

ORIGINAL

OPEN MEETING ITEM



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



ARIZONA CORPORATION COMMISSION

DATE: NOVEMBER 6, 2009
DOCKET NOS: W-03067A-08-0266 and W-03067A-08-0380
TO ALL PARTIES:

Arizona Corporation Commission
DOCKETED
NOV - 6 2009

DOCKETED BY

Enclosed please find the recommendation of Administrative Law Judge Dwight Nodes. The recommendation has been filed in the form of an Opinion and Order on:

BEAVER DAM WATER COMPANY, INC.
(RATES/FINANCE)

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

NOVEMBER 12, 2009
Company has waived the 10 days for filing of exceptions

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

NOVEMBER 19, 2009 and NOVEMBER 20, 2009

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF
BEAVER DAM WATER COMPANY, INC. FOR
FINANCING AUTHORIZATION.

DOCKET NO. W-03067A-08-0266

IN THE MATTER OF THE APPLICATION OF
BEAVER DAM WATER COMPANY, INC. FOR A
RATE INCREASE.

DOCKET NO. W-03067A-08-0380

DECISION NO. _____

OPINION AND ORDER

DATE OF HEARING: April 27, 2009
PLACE OF HEARING: Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes
APPEARANCES: Mr. Bob Frisby, on behalf of Beaver Dam Water Company, Inc.; and
Ms. Robin Mitchell, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

Procedural History

On May 27, 2008, Beaver Dam Water Company, Inc. ("Beaver Dam" or "Company") filed with the Arizona Corporation Commission ("Commission") an application in Docket No. W-03067A-08-0266 for authorization to obtain a loan from the Water Infrastructure Finance Authority ("WIFA") in the amount of \$104,284, for the purpose of constructing water storage improvements ("Finance Case").

On July 23, 2008, the Company filed an application for a rate increase in Docket No. W-03067A-08-0380 ("Rate Case").

By Procedural Order issued September 5, 2008, the Rate and Finance Cases were

1 consolidated.

2 On November 21, 2008, the Commission's Utilities Division Staff ("Staff") filed a Letter of
3 Sufficiency stating that the Company was classified as a Class D utility.

4 On January 12, 2009, Staff issued a Revised Letter of Sufficiency that superseded the Letter
5 of Sufficiency filed on November 21, 2008. Staff's Letter of Sufficiency stated that Beaver Dam's
6 rate application met the sufficiency requirements as outlined in A.A.C. R14-2-103, but that Beaver
7 Dam had been reclassified as a Class C utility.

8 On January 20, 2009, Beaver Dam filed a Response to Staff's reclassification of the Company
9 stating, among other things, that Beaver Dam sought a waiver of the Class C filing requirements and
10 the Company needs a Decision prior to the date indicated in the Revised Letter of Sufficiency in
11 order to obtain the WIFA loan needed to construct a water storage tank.

12 On January 23, 2009, a Procedural Order was issued scheduling the consolidated dockets for
13 hearing on April 27, 2009, and directing the Company to publish notice and mail notice of the
14 hearing to each of its customers.

15 On March 18, 2009, Motions to Intervene were filed by Patricia and Gene Litton, Mr. and
16 Mrs. Earl Cassey, Dale and Marge Ruby, and "Lewis & Ramona." On March 20, 2009, and again on
17 March 24, 2009, Donald T. Schreck filed a Motion to Intervene. In addition, a number of public
18 comments were received by the Commission's Consumer Services Division opposing the requested
19 rate increase.

20 On April 7, 2009, Staff filed its Staff Report recommending that new rates be approved for
21 Beaver Dam, and that the requested financing application be approved subject to certain conditions.

22 On April 13, 2009, the Company's manager, Bob Frisby, filed a letter requesting an extension
23 of 10 days, from April 17, 2009 to April 24, 2009, to file its response to the Staff Report.

24 On April 15, 2009, Staff filed a Response to Request for Extension, stating that Staff did not
25 object to an extension for the Company's response to the Staff Report.

26 On April 16, 2009, a teleconference was conducted with Staff and Mr. Frisby to discuss the
27 proposed extension of time.

28 On April 16, 2009, a Procedural Order was issued granting Beaver Dam's requested extension

1 of time to file its response to the Staff Report and granting the intervention requests of Patricia and
2 Gene Litton, Mr. and Mrs. Earl Cassey, Dale and Marge Ruby, Donald Schreck and "Lewis &
3 Ramona."

4 On April 16, 2009, the Company filed information and documentation in response to the Staff
5 Report (Ex. A-1).

6 On April 22, 2009, Beaver Dam filed additional information and schedules in support of the
7 Company's application (Ex. A-2).

8 On April 27, 2009, the hearing in this matter was held as scheduled. At the hearing, Mr.
9 Frisby appeared on behalf of Beaver Dam and Staff appeared through counsel.

10 At the conclusion of the hearing, Staff and the Company were directed to file late-filed
11 exhibits related to equipment leases and typical bill comparisons.

12 On May 11, 2009, Staff filed an Amended Staff Report addressing the equipment lease issue,
13 as well as a revised revenue requirement and rate recommendation¹.

14 * * * * *

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

17 **FINDINGS OF FACT**

18 **Background**

19 1. On July 23, 2008, Beaver Dam filed an application to increase its rates and charges for
20 water utility service provided to customers within its service area. Beaver Dam serves approximately
21 443 total customers in an area of Mohave County, Arizona.

