

OPEN MEETING ITEM



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



EXECUTIVE DIRECTOR
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ARIZONA CORPORATION COMMISSION

2010 MAR -8 A 9:55

ORIGINAL

AZ CORP COMMISSION
DOCKET CONTROL

DATE: MARCH 8, 2010
DOCKET NO.: W-01902A-09-0293

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:

TIMBER KNOLL HOMEOWNER'S ASSOCIATION, INC.
dba T.K. WATER SERVICE
(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:

MARCH 17, 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 31, 2010 AND APRIL 1, 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.

Arizona Corporation Commission
DOCKETED

MAR - 8 2010

DOCKETED BY

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347
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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

SAVED

IN THE MATTER OF THE APPLICATION
OF TIMBER KNOLL HOMEOWNER'S
ASSOCIATION, INC. DBA T.K. WATER
SERVICE FOR APPROVAL OF A RATE
INCREASE.

DOCKET NO. W-01902A-09-0293

DECISION NO. _____

ORDER

Open Meeting
March 31 and April 1, 2010
Phoenix, Arizona

BY THE COMMISSION:

On June 4, 2009, Timber Knoll Homeowner's Association, Inc. dba T.K. Water Service ("TKW," "Company" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application for an increase in its permanent rates and charges.

On June 10, 2009, the Company filed certification that it had provided public notice of its rate application to its customers. In response thereto, the Commission received one comment concerning the proposed increase.

On July 6, 2009, the Commission's Utilities Division ("Staff") issued a Notice of Insufficiency pursuant to A.A.C. R14-2-103.

On December 16, 2009, Staff issued a Notice of Sufficiency indicating that the Company's rate application was sufficient, and classified the Company as a Class E utility.

On February 17, 2010, Staff filed its report recommending approval of its proposed rates and charges.

On March 1, 2010, the Company filed a response to the report filed by Staff.

* * * * *

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

FINDINGS OF FACT

1
2 1. Pursuant to authority granted by the Commission in Decision No. 52527 (October 9,
3 1981), Applicant is an Arizona non-profit corporation owned by its members who are engaged in the
4 business of providing water service to 51 metered residential customers approximately 17 miles east
5 of Show Low, Apache County, Arizona.

6 2. Applicant's present rates and charges for water service were approved in Decision No.
7 59067 (May 3, 1995).

8 3. On June 4, 2009, the Company filed an application requesting authority to increase its
9 rates and charges for water service.

10 4. On June 10, 2009, the Company filed certification that it had provided public notice of
11 its application for a permanent rate increase to its customers.

12 5. On February 17, 2010, Staff, after conducting an investigation of Applicant's
13 proposed rates and charges for water service, filed its Staff Report on the Company's rate application
14 and recommended that the Commission approve Staff's recommended rates and charges.

15 6. During the TY ending December 31, 2008, Applicant served 51 customers, all of
16 whom are residential users that are served by 5/8-inch x 3/4-inch meters.

17 7. Average and median water usage by the Company's customers during the TY was
18 4,244 gallons and 1,683 gallons per month, respectively.

19 8. The water rates and charges for Applicant at present, as proposed by the Company and
20 as recommended by Staff are as follows:

<u>MONTHLY USAGE CHARGE:</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
5/8" x 3/4" Meter	\$ 18.50	\$ 22.20	\$ 18.00
3/4" Meter	18.50	18.50	27.00
1" Meter	22.00	22.50	45.00
1-1/2" Meter	28.00	28.50	90.00
2" Meter	37.00	37.00	144.00
3" Meter	193.00	193.00	288.00
4" Meter	321.00	321.00	450.00
6" Meter	643.00	643.00	900.00
Gallons in the Minimum	1,000	1,000	0

	<u>Present Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
<u>All Gallons in Excess of 1,000 Gallons</u> (Per 1,000 Gallons)	\$ 1.90	\$ 2.28	
<u>Staff Recommended – All Sizes</u> (Per 1,000 Gallons)			
0 – 3,000 gallons			\$1.50
3,001 – 8,000 gallons			2.15
Over 8,000 gallons			3.50

SERVICE LINE AND METER INSTALLATION CHARGES:
(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 Installation</u>	<u>Total</u>
5/8" x 3/4" Meter	\$ 338.00	\$ 338.00	\$ 251.00	\$ 87.00	\$ 338.00
3/4" Meter	378.00	378.00	240.00	138.00	378.00
1" Meter	428.00	428.00	262.00	166.00	428.00
1-1/2" Meter	638.00	638.00	326.00	312.00	638.00
2" Meter	1,553.00	1,553.00	687.00	866.00	1,553.00
3" Meter	2,003.00	2,003.00	782.00	1,251.00	2,033.00
4" Meter	2,930.00	2,930.00	1,049.00	1,881.00	2,930.00
6" Meter	5,728.00	5,728.00	1,750.00	3,978.00	5,728.00

	<u>Current Charges</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
<u>SERVICE CHARGES:</u>			
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	37.50	37.50	40.00
Reconnection (Delinquent)	25.00	25.00	25.00
Reconnection (Delinquent) (After Hours)	NT	35.00	40.00
Meter Test (If Correct)	30.00	30.00	25.00
Deposit	*	Per Rule	*
Deposit Interest	*	Per Rule	**
Re-establishment (Within 12 Months)	**	Month off system times maximum	***
NSF Check	\$ 15.00	\$ 25.00	\$ 25.00
Deferred Payment	1.0%	1.0%	1.5%
Meter Re-Read (If Correct)	15.00	15.00	15.00

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

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

NT No Tariff

* 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.

1 9. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined
2 to be \$9,678 which is the same as its original cost rate base. Staff's adjustment to the Company's
3 proposed FVRB