

OPEN MEETING ITEM



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

ORIGINAL 

ARIZONA CORPORATION COMMISSION

DATE: FEBRUARY 11, 2010  
DOCKET NO.: W-20540A-09-0351

Arizona Corporation Commission  
**DOCKETED**  
FEB 11 2010

DOCKETED BY 

TO ALL PARTIES:

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

VERNON VALLEY WATER, INC.  
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and 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:

FEBRUARY 22, 2010

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:

MARCH 2, 2010 AND MARCH 3, 2010

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.

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AZ CORP COMMISSION  
DOCKET CONTROL

  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 KRISTIN K. MAYES - Chairman  
4 GARY PIERCE  
5 PAUL NEWMAN  
6 SANDRA D. KENNEDY  
7 BOB STUMP

8 IN THE MATTER OF THE APPLICATION  
9 OF VERNON VALLEY WATER, INC. FOR  
10 APPROVAL OF A RATE INCREASE.

DOCKET NO. W-20540A-09-0351

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

11 ORDER

12 Open Meeting  
13 March 2 and 3, 2010  
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 On July 9, 2009, Vernon Valley Water, Inc. ("Vernon Valley," "Company" or "Applicant")  
17 filed with the Arizona Corporation Commission ("Commission") an application for an increase in its  
18 permanent rates and charges. Concurrently with its application, the Company filed certification that  
19 it had provided public notice of its rate application to its customers. In response thereto, the  
20 Commission has not received any protests of the proposed increase.

21 On August 7, 2009, the Commission's Utilities Division ("Staff") issued a Notice of  
22 Insufficiency pursuant to A.A.C. R14-2-103.

23 On October 6, 2009, Staff issued a Notice of Sufficiency indicating that the Company's rate  
24 application was sufficient, and classified the Company as a Class E utility.

25 On January 29, 2010, Staff filed its report recommending approval of its proposed rates and  
26 charges.

27 On February 2, 2010, by Procedural Order, pursuant to A.A.C. R14-2-103, the timeframe in  
28 this proceeding was suspended due to delays in the processing of the company's application due to  
slow responses to Staff's data requests by the Applicant.

\* \* \* \* \*

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

3 **FINDINGS OF FACT**

4 1. Pursuant to authority granted by the Commission in Decision No. 69963 (October 30,  
 5 2007), Applicant is an Arizona corporation engaged in the business of providing water service to 19  
 6 metered residential customers approximately 18 miles east of Show Low, Apache County, Arizona.<sup>1</sup>

7 2. Applicant's present rates and charges for water service were approved in Decision No.  
 8 55145 (August 7, 1986).

9 3. On July 9, 2009, the Company filed an application requesting authority to increase its  
 10 rates and charges for water service.

11 4. The Company is seeking an increase in its rates and charges pursuant to the  
 12 Commission's order in Decision No. 69963, which ordered the Company to file, by June 30, 2009, a  
 13 permanent rate case using a 2008 test year ("TY") if its 2008 annual Report showed an operating  
 14 loss.

15 5. With its application, the Company filed proof of mailing on July 1, 2009, that it had  
 16 provided public notice of its application for a permanent rate increase to its customers.

17 6. On January 29, 2010, Staff, after conducting an investigation of Applicant's proposed  
 18 rates and charges for water service, filed its Staff Report on the Company's rate application and  
 19 recommended that the Commission approve Staff's recommended rates and charges.

20 7. During the TY ending December 31, 2008, Applicant served 19 customers, all of  
 21 whom are residential users that are served by 5/8-inch x 3/4-inch meters.

22 8. Average and median water usage by the Company's customers during the TY was  
 23 5,862 gallons and 3,958 gallons per month, respectively.