22 2. The majority of Beaver Dam's customers are residential, 258 of whom are served by
23 5/8-inch x 3/4-inch meters. Another 178 residential lots receive water service from Beaver Dam
24 through a 6-inch meter under a master meter arrangement with the Beaver Dam Homeowners
25 Association ("HOA"), whereby the HOA includes a fee for water service in its assessments to lot
26

27 ¹ We will admit the late-filed Amended Staff Report as Exhibit S-3 based on Staff's representation therein that Beaver
28 Dam does not oppose approval of the revenue requirement and rates contained in the Amended Staff Report. (See, Ex. S-3, at 5.)

1 owners.

2 3. The Beaver Dam service area is comprised of three systems, each of which currently
3 have separate rate structures. Beaver Dam's original Certificate of Convenience and Necessity
4 ("CC&N") was granted to Mr. Frisby dba Beaver Dam Water Company in Decision No. 55788
5 (November 13, 1987). In that Decision, Mr. Frisby was described as the developer of the Beaver
6 Dam Resort, located on approximately 130 acres in an area four miles east of Littlefield, Arizona.
7 The Decision indicated that the Resort was expected to include a 32-room Beaver Dam Lodge, 206
8 trailer lots, and 66 twin home cottages. (*Id.* at 2.) The original rates established in 1987 in Decision
9 No. 55788 remain in effect today for the bulk of Beaver Dam's customers. Those rates include a
10 minimum monthly fee of \$15.00 per month plus \$1.50 per 1,000 gallons of usage for 5/8-inch x 3/4-
11 inch customers. For customers within the HOA, the rate is \$15.00 times the number of homeowners
12 plus \$1.50 per 1,000 gallons of usage. (*Id.* at 6.)

13 4. In Decision No. 64662 (March 25, 2002), an application filed by Beaver Dam to
14 extend its CC&N was approved by the Commission. Pursuant to that Decision, the Company was
15 authorized to provide water service to a new 45-parcel subdivision, and to acquire approximately 25
16 customers from the Virgin Valley Water District ("District"), a Nevada entity that was supplying
17 water service to an area that straddled the Nevada/Arizona state border². In approving the CC&N
18 extension, the Commission determined that the rates for customers previously served by the District
19 should be held at the levels charged by the District until Beaver Dam's next rate case filing. The
20 rates for Beaver Dam's former District customers are currently \$13.30 per month, plus an inverted
21 four-tier commodity structure that charges \$1.20 per gallon for the first 25,000 gallons per month for
22 5/8-inch x 3/4-inch meter customers. (*Id.* at 4.)

23 5. The third rate group consists of approximately 22 customers that were acquired by
24 Beaver Dam in 2005 from the former Littlefield Water Company ("Littlefield"). In Decision No.
25 67577 (February 15, 2005), Beaver Dam was granted authority to extend its CC&N and to acquire
26 Littlefield's assets and CC&N. Pursuant to that Decision, the former Littlefield customers are

27 _____
28 ² The customers served by the District were originally customers of the Mesquite Farmstead Water Association
("Mesquite"), which was certificated in Decision No. 56317 (January 12, 1989). Mesquite was dissolved, and its assets
and liabilities transferred to the District, on July 1, 1993. (*See*, Decision No. 63662, at 5.)

1 charged the same rates previously in effect which, for 5/8-inch x 3/4-inch residential customers,
 2 consist of a monthly minimum charge of \$17.00, with the first 4,000 gallons included, and \$1.50 per
 3 1,000 gallons in excess of the first 4,000 gallons. (See, Decision No. 67577, at 7.)³ Decision No.
 4 67577 also authorized Beaver Dam to incur long-term indebtedness in an amount not to exceed
 5 \$170,703. (*Id.* at 15.)

6 Revenue Requirement

7 6. For the test year ending December 31, 2007, Beaver Dam originally sought a gross
 8 revenue increase of \$288,577 (136 percent over test year gross revenue of \$211,595). According to
 9 the Company's application, it experienced an operating loss of \$189,093 during the test year based on
 10 an adjusted Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB") of \$957,636, for
 11 a negative 19.75 percent rate of return. In its Amended Staff Report, Staff recommends a gross
 12 revenue increase of \$136,043 (59.4 percent over test year gross revenue of \$229,086). Staff's
 13 schedules show that Beaver Dam experienced an operating loss of \$75,470 during the test year based
 14 on an OCRB and FVRB of \$258,030, for a negative 29.25 percent rate of return. Staff stated that the
 15 Company is in agreement with the recommendations in the Amended Staff Report. (Ex. S-3, at 5.)

16 Rate Base and Plant in Service Adjustments

17 7. In the Staff Report, Staff stated that its audit revealed that Beaver Dam does not
 18 maintain adequate records and could not produce supporting documentation for its plant additions⁴.
 19 Staff also indicated that Beaver Dam's current recordkeeping is not in compliance with the National
 20 Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts
 21 ("USOA") and Staff recommends that the Company be ordered to maintain compliance with the
 22 NARUC USOA. (Ex. S-3, at 4, 11.)

23 8. Staff made a number of adjustments to Beaver Dam's plant in service, resulting in a
 24 net decrease of \$34,199 to the Company's proposal. The following adjustments were made by Staff
 25 to arrive at its recommendation: removal of \$210,254 from the distribution reservoirs and standpipes
 26

27 ³ The rates currently in effect for the former Littlefield customers were established in Littlefield's original CC&N docket
 pursuant to Decision No. 47690 (December 9, 1976).

