiada was granted a Certificate of Convenience and Necessity ("CC&N") to provide water service per Decision No. 38830, effective February 2, 1967.

The current rates have been in effect since May 1, 1985, per Decision No. 54500.

## **ENGINEERING ANALYSIS**

A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report (Attachment A).

### **Conclusions**

Arizona Department of Environmental Quality ("ADEQ") stated that it has determined the water system is not in compliance with ADEQ requirements because the Company failed to conduct lead and copper tests since 2005 and ADEQ can not determine if this system is

delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources ("ADWR") has determined that Indiada is currently not in compliance with departmental requirements governing water providers and/or community water systems.

Staff concludes that none of the emergency request items listed (see Attachment A) constitute as an emergency situation requiring immediate resolution. However, some form of the listed projects/ system improvements should eventually be completed to improve service.

### **Recommendations**

Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2009, a letter from ADEQ indicating that the Company is in compliance with ADEQ water quality requirements.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2009, documentation from ADWR indicating that the Company is in compliance with ADWR.

Staff recommends that the Company report accurate water usage data in its future Annual Reports beginning with its 2009 Annual Report to be filed in 2010.

### **COMPLIANCE**

The Utilities Division Compliance Section shows no outstanding compliance issues.

The Company is in good standing with the Corporations Division of the Commission.

### **CONSUMER SERVICES**

A review of the Consumer Services Section database from January 1, 2006 to June 17, 2009, revealed that there have been no complaints or opinions filed on Indiada.

### **FINANCIAL VIABILITY AND ABILITY TO MAINTAIN SERVICE**

In its emergency rate application, the Company has stated that because its owner, Bob Watkins, no longer has the ability to fund its operating shortfalls the Company is in danger of becoming insolvent and/or running out of water. Indiada's surcharge calculation methodology does not include any provision for funds to address a lack of well or storage capacity. Based on Staff's engineering analysis concluding that none of the Company's narrative items constituted an emergency situation requiring immediate resolution, Staff does not recommend any emergency surcharge to address the lack of well or storage capacity.

In its emergency rate application, Indiada included two items in calculating its requested emergency surcharge of \$23.30. The Company's emergency surcharge includes delinquent accounts payable in the amount of \$8,104<sup>3</sup>; and a provision for a 2009 projected net loss of \$7,554. Staff gave consideration to the appropriateness of each item in calculating a recommended emergency surcharge.

Staff agrees with the Company that an emergency situation exists from a financial standpoint. Based on the Company's emergency rate application, Staff believes an emergency exists in regards to the Company meeting its financial obligations and therefore maintaining its solvency, satisfying condition #2 of the situations necessary for an interim, emergency rate set forth in Attorney General Opinion No. 71 - 17. Because of the timing limitations inherent in emergency rate applications, Staff was unable to perform a full audit and based its determination on the Company's emergency rate application and other, readily available, sources.

Staff disagrees with the Company's request to include \$7,554 in delinquent accounts payable in calculating the Company's emergency surcharge. Staff notes that these delinquent accounts payable are for previous periods of service and to include them in calculating current rates would amount to retroactive ratemaking which is improper. The Company was provided rates in prior periods that were designed to provide for expenses and give Indiada a return on its investment. There is no guarantee on the amount or rate of return on a company's investment. Indiada's customers should not be required to provide a remedy or make the Company "whole" for management's lack of timely action or guidance.

Indiada is requesting that the emergency cover its projected 2009 net loss of \$7,554. Although Staff agrees with the Company that inclusion of operating results in calculating the emergency surcharge is appropriate, Staff's calculation differs from that of the Company. Staff's calculation only includes operating income and expenses and does not include "below the line" expenses such as interest expense. Staff typically utilizes operating income and not net income in calculating rates. Staff also believes it is more appropriate to calculate an emergency surcharge that provides for coverage of the Company's monthly loss of \$439 (the Company's monthly average of \$381 in operating loss plus \$58 per month for property taxes that was not included in that monthly operating loss) rather than the Company's projected 2009 net loss. Staff believes its recommended emergency surcharge is more reflective of Indiada's additional monthly financial requirements needed in order to continue to provide service.

Indiada has requested an emergency rate increase be added to the Company's existing minimum charge. The emergency surcharge requested is \$23.30 per customer per month, which would result in a monthly minimum charge of \$38.30 per customer, an increase of 155.3 percent over the current minimum charge of \$15.00 per month. Staff recommends an emergency surcharge of \$7.83 to be added to the Company's existing minimum charge. Staff's recommended emergency surcharge would result in a monthly minimum charge of \$22.83 per

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<sup>3</sup> In the Company's narrative section of its emergency rate application, delinquent accounts payable is listed at approximately \$7,000. In the Company's emergency surcharge calculation, delinquent accounts payable is listed at \$8,104.

customer, an increase of 52.5 percent over the current minimum charge of \$15.00 per month, as shown on Schedule DRE-1.