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

26 \_\_\_\_\_  
 27 <sup>1</sup> In Decision No. 69963, the Commission approved the sale of assets and transfer of the Certificate of  
 28 Convenience and Necessity ("Certificate") from Mark Grapp dba Serviceberry Water Company to Vernon Valley, which  
 is controlled by Mr. Grapp. He also controls, three other public water systems in the area as follows: Watco, Inc., Cedar  
 Grove Water Company, Inc., and A. Peterson Water Company.

	<u>Present Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
<b>1</b> <u>MONTHLY USAGE CHARGE:</u>			
<b>2</b> 5/8" x 3/4" Meter	\$ 25.00	\$ 25.00	\$ 24.00
3/4" Meter	30.00	30.00	36.00
<b>3</b> 1" Meter	45.00	45.00	60.00
1-1/2" Meter	60.00	60.00	120.00
<b>4</b> 2" Meter	80.00	120.00	192.00
3" Meter	NT	250.00	384.00
<b>5</b> 4" Meter	NT	400.00	600.00
6" Meter	NT	900.00	1,200.00
<b>6</b>			
Gallons in the Minimum	1,000	0	0
<b>7</b> <u>Present rates 5/8 x 3/4-inch Meter</u>			
Over 1,000 gallons (per 1,000 gallons)	\$3.00		
<b>8</b> <u>Company Proposed – All sizes</u>			
All Meter Sizes (per 1,000 gallons)		\$3.00	
<b>9</b> <u>Staff Recommended – All Sizes</u>			
0 – 4,000 gallons			\$3.00
4,001 – 10,000 gallons			4.55
<b>11</b> Over 10,000 gallons			6.20

**12** SERVICE LINE AND METER INSTALLATION CHARGES:  
**13** (Refundable Pursuant to A.A.C. R14-2-405)

	<u>Company</u>		<u>Service Line Charge</u>	<u>Staff Recommended</u>	
	<u>Present</u>	<u>Proposed</u>		<u>Meter*</u>	<u>Total</u>
<b>14</b> 5/8" x 3/4" Meter	\$150.00	NT <sup>2</sup>	NT	NT	NT
<b>15</b> 3/4" Meter	175.00	\$ 320.00	\$ 230.00	\$ 90.00	\$ 320.00
<b>16</b> 1" Meter	200.00	370.00	230.00	140.00	370.00
1-1/2" Meter	450.00	545.00	280.00	265.00	545.00
<b>17</b> 2" Meter	650.00	750.00	330.00	420.00	750.00
3" Meter	NT	980.00	380.00	600.00	980.00
<b>18</b> 4" Meter	NT	1,820.00	650.00	1,170.00	1,820.00
<b>19</b> 6" Meter	NT	3,920.00	1,200.00	2,720.00	3,920.00

**20** \* Note: Meter charge includes meter box or vault.

NT = No Tariff

**21** <sup>2</sup> The Company has proposed to reduce its 5/8" x 3/4" meter charge to \$0.00. The Company has told Staff that it would prefer not to charge for the 5/8" meter because the administrative cost of refunding outweighs any benefit especially for the standard meter.

	<u>Current Charges</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
<b>23</b> <u>SERVICE CHARGES:</u>			
Establishment	\$ 15.00	\$ 25.00	\$ 25.00
<b>24</b> Establishment (After Hours)	35.00	40.00	40.00
Reconnection (Delinquent)	15.00	25.00	25.00
<b>25</b> Reconnection (Delinquent) (After Hours)	NT	40.00	40.00
Meter Test (If Correct)	50.00	40.00	25.00
<b>26</b> Deposit	*	R14-2-403(B)	*
Deposit Interest	6%	R14-2-403(B)	**
<b>27</b> Re-establishment (Within 12 Months)	**	R14-2-403(B)	***
<b>28</b> NSF Check	\$ 10.00	\$ 30.00	\$ 25.00

1	Deferred Payment	NT	1.50%	1.50%
	Meter Re-Read (If Correct)	\$ 10.00	\$ 25.00	\$ 15.00
2	Late Payment Charge (Per Month)	NT	1.50%	1.50%

3 **MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:**

4	4" or Smaller	\$0.00	\$0.00	****
	6"	0.00	0.00	****
	8"	0.00	0.00	****
5	10"	0.00	0.00	****
6	Larger than 10"	0.00	0.00	****

7 \* Per Commission Rule A.A.C. R14-2-403(B)(7).