28 ⁴ According to Staff, the Company claimed to have lost its records for the period 1987 through 2001 during the Beaver
 Dam Wash flood in 2005.

1 account; reclassification of \$75,551 from operating expenses to plant; removal of \$40,854 from
 2 construction work in progress and reclassification to transmission and distribution mains account;
 3 \$6,590 addition to the plant account for unrecorded plant assets; addition of \$162,312 for plant
 4 erroneously removed for 2005 and 2006; and a \$6,357 increase for accumulated amortization of
 5 contributions in aid of construction ("CIAC"). (*Id.* at 6.)

6 9. Staff made additional reductions to Beaver Dam's proposed rate base as follows: a
 7 decrease to rate base of \$654,491 to reflect the Company's end-of-test-year Advances in Aid of
 8 Construction ("AIAC") balance; a decrease of \$47,433 to reflect the Company's end-of-test-year
 9 customer deposit balance; decrease of \$7,094 for accumulated depreciation; and removal of a
 10 proposed \$45,332 working capital allowance. (*Id.* at 7.)

11 10. We find Staff's recommended adjustments to be reasonable, and we therefore adopt an
 12 adjusted OCRB and FVRB of \$258,030 for Beaver Dam in this proceeding.

13 Operating Income

14 Operating Revenue

15 11. Staff increased Beaver Dam's unmetered water revenue by \$17,491 to reflect
 16 normalization of such revenues for the years 2005 through 2007⁵. (*Id.*) This adjustment results in
 17 adjusted test year operating revenues for the Company of \$229,086, which we find to be reasonable
 18 for purposes of this case.

19 Operating Expenses

20 12. Staff made a number of adjustments to Beaver Dam's operating expenses, resulting in
 21 a net decrease of \$96,133 to the Company's proposal. The following adjustments were made by Staff
 22 to arrive at its recommendation: a decrease to repair and maintenance expense of \$41,679 to
 23 reclassify engineering services costs to electrical equipment; a decrease to outside services expense of
 24 \$18,208 to reclassify engineering services costs to wells and springs; removal of \$26,234 in water
 25

26 ⁵ At the hearing, Mr. Frisby testified that Staff's revenue adjustment failed to recognize that the primary source of the test
 27 year unmetered revenues was from homebuilders that have since finished building the projects for which the construction
 28 water was used, and that very little revenue is expected in the foreseeable future from unmetered construction water sales
 due to the slowdown in the building industry. (Tr. 18-22.) However, given the Company's agreement with the revenue
 requirement and rates recommended by Staff in the Amended Staff Report (Ex. S-3, at 5), this issue is no longer in
 dispute.

1 study costs from outside services expense; an increase to rate case expense of \$2,255 to reclassify the
2 costs from outside services expense and to normalize the expense; a decrease to water testing
3 expenses of \$3,056 and reclassification of the expense to wells and springs; a decrease to
4 transportation expense of \$2,997 to reflect undocumented test year expenses; a decrease to general
5 liability expense of \$9,320 to reflect the total documented test year expenses; a decrease to
6 miscellaneous expense of \$8,192 to remove duplicate purchased water, a WIFA loan fee, and for an
7 erroneous payment; an increase to depreciation expense of \$7,956 to reflect application of Staff's
8 recommended depreciation rates; an increase to taxes other than income tax expense of \$4,824 to
9 reflect calculation of such taxes on Staff's recommended adjusted test year salaries and wages; a
10 decrease to property tax expense of \$2,468 to reflect the Arizona Department of Revenue
11 methodology for water and wastewater utilities; a decrease to income tax expense of \$36,065 to
12 reflect calculation of such taxes on Staff's recommended test year taxable income; an increase to
13 miscellaneous expense of \$786 to reflect total documented test year expenses; an increase to health
14 and life insurance expense of \$8,000 to reflect total test year expenses; and an increase to equipment
15 rental expense of \$28,265 to reflect a known and measurable change in annual equipment lease
16 expenses (see discussion of this issue below). (Ex. S-3, at 8-9.)

17 Equipment Lease

18 13. At the hearing, Mr. Frisby testified that Staff's exclusion of costs associated with
19 construction equipment and vehicles failed to recognize the need for such equipment in making
20 repairs to Beaver Dam's system. Mr. Frisby stated that since the inception of the utility company, he
21 has provided the use of a pickup truck, a backhoe, dump truck, and related equipment owned by his
22 homebuilding company, Beaver Dam Development Company ("Beaver Dam Development"). (Tr.
23 22-28.) He indicated that the development company is getting out of the homebuilding business, and
24 therefore the equipment would no longer be available for use by Beaver Dam Water Company. Mr.
25 Frisby also testified that there were no other contractors or equipment rental providers in the vicinity
26 of the Beaver Dam's service area, especially for equipment such as a backhoe and dump truck. He
27 indicated it was possible the equipment owned by Beaver Dam Development could be sold or leased
28 to Beaver Dam Water Company as an alternative to the water company having to purchase new

1 equipment. (*Id.*)