The Company's proposed rates would increase the typical residential bill<sup>4</sup> with 8,000 gallons of usage from \$39.50 to \$62.80, an increase of \$23.30 or 59.0 percent. The Company's requested emergency rate increase would produce an additional \$1,305 per month in revenues.

Staff's recommended rates would increase the typical residential bill<sup>5</sup> with 8,000 gallons of usage from \$39.50 to \$47.33, an increase of \$7.83 or 19.8 percent, as shown on Schedule DRE-1. Staff's recommended emergency surcharge would produce an additional \$439 per month in revenues, a sufficient amount to address the Company's operating shortfall.

Staff also recommends that the Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$5,000 to ensure that there is money available to refund to ratepayers if the Commission determines in the permanent rate case that the emergency surcharge was too large.

### **CONCLUSIONS**

The Company's current situation does constitute an emergency from a financial standpoint.

The Company should be granted emergency rate relief in the form of an emergency surcharge in order to meet its financial operating obligations.

### **STAFF RECOMMENDATIONS**

Staff recommends approval of an emergency rate increase sought by Indiada Water Company, Inc. utilizing Staff's recommended emergency surcharge of \$7.83.

Staff further recommends that the emergency surcharge be interim.

Staff further recommends that the interim rate be subject to refund pending the decision resulting from the permanent rate increase case required to be filed in this proceeding.

Staff further recommends that the Company be directed to file within 30 days of the Order, a revised rate schedule reflecting the emergency surcharge with Docket Control, as a compliance item in this docket.

<sup>4</sup> Includes both the 5/8 x 3/4-inch and 3/4-inch meter sizes.

<sup>5</sup> Includes both the 5/8 x 3/4-inch and 3/4-inch meter sizes.

Staff further recommends that the Company notify its customers of the revised rates, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.

Staff further recommends that the Company file a full rate application utilizing a 2009 test year no later than April 30, 2010.

Staff further recommends that if the Company believes it will need to incur debt in order to solve its water shortage problem, that it file a financing application concurrent with the rate application.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, documentary evidence that the Company has posted a bond or an irrevocable sight draft letter of credit in the amount of \$5,000, prior to implementing the emergency rate increase authorized in this proceeding.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2009, a letter from ADEQ indicating that the Company is in compliance with ADEQ water quality requirements.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2009, documentation from ADWR indicating that the Company is in compliance with ADWR.

Staff further recommends that the Company report accurate water usage data in its future Annual Reports beginning with its 2009 Annual Report to be filed in 2010.

**EMERGENCY MONTHLY SURCHARGE CALCULATION**

	<u>2009 Monthly Projection</u>	<u>Monthly Per Connection</u>
<b>Calculation of Surcharge</b>		
Total Operating Revenues	\$ 1,424	
Property Taxes - per month	58	
Operating Expenses	<u>1,805</u>	
Operating Income/ (Loss)	\$ (439)	
Current Customer Connections	<u>58</u>	
<b>Proposed Surcharge Amount</b>		<b>\$ 7.83</b>
<b>Current Rates:</b>		
Monthly Minimum (5/8" x 3/4")	\$ 15.00	
Commodity Rate	\$ 3.50	
Gallons (1,000 included in monthly minimum)	7,000	
Amount based on usage	<u>\$ 24.50</u>	
<b>Monthly Bill at Current Rates Based on 8,000 gallons of usage</b>		<b>\$ <u>39.50</u></b>
<b>Monthly Bill based on 8,000 gallons of Usage plus Proposed Surcharge Amount</b>		<b>\$ <u><u>47.33</u></u></b>

**MEMORANDUM**

**DATE:** June 24, 2008

**TO:** Darak Eaddy  
Public Utilities Analyst

**FROM:** Dorothy Hains, P. E. *DH*  
Utilities Engineer *bon*

**RE:** **Emergency Rate Increase Application for Indiada Water Co., Inc.**  
**(Docket No. W-02031A-09-0285)**

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**Introduction**

Indiada Water Co. ("Company" or "Indiada") is located near the City of Sierra Vista in Cochise County. The Company's service area contains approximately one quarter square mile in part of Section 35 (of Township 22 South and Range 20 East) and part of Section 2 (of Township 23 South and Range 20 East). As of December 2008, the Company was serving approximately 56 customers. On June 2, 2009, the Company filed for an Emergency Rate increase. The Company stated that its request for emergency rate relief is based on "the fears of running out of water."