8 \*\* Per Commission Rule A.A.C. R14-2-403(B)(3).

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

10 \*\*\*\* 2.00% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct for the primary water service line.

11 10. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined  
12 to be \$22,480 which is the same as its original cost rate base. Staff's adjustment to the Company's  
13 proposed FVRB resulted primarily from a \$30,199 reduction to plant in service due to unsupported  
14 plant values because of insufficient records for the Company.

15 11. Staff decreased Applicant's TY operating expenses by \$5,972 primarily in two  
16 categories. First, Staff decreased salaries and wage expense by a \$4,874 adjustment to accurately  
17 reflect TY expenses for the Company using the National Association of Regulatory Utility  
18 Commissioners ("NARUC") Guidelines for Cost Allocations ("GCA"). Staff, in making this  
19 adjustment, utilized the following four equally weighted factors: direct labor hours of employees;  
20 direct operating expenses; number of customers; and net plant. Second, Staff significantly reduced  
21 depreciation expense by \$1,564 after applying Staff's recommended depreciation rates to Staff's  
22 recommended plant balances as set forth in Table H-1 to the Engineering Report attached and  
23 incorporated within the Staff Report.

24 12. Applicant's present water rates and charges produce operating revenue of \$8,490 and  
25 adjusted operating expenses of \$8,280, which resulted in operating income of \$210 or a 0.93 percent  
26 rate of return on FVRB.

27 13. The water rates and charges proposed by the Company would produce operating  
28 revenue of \$9,174 and adjusted operating expenses of \$8,280 resulting in net operating income of

1 \$894 or a 3.97 percent rate of return on FVRB.

2 14. The water rates and charges recommended by Staff would produce adjusted operating  
3 revenues of \$10,317 and adjusted operating expenses of \$8,280 resulting in net operating income of  
4 \$2,037 or a 9.06 percent rate of return on FVRB.

5 15. Staff is recommending an increase in the Company's operating revenue which is  
6 slightly higher than that requested by the Company. However, a median user will see a lower bill  
7 than if the Company's proposed rates are adopted if the rates and the revenues recommended by Staff  
8 are approved and they should provide the Company with sufficient funds for its ongoing operations  
9 and obligations.

10 16. Staff is recommending an increase in revenues of \$1,827, or approximately a 21.5  
11 percent, over TY revenues of \$8,490.

12 17. The Company's proposed rates would increase the average monthly metered customer  
13 water bill by \$3.00 or 7.6 percent, from \$39.59 to \$42.59, and increase the median monthly metered  
14 customer water bill by \$3.00 or 8.9 percent, from \$33.88 to \$36.88.

15 18. Staff's recommended rates would increase the average monthly metered customer  
16 water bill by \$4.88 or 12.3 percent, from \$39.59 to \$44.47, and increase the median monthly metered  
17 customer water bill by \$2.00 or 5.9 percent, from \$33.88 to \$35.88.

18 19. According to the Staff Report, the Applicant is in compliance with prior Commission  
19 Orders and is in good standing with the Commission. Applicant is also current on the payment of its  
20 sales and property taxes.

21 20. The Company is in compliance with the requirements of the Arizona Department of  
22 Environmental Quality ("ADEQ") and is providing water which meets the requirements of the Safe  
23 Drinking Water Act.

24 21. The Commission has previously approved the Company's Curtailment Tariff and Staff  
25 is recommending that the Company file a Cross-Connection Backflow Prevention Tariff in a form  
26 consistent with that found on the Commission's website within 45 days of the effective date of this  
27 Decision for review and approval by Staff.