2 14. Staff witness Aladi testified that Staff's original recommendation was to exclude all
3 but a \$450 per month expense for a service truck. He stated that it was not clear to Staff that the
4 Company needed access to other types of equipment on a full-time basis, and therefore no additional
5 equipment expenses were recommended by Staff. (Tr. 63-67.) However, based on Mr. Frisby's
6 testimony regarding the need for heavy equipment, and the approximately 17-mile distance between
7 customers on the extreme ends of the Company's service area, Mr. Aladi agreed that an allowance for
8 such equipment may be appropriate. (*Id.*)

9 15. Given the uncertainty surrounding the appropriateness of including heavy equipment
10 costs in the Company's rates, the parties were given an opportunity to discuss the issue and file a late-
11 filed exhibit. (Tr. 68-71.) As stated above, Staff filed an Amended Staff Report on May 11, 2009,
12 with a revised recommendation to allow additional annual equipment rental expenses of \$28,265 in
13 accordance with a lease agreement between Beaver Dam Development and Beaver Dam Water
14 Company for the provision of a backhoe, dump truck and trailer. (Ex. S-3, at 5, Sched. BCA-38.)

15 16. We find Staff's recommended operating expense adjustments to be reasonable.

16 Net Operating Income

17 17. Consistent with the foregoing discussion, we will adopt adjusted test year operating
18 expenses of \$304,555, which, based on test year revenues of \$229,086, results in test year adjusted
19 operating income of negative \$75,470 (as rounded).

20 AUTHORIZED INCREASE

21 18. Based on our findings, we adopt Staff's overall revenue requirement recommendation,
22 and determine that Beaver Dam is entitled to total operating revenue of \$365,129, a gross revenue
23 increase of \$136,043 (59.39 percent above adjusted test year revenue of \$229,086). The revenue
24 increase adopted herein would provide operating income to the Company of \$20,642, for an 8.0
25 percent rate of return on rate base of \$258,030.

26 Rate Design

27 19. As evidenced by the discussion above, most of the customers within Beaver Dam's
28 service area have not experienced an increase in water rates for more than 20 years, and for some

1 customers more than 30 years. In this proceeding, Beaver Dam proposed to combine all of its
 2 customers under a single rate structure, a proposition with which Staff agrees. Set forth below is a
 3 table that shows the current rates, Company proposed rates, and Staff's recommended rates, for
 4 customers in each of the three rate groups, as identified by the Decision number under which the
 5 current rates were authorized. Although the Company and Staff initially disagreed regarding the
 6 appropriate level of rate relief, they are now in agreement that the recommendations in Staff's
 7 Amended Staff Report should be adopted. (Ex. S-3, at 5.)

9	MONTHLY CUSTOMER	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
10	CHARGE			
	Decision No. 55788			
	Gallons in the minimum	—	—	—
	5/8" x 3/4" Meter	\$ 15.00	\$ 30.00	\$ 27.50
11	3/4" Meter	N/T	N/T	41.25
	1" Meter	N/T	N/T	68.75
12	1-1/2" Meter	N/T	N/T	137.50
	2" Meter	N/T	N/T	220.00
	3" Meter	N/T	N/T	440.00
13	4" Meter	120.00	1,000.00	687.50
	6" Meter (HOA)	15.00	30.00	1,375.00
14	8" Meter	N/T	N/T	2,200.00
	10" Meter	N/T	N/T	3,162.00
15	12" Meter	N/T	N/T	5,912.50
	Decision No. 47690			
16	Gallons in the minimum	4,000	—	—
	5/8" x 3/4" Meter	\$ 17.00	\$ 30.00	\$ 27.50
17	3/4" Meter	N/T	N/T	41.25
	1" Meter	N/T	N/T	68.75
18	1-1/2" Meter	N/T	N/T	137.50
	2" Meter	N/T	N/T	220.00
	3" Meter	N/T	N/T	440.00
19	4" Meter	N/T	N/T	687.50
	6" Meter	N/T	N/T	1,375.00
20	8" Meter	N/T	N/T	2,200.00
	10" Meter	N/T	N/T	3,162.00
21	12" Meter	N/T	N/T	5,912.50
	Decision No. 64662			
22	Gallons in the minimum	—	—	—
	5/8" x 3/4" Meter	\$ 13.30	\$ 30.00	\$ 27.50
23	3/4" Meter	N/T	N/T	41.25
	1" Meter	33.25	45.00	68.75
	1-1/2" Meter	66.50	400.00	137.50
24	2" Meter	126.35	500.00	220.00
	3" Meter	465.50	600.00	440.00
25	4" Meter	731.50	1,000.00	687.50
	6" Meter	997.50	1,600.00	1,375.00
26	8" Meter	N/T	N/T	2,200.00
	10" Meter	N/T	N/T	3,162.00
27	12" Meter	N/T	N/T	5,912.50

COMMODITY CHARGES

	Present				Company Proposed			Staff Recommended		
	1 ST Tier	2 ND Tier	3 RD Tier	4 TH Tier	1 ST Tier	2 ND Tier	3 RD Tier	1 ST Tier	2 ND Tier	3 RD Tier
Decision No. 55788 TIER RATES	\$ 1.50	\$ -	\$ -	\$ -	\$ 3.00	\$ 3.75	\$ 4.75	\$ 2.10	\$ 3.15	\$ 3.75
Gallons in the minimum 5/8" x 3/4" Meter	-	-	-	-	-	-	-	-	2	-
3/4" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE	5,000	12,000	INFINITE
1" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE		30,000	INFINITE
1-1/2" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE		60,000	INFINITE
2" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE		96,000	INFINITE
3" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE		192,000	INFINITE
4" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE		300,000	INFINITE
6" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE		600,000	INFINITE
8" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE		960,000	INFINITE
10" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE		1,380,000	INFINITE
12" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE		2,580,000	INFINITE
Bulk Water - per 1,000 Gallons	\$9.00 - All Gallons				\$9.00 - All Gallons			\$2.46 - All Gallons		