**System Analysis**

According to the Company's 2008 Annual Report, the Company owns and operates three wells with a total production of 52 gallons per minute ("GPM"), a 12,000 gallon storage capacity and a booster pump station to run a 2,170 gallon pressure tank system. Based on the 2008 water usage data, the Company has adequate production and storage capacity to serve its existing and future growth customers. There is an existing interconnection structure between the Company and Antelope Run Water Company ("Antelope Run").

**Arizona Department of Environmental Quality ("ADEQ") Compliance****Indiada**

Staff received a memorandum from ADEQ dated March 4, 2009, in which ADEQ stated that it has determined the water system is not in compliance with ADEQ requirements because the Company failed to conduct lead and copper tests since 2005, therefore, ADEQ cannot determine if the Company is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by December 31, 2009, a letter from ADEQ indicating that the Company is in compliance with water quality requirements.

Antelope Run

Staff received a memorandum from ADEQ dated June 12, 2009, in which ADEQ stated that it has determined the water system is in compliance with ADEQ requirements and the Company is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

**Arizona Department of Water Resources ("ADWR") Compliance**

The Company is not located in any ADWR's Active Management Area ("AMA"). Staff received a memorandum dated June 9, 2009 from ADWR stating that ADWR has determined that Indiada is currently not in compliance with departmental requirements governing water providers and/or community water systems.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2009, documentation from ADWR indicating that the Company is in compliance with ADWR requirements.

**Arizona Corporation Commission ("ACC") Compliance**

A check of the ACC Compliance Section Compliance Database indicates that there are currently no delinquencies for Indiada.

**Costs**

The Company includes four projects, (1) interconnection with Antelope Run, (2) water plant improvements, (3) water line replacement and (4) electrical upgrades in this application. The Company has not provided any engineering analysis for any of these projects. Based on the Company's Water use Data Sheet, Staff does not believe there is an emergency from an engineering prospective.

If the emergency rate relief request is granted, the additional funding generated would be used to complete the water system repairs and upgrades listed in the table below:

#	Item Description	Amount (\$)
<b>1</b>	<b>Interconnection With Antelope Run</b>	
	To install 500 ft of 6-inch DIP (@ \$45/ft)	22,500
	To install two gate valves (@\$3,000/unit)	6,000
	<b>Subtotal</b>	<b>28,500</b>
	Administration & Legal Expenses (@2%)	570
	Engineering design cost	2,280
	Survey cost	570
	Construction inspection cost	997.50
	Contingency cost	6,583.5
	<b>Total</b>	<b>39,501</b>
<b>2</b>	<b>Water Plant Improvements</b>	
	To replace existing storage tanks by one 50,000 gallon steel storage tank (@ \$50,000/unit)	50,000
	To replace existing four pressure tank by one 3,000 gallon pressure tank (@ \$30,000/unit)	30,000
	To replace existing booster pump station by a 25-HP booster pump station (@ \$4,000/unit)	40,000
	To replace existing electrical @ booster pump station (@ \$50,000/unit)	50,000
	To install 150' of 6-inch DIP (@ \$45/ft)	6,750
	<b>subtotal</b>	<b>176,750</b>
	Administration & Legal Expenses (@2%)	3,535
	Engineering design cost	14,140
	Survey cost	3,535
	Construction inspection cost	6,186.25
	Contingency cost	40,829.25
	<b>Total</b>	<b>244,975.5</b>
<b>3</b>	<b>Water Line Replacement</b>	
	To install 1,000' of 6-inch PVC (@ \$45/ft)	45,000
	Administration & Legal Expenses (@2%)	900
	Engineering design cost	3,600
	Survey cost	900
	Construction inspection cost	1,575
	Contingency cost	10,395
	<b>Total</b>	<b>62,370</b>
<b>4</b>	<b>Electrical Upgrades</b>	
	To replace electrical parts at two well sites (@ \$15,000/unit)	30,000
	Administration & Legal Expenses (@2%)	600
	Engineering design cost	2,400
	Survey cost	600
	Construction inspection cost	1,050
	Contingency cost	6,930
	<b>Total</b>	<b>41,580</b>
	<b>Total</b>	<b>388,426.50</b>

Staff concludes that the estimated costs listed above are reasonable. However, no "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.

**Summary**

**Conclusions**

1. ADEQ has determined the water system is not in compliance with ADEQ requirements and cannot determine if the Company is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. A check of the ACC Compliance Section Compliance Database indicates that there are currently no delinquencies for Indiada.
3. ADWR has determined that Indiada is not in compliance with departmental requirements governing water providers and/or community water systems.
4. Staff concludes that the estimated costs listed above are reasonable. However, no "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.

**Recommendations**

1. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2009, a letter from ADEQ indicating that the Company is in compliance with water quality requirements.
2. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2009, documentation from ADWR indicating that the Company is in compliance with ADWR requirements.