28 22. Besides recommending approval of its recommended rates and charges, Staff is also

1 recommending that the Commission order the following:

- 2 • that the Company file, within 30 days of the effective date of this Decision, with  
3 the Commission's Docket Control, as a compliance item in this docket, a schedule  
4 of its approved rates and charges;
- 5 • that Applicant notify its customers of the water rates and charges approved  
6 hereinafter and their effective date by means of an insert in its next monthly billing  
7 and file a copy of the notice sent to its customers with the Commission's Docket  
8 Control as a compliance item in this docket;
- 9 • that Applicant, in addition to the collection of its regular rates and charges, collect  
10 from its customers their proportionate share of any privilege, sales, or use tax as  
11 provided for in A.A.C. R14-2-409(D);
- 12 • that the Company adopt the depreciation rates delineated by Staff in Table H-1 of  
13 the Engineering Report attached to the Staff Report on a going-forward basis;
- 14 • that the Company maintain its books and records in accordance with the NARUC  
15 Uniform System of Accounts;
- 16 • that the Company file, within 90 days of the effective date of this Decision, with  
17 the Commission's Docket Control, as a compliance item in this docket,  
18 documentation demonstrating that the Company has installed a master meter on its  
19 well;
- 20 • that the Company report its water pumped by month in its future Annual Reports  
21 which are filed with the Commission;
- 22 • that if the water loss is greater than 10 percent in any 12-month period within 90  
23 days after the Annual Report is filed, the Company file with the Commission's  
24 Docket Control, as a compliance item in this docket, a detailed plan demonstrating  
25 how the Company will reduce its water loss to less than 10 percent. If the  
26 Company finds that reduction of water loss to less than 10 percent is not cost-  
27 effective, the Company should submit a detailed cost analysis and explanation  
28 demonstrating why water loss reduction to less than 10 percent is not cost-  
effective. In any event, water loss shall not exceed 15 percent. The Company  
shall file, within 90 days after the Annual Report is filed, the cost analysis report  
with the Commission's Docket Control, as a compliance item in this docket;
- that the Company file, within 45 days of the effective date of this Decision, with  
the Commission's Docket Control, as a compliance item in this docket, a Cross-  
Connection Backflow Tariff in the form found on the Commission's website at  
<http://www.azcc.gov/Divisions/Utilities/forms/CrossConnectionBackflow.pdf>  
for review and approval by Staff; and
- that the Company file, within 45 days of the effective date of this Decision, with  
the Commission's Docket Control, as a compliance item in this docket,  
documentation that the Company has installed or updated an "information" sign at  
the facility site. The sign should comply with ADEQ requirements and should  
include the following information: system name, system PWS ID and emergency  
contact phone numbers.

23. Because an allowance for the property tax expense of Applicant is included in the  
Company's rates and will be collected from its customers, the Commission seeks assurances from the

1 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing  
 2 authority. It has come to the Commission's attention that a number of water companies have been  
 3 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,  
 4 some for as many as twenty years. It is reasonable, therefore, that as a preventive measure the  
 5 Company shall annually file, as part of its annual report, an affidavit with the Utilities Division  
 6 attesting that the company is current in paying its property taxes in Arizona.

7 24. Based upon our review of the application and the Staff Report, we find that Staff's  
 8 proposed rates are reasonable and together with its additional recommendations should be adopted.

### 9 CONCLUSIONS OF LAW

10 1. Applicant is a public service corporation within the meaning of Article XV of the  
 11 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

12 2. The Commission has jurisdiction over Applicant and of the subject matter of the  
 13 Application.

14 3. Notice of the Application was provided in the manner prescribed by law.

15 4. The rates and charges proposed by Staff and authorized hereinafter are just and  
 16 reasonable.

17 5. Staff's recommendations as set forth in Findings of Fact No. 22 are reasonable and  
 18 should be adopted.