	Present				Company Proposed			Staff Recommended		
	1 ST Tier	2 ND Tier	3 RD Tier	4 TH Tier	1 ST Tier	2 ND Tier	3 RD Tier	1 ST Tier	2 ND Tier	3 RD Tier
Decision No. 47690 TIER RATES	\$ 1.50	\$ 1.00	\$ 0.70	N/T	\$ 3.00	\$ 3.75	\$ 4.75	\$ 2.10	\$ 3.15	\$ 3.75
Gallons in the minimum 5/8" x 3/4" Meter	4,000	-	-	-	-	-	-	-	-	-
3/4" Meter	4,000	7,000	10,000	N/T	4,000	7,000	INFINITE	5,000	12,000	INFINITE
1" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE	5,000	12,000	INFINITE
1-1/2" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE		30,000	INFINITE
2" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE		60,000	INFINITE
3" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE		96,000	INFINITE
4" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE		192,000	INFINITE
6" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE		300,000	INFINITE
8" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE		600,000	INFINITE
10" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE		960,000	INFINITE
12" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE		1,380,000	INFINITE
Bulk Water - per 1,000 Gallons	\$9.00 - All Gallons				\$9.00 - All Gallons			\$2.46 - All Gallons		

	Present				Company Proposed			Staff Recommended		
	1 ST Tier	2 ND Tier	3 RD Tier	4 TH Tier	1 ST Tier	2 ND Tier	3 RD Tier	1 ST Tier	2 ND Tier	3 RD Tier
Decision No. 64662 TIER RATES	\$ 1.20	\$ 1.35	\$ 1.50	\$ 1.75	\$ 3.00	\$ 3.75	\$ 4.75	\$ 2.10	\$ 3.15	\$ 3.75
Gallons in the minimum 5/8" x 3/4" Meter	-	-	-	-	-	-	-	-	-	-
3/4" Meter	24,000	49,000	99,000	INFINITE	4,000	7,000	INFINITE	5,000	12,000	INFINITE
1" Meter	N/T	N/T	N/T	N/T	4,000	7,000	INFINITE	5,000	12,000	INFINITE
1-1/2" Meter	24,000	49,000	99,000	INFINITE	4,000	7,000	INFINITE		30,000	INFINITE
2" Meter	24,000	49,000	99,000	INFINITE	4,000	7,000	INFINITE		60,000	INFINITE
3" Meter	24,000	49,000	99,000	INFINITE	4,000	7,000	INFINITE		96,000	INFINITE
4" Meter	24,000	49,000	99,000	INFINITE	4,000	7,000	INFINITE		192,000	INFINITE
6" Meter	24,000	49,000	99,000	INFINITE	4,000	7,000	INFINITE		300,000	INFINITE
									600,000	INFINITE

1	8" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE	960,000	INFINITE
	10" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE	1,380,000	INFINITE
	12" Meter	INFINITE	N/T	N/T	N/T	4,000	7,000	INFINITE	2,580,000	INFINITE
2	Bulk Water - per 1,000 Gallons		\$9.00 - All Gallons			\$9.00 - All Gallons			\$2.46 - All Gallons	

SERVICE LINE AND METER INSTALLATION CHARGES

	Present Rates		Company Proposed		Staff Recommended			
	Total		Charges		Service Line	Meter	Installation	Total
5/8" x 3/4" Meter	\$ 225.00		\$ 558.00		\$ 425.00	\$ 155.00		\$ 580.00
3/4" Meter	N/T		N/T		445.00	255.00		700.00
1" Meter	N/T		700.00		445.00	255.00		700.00
1-1/2" Meter	N/T		880.00		460.00	420.00		880.00
2" Turbine Meter	N/T		1,380.00		615.00	765.00		1,380.00
2" Compound Meter	N/T		1,460.00		615.00	845.00		1,460.00
3" Turbine Meter	N/T		1,930.00		745.00	1,185.00		1,930.00
3" Compound Meter	N/T		2,010.00		745.00	1,265.00		2,010.00
4" Turbine Meter	1,375.00		2,935.00		1,050.00	1,885.00		2,935.00
4" Compound Meter	N/T		3,020.00		1,050.00	1,970.00		3,020.00
6" Turbine Meter	2,900.00		4,120.00		1,250.00	2,870.00		4,120.00
6" Compound Meter	N/T		5,960.00		1,250.00	4,710.00		5,960.00
8" Turbine	4,500.00		6,775.00		AT COST	AT COST		AT COST
10" Turbine	N/T		12,150.00		AT COST	AT COST		AT COST
12" Turbine	N/T		168,00.00		AT COST	AT COST		AT COST

SERVICE CHARGES

	Present Rates	Company Proposed	Staff Recommended
12 Establishment	\$ 35.00	\$ 55.00	\$ 35.00
Establishment (After Hours)	45.00	65.00	45.00
13 Reconnection (Delinquent)	50.00	75.00	50.00
Reconnection (Delinquent)- After Hours	N/T	N/T	65.00
14 Meter Test (If Correct)	20.00	40.00	25.00
Deposit - Note 1	*	*	*
15 Deposit Interest	*	*	*
Reestablishment (Within 12 Months)	**	**	**
16 NSF Check	10.00	25.00	25.00
17 Deferred Payment (Per Month)	N/T	1.50%	1.50%
Meter Re-read (If Correct)	10.00	15.00	15.00
18 Late Charge-Per Month	1.50%	1.50%	1.50%

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

** Months off system times the monthly minimum Per Commission Rule R14-2-403(D).

Public Comment by HOA Representative

20. At the hearing, Fran Moore, president of the Beaver Dam Homeowners Association, offered public comment opposing Staff's proposed rate design for the HOA. As explained above, the HOA currently receives service through a 6-inch master meter at a rate of \$15.00 per month per resident, plus a commodity charge of \$1.50 per 1,000 gallons for all usage. The HOA then bills its 178 members for water through individual assessments.

21. In its application, Beaver Dam proposed a flat \$30.00 per month charge for each of the HOA's members because not all of the members have individual meters, and it is therefore not possible currently to bill the members as individual customers. Mr. Frisby testified that when the

1 first phase (45 lots) of the resort was developed, no individual meters were installed. Although the
2 remainder of the lots were built with individual meters, a later proposal by the Company to add
3 meters for the first phase was met with resistance from the unmetered members because of concerns
4 regarding the costs they believed would be assessed⁶. (Tr. 78-80.)

5 22. Staff's recommendation in the Amended Staff Report would assess a monthly
6 minimum charge of \$1,375 to the HOA, plus commodity charges of \$3.15 per 1,000 gallons for the
7 first 600,000 gallons, and \$3.75 per 1,000 gallons for usage over 600,000 gallons. (Ex. S-3, Sched.
8 BCA-32.)

9 23. Ms. Moore stated that the HOA was concerned that the first tier of Staff's
10 recommended inverted block design is not high enough, and would cause substantial increases in
11 water rates. She suggested that the first tier block should be increased from 600,000 gallons to
12 890,000 per month, to effectively allow each of the members 5,000 gallons per month in the first tier
13 (*i.e.*, $5,000 \times 178 = 890,000$).

14 24. We appreciate the comments offered on behalf of the HOA's members, but we believe
15 the concerns are misplaced. Although the commodity rates for the HOA will be higher than for other
16 individual residential customers under Staff's recommendation, because the HOA will not have any
17 usage billed under the lower-price first tier, the new overall monthly minimum charge of \$1,375 will
18 be substantially less than even the current rate on a per HOA member basis. As such, the HOA, and
19 therefore its members, will incur a lower increase than other residential customers on the Beaver
20 Dam system. We find Staff's recommended rate design to be appropriate under the facts presented in
21 this case and Staff's recommendation will therefore be adopted.

22 Rate Effect of Staff's Recommendations

23 25. Under Staff's recommended revenue requirement and rate design, with a move to a
24 consolidated Company-wide rate structure, the impact on current customer rates will vary depending
25 on the system in which customers are located and the rates under which they are currently charged.
26 Within Beaver Dam's original CC&N area, with rates authorized in Decision No. 55788, a 5/8-inch x

27 _____
28 ⁶ Mr. Frisby stated that the Company received a bid of approximately \$19,000 to install meters in the first phase of the resort development. (Tr. 79.)

1 ¼-inch residential customer with average usage of 15,279 gallons per month would experience an
 2 increase of \$34.43, from \$37.92 to \$72.35 per month (90.8 percent). A customer with median usage
 3 of 7,000 gallons per month served under the same Decision No. 55788 rate structure, would
 4 experience an increase of \$18.80, from \$25.50 to \$44.30 per month (73.7 percent).

5 26. Within the area previously served by the Virgin Valley Water District, with rates
 6 authorized in Decision No. 64662, a 5/8-inch x ¼-inch residential customer with average usage of
 7 15,279 gallons per month would experience an increase of \$40.71, from \$31.64 to \$72.35 per month
 8 (128.7 percent). A customer with median usage of 7,000 gallons per month served under the same
 9 Decision No. 64662 rate structure, would experience an increase of \$22.60, from \$21.70 to \$44.30
 10 per month (104.2 percent).

11 27. Within the area previously served by Littlefield Water Company, with rates authorized
 12 in Decision No. 67577, a 5/8-inch x ¼-inch residential customer with average usage of 15,279
 13 gallons per month would experience an increase of \$38.43, from \$33.92 to \$72.35 per month (113.3
 14 percent). A customer with median usage of 7,000 gallons per month served under the same Decision
 15 No. 67577 rate structure, would experience an increase of \$21.30, from \$23.00 to \$44.30 per month
 16 (92.6 percent).

17 **Other Rate Case Issues**

- 18 28. Staff also recommends that the Commission approve the following items:
- 19 a. The Company should be authorized to collect from its customers a
 20 proportionate share of any privilege, sales or use tax per Commission
 21 Rule R14-2-409;
 - 22 b. The Company should be authorized to adopt Staff's proposed service
 23 line and meter installation charges, as set forth in Table C of Staff's
 24 Engineering Report;
 - 25 c. The Company should adopt the depreciation rates set forth in Table B
 26 of the Staff Engineering Report;
 - 27 d. The Company should be directed to maintain its records in accordance
 28 with the NARUC USOA;
 - e. The Company should be required to file with Docket Control, as a
 compliance item in this docket, a schedule of its approved rates and
 charges within 30 days of the effective date of this Decision;
 - f. The Company should be directed to install a storage tank with a
 storage capacity of 275,000 gallons for System No. 2 (PWS No. 08-
 127) within two years of the effective date of this Decision, and the
 Company should be required to file with Docket Control, as a

1 compliance item in this docket, within two years of the effective date
2 of this Decision, a copy of the Approval of Construction issued by
3 ADEQ for the storage facility; and

- 4 g. The Company should be required in future Annual Reports to separate
5 water use data and plant summary information for each of its water
6 systems (including customer count information and bulk water sales).

7 29. Staff's recommendations, as described above in Finding of Fact No. 28, are reasonable
8 and shall be adopted.

9 30. It is imperative that the Company's capital investments, revenues and expenses, as
10 well as its general operations, be analyzed on a regular basis to avoid the magnitude of the rate
11 increases that are being approved in this case. Although the customers of Beaver Dam's various
12 systems have benefited from low rates that have been in effect for many years, the Company's failure
13 to seek rate relief on a timely basis sends inappropriate cost signals to its customers. Adjusting rates
14 to reflect actual costs can result in a sudden and substantial rate increase for customers in a difficult
15 economic climate. In order to avoid a recurrence of this situation, and as a means of monitoring the
16 Company's operations more closely, we believe it is appropriate to direct Beaver Dam to file a rate
17 application by no later than June 30, 2012, with a test year of no later than calendar year 2011.

18 **Financing Application**

19 31. On May 27, 2008, Beaver Dam filed an application with the Commission for
20 authorization to execute a loan agreement with WIFA.

21 32. On February 23, 2009, in accordance with the requirements of a Procedural Order
22 issued January 23, 2009, Beaver Dam filed an affidavit attesting to the mailing of notice to each of its
23 customers and publication of notice of its rate and financing applications in a publication of general
24 circulation in the Company's service area.

25 33. On April 7, 2009, as amended on May 11, 2009, Staff issued a Staff Report
26 recommending approval of the financing application subject to certain conditions.

27 34. In its financing application, Beaver Dam requested authority to obtain a WIFA loan in
28 the amount of \$104,283 to fund construction of a 275,000 gallon storage facility.

35. According to the Staff Engineering Report, the Company's proposed WIFA loan
would fund approximately 50 percent of the estimated cost of the storage facility, with the remainder

1 of the cost funded by a line extension agreement (38 percent) and an equity investment (12 percent)
 2 by Beaver Dam. (Ex. S-3, Attach. A.) According to Staff, Beaver Dam needs a minimum of 170,000
 3 gallons of storage capacity for its System No. 2 (PWS No. 08-127), and the Company claims the
 4 remainder of the Storage is needed for emergency backup and fire protection. Staff concluded that
 5 the proposed 275,000 gallons of additional storage capacity is appropriate. (*Id.*)

6 36. Staff stated that the proposed \$104,283 WIFA loan is expected to carry an interest rate
 7 of 3.675 percent per annum, over a 20-year period.

8 37. Staff also indicated that, as of December 31, 2007, Beaver Dam's capital structure
 9 consisted of no short-term debt, 67.7 percent long-term debt, and 32.3 percent equity. Staff's pro
 10 forma financial analysis indicates that, with the proposed WIFA loan, the Company's capital
 11 structure would consist of 1.1 percent short-term debt, 76.4 percent long-term debt, and 22.5 percent
 12 equity. (Ex. S-3, Sched. BCA-34.)

13 38. According to Staff, Beaver Dam's end of test year debt service coverage ("DSC")⁷ and
 14 times interest earned ratio ("TIER")⁸ are not meaningful for purposes of evaluating Beaver Dam's
 15 application. However, Staff's pro forma analysis shows that the Company's DSC would be 2.70 and
 16 its TIER 1.71 assuming the 20-year, 3.675 percent, \$104,283 WIFA loan was fully drawn. Staff
 17 stated that the Company's pro forma DSC and TIER indicate that cash flow from operations is
 18 sufficient to cover all obligations, including the proposed debt.

19 39. Staff concluded that issuance of the proposed debt financing for the purposes stated in
 20 the application is within the Company's corporate powers, is compatible with the public interest, is
 21 consistent with sound financial practices, and will not impair its ability to provide service. Staff
 22 recommended authorizing Beaver Dam to incur debt in an amount not to exceed \$104,283, at an
 23 interest rate not to exceed 5.00 percent, for a period of 18-to-22 years, to finance the water storage
 24 project discussed herein.

25 ⁷ DSC represents the number of times internally generated cash (*i.e.*, earnings before interest, income tax, depreciation
 26 and amortization expenses) covers required principal and interest payments on debt. A DSC greater than 1.0 indicates
 that operating cash flow is sufficient to cover debt obligations.

27 ⁸ TIER represents the number of times earnings before income tax expense covers interest expense on short-term and
 28 long-term debt. A TIER greater than 1.0 indicates that operating income is greater than interest expense. A TIER less
 than 1.0 is not sustainable in the long term, but does not necessarily mean that debt obligations cannot be met in the short
 term.

1	0 – 5,000 Gallons	2.10
	5,001 – 12,000 Gallons	3.15
2	Over 12,000 Gallons	3.75
	1-inch Meter	
3	0 to 30,000 Gallons	3.15
	Over 30,000 Gallons	3.75
4	1 1/2- inch Meter	
	0 to 60,000 Gallons	3.15
5	Over 60,000 Gallons	3.75
6	2-inch Meter	
	0 to 96,000 Gallons	3.15
7	Over 96,000 Gallons	3.75
	3-inch Meter	
8	0 to 192,000 Gallons	3.15
9	Over 192,000 Gallons	3.75
	4-inch Meter	
10	0 to 300,000 Gallons	3.15
	Over 300,000 Gallons	3.75
11	6-inch Meter	
	0 to 600,000 Gallons	3.15
12	Over 600,000 Gallons	3.75
13	8-inch Meter	
	0 to 960,000 Gallons	3.15
14	Over 960,000 Gallons	3.57
	10-inch Meter	
15	0 to 1,380,000 Gallons	3.15
16	Over 1,380,000 Gallons	3.75
	12-inch Meter	
17	0 to 2,580,000 Gallons	3.15
	Over 2,580,000 Gallons	3.75
18	Bulk Water – per 1,000 Gallons	2.46

19 **SERVICE LINE AND METER INSTALLATION CHARGES**

	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>
20	5/8" x 3/4" Meter	\$ 425.00	\$ 580.00
21	3/4" Meter	445.00	700.00
	1" Meter	445.00	700.00
22	1-1/2" Meter	460.00	880.00
	2" Turbine Meter	615.00	1,380.00
23	2" Compound Meter	615.00	1,460.00
	3" Turbine Meter	745.00	1,930.00
24	3" Compound Meter	745.00	2,010.00
	4" Turbine Meter	1,050.00	2,935.00
25	4" Compound Meter	1,050.00	3,020.00
	6" Turbine Meter	1,250.00	4,120.00
26	6" Compound Meter	1,250.00	5,960.00
27	8" Turbine	AT COST	AT COST
	10" Turbine	AT COST	AT COST
28	12" Turbine	AT COST	AT COST

SERVICE CHARGES

1	Establishment	\$	35.00
2	Establishment (After Hours)		45.00
3	Reconnection (Delinquent)		50.00
4	Reconnection (Delinquent)– After Hours		65.00
5	Meter Test (If Correct)		25.00
6	Deposit – Note 1		*
7	Deposit Interest		*
8	Reestablishment (Within 12 Months)		**
9	NSF Check		25.00
10	Deferred Payment (Per Month)		1.50%
11	Meter Re-read (If Correct)		15.00
12	Late Charge-Per Month		1.50%

13 * Per Commission Rule A.A.C. R-14-2-403(B).

14 ** Months off system times the monthly minimum Per A.A.C. R14-2-403(D).

15 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective
16 for all service rendered on and after December 1, 2009.

17 IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. shall notify its
18 customers of the revised schedules of rates and charges authorized herein by means of an insert in its
19 next regularly scheduled billing, or by separate billing, in a form acceptable to Staff.

20 IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. shall collect from its
21 customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409.

22 IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. shall adopt the
23 depreciation rates set forth in Table B of the Staff Engineering Report.

24 IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. shall maintain its
25 records in accordance with the NARUC USOA.

26 IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. shall install a storage
27 tank with a storage capacity of 275,000 gallons for System No. 2 (PWS No. 08-127) within two years
28 of the effective date of this Decision, and the Company shall file with Docket Control, as a
compliance item in this docket, within two years of the effective date of this Decision, a copy of the
Approval of Construction issued by ADEQ for the storage facility.

IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. shall in future Annual

1 Reports to the Commission separate water use data and plant summary information for each of its
2 water systems (including customer count information and bulk water sales).

3 IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. shall file a rate
4 application by no later than June 30, 2012, with a test year of no later than calendar year 2011.

5 IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. is hereby authorized to
6 incur long-term indebtedness in an amount up to \$104,283 pursuant to a loan agreement with WIFA,
7 at an interest rate not to exceed 5.0 percent, for a term of 18 to 22 years, for the purpose of funding a
8 275,000 storage tank, as described herein.

9 IT IS FURTHER ORDERED that the finance authority granted herein is expressly contingent
10 upon Beaver Dam Water Company's use of the proceeds for the purposes stated in the application
11 and approved herein.

12 IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. is authorized to pledge
13 its assets in the state of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection
14 with the loan approved herein.

15 IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. is authorized to engage
16 in any transactions and to execute any documents necessary to effectuate the authorizations granted.

17 IT IS FURTHER ORDERED that Beaver Dam Water Company shall file with Docket
18 Control, as a compliance item in this docket, copies of all executed financing documents related to
19 this authority within 60 days after the date of execution.

20 ...

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28 ...

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

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRMAN

COMMISSIONER

9
10 COMMISSIONER

COMMISSIONER

COMMISSIONER

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

17 _____
18 ERNEST G. JOHNSON
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____
22
23
24
25
26
27
28

1 SERVICE LIST FOR: BEAVER DAM COMPANY, INC.
2 DOCKET NOS.: W-03067A-08-0266 and W-03067A-08-0380

3
4 Bob Frisby, Manager
5 BEAVER DAM WATER COMPANY, INC.
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7 Littlefield, AZ 86432-0550

8 Patricia and Gene Litton
9 2787 Sierra Litton
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