### 19 ORDER

20 IT IS THEREFORE ORDERED that Vernon Valley Water, Inc., file, on or before April 1,  
 21 2010, a revised rate schedule setting forth the following rates and charges:

#### 22 MONTHLY USAGE CHARGE:

23	5/8" x 3/4" Meter	\$ 24.00
24	3/4" Meter	36.00
	1" Meter	60.00
25	1-1/2" Meter	120.00
	2" Meter	192.00
26	3" Meter	384.00
	4" Meter	600.00
27	6" Meter	1,200.00

**GALLONAGE CHARGES:**

(Per 1,000 Gallons)

0 - 4,000 gallons	\$ 3.00
4,001 - 10,000 gallons	4.55
Over 10,000 gallons	6.20

**SERVICE LINE AND METER INSTALLATION CHARGES:**

(Refundable Pursuant to A.A.C. R14-12-405)

	<u>Service Line</u> <u>Charge</u>	<u>Meter *</u> <u>Installation</u>	<u>Total</u>
3/4" Meter	\$ 230.00	\$ 90.00	\$ 320.00
1" Meter	230.00	140.00	370.00
1-1/2" Meter	280.00	265.00	545.00
2" Meter	330.00	420.00	750.00
3" Meter	380.00	600.00	980.00
4" Meter	650.00	1,170.00	1,820.00
6" Meter	1,200.00	2,720.00	3,920.00

\* Note: Meter charge includes meter box or vault.

**SERVICE CHARGES:**

Establishment	\$ 25.00
Establishment (After Hours)	40.00
Reconnection (Delinquent)	25.00
Reconnection (Delinquent) (After Hours)	40.00
Meter Test (If Correct)	25.00
Deposit	*
Deposit Interest	**
Re-establishment (Within 12 months)	***
NSF Check	\$ 25.00
Deferred Payment	1.50%
Meter Re-Read (If Correct)	\$ 15.00
Late Payment Charge (Per Month)	1.50%

**MONTHLY CHARGE FOR FIRE SPRINKLERS:**

4" or Smaller	****
6"	****
8"	****
10"	****
Larger than 10"	****

\* Per Commission Rule A.A.C. R14-2-403(B)(7).

\*\* Per Commission Rule A.A.C. R14-2-403(B)(3).

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

\*\*\*\* 2.00% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct for the primary water service line.

IT IS FURTHER ORDERED that Vernon Valley Water, Inc. shall notify its customers of the water rates and charges approved herein, and their effective date, by means of an insert in its next

1 monthly billing and file a copy of the notice when sent to its customers with the Commission's  
2 Docket Control as a compliance item in this docket.

3 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all  
4 services provided on and after April 1, 2010.

5 IT IS FURTHER ORDERED that Vernon Valley Water, Inc. is hereby directed to comply  
6 with Staff's recommendations as set forth in Findings of Fact No. 22.

7 IT IS FURTHER ORDERED that Vernon Valley Water, Inc., in addition to the collection of  
8 its regular rates and charges, shall collect from its customers their proportionate share of any  
9 privilege, sale, or use tax as provided in A.A.C. R14-2-409(D).

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1 IT IS FURTHER ORDERED that Vernon Valley Water, Inc. shall annually file, as part of its  
2 Annual Report, an affidavit with the Utilities Division attesting that the Company is current in paying  
3 its property taxes in Arizona.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.  
6  
7

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

9  
10 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 Phoenix,  
15 this \_\_\_\_\_ day of \_\_\_\_\_, 2010.

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

19 DISSENT \_\_\_\_\_

20  
21 DISSENT \_\_\_\_\_  
22 MES:db

1 SERVICE LIST FOR: VERNON VALLEY WATER, INC.

2 DOCKET NO.: W-20540A-09-0351

3

4 Mark Grapp  
4 VERNON VALLEY WATER, INC.  
5 P.O. Box 1270  
5 Show Low, AZ 85902

6 Janice Alward, Chief Counsel  
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8 Phoenix, AZ 85007

9 Steve Olea, Director  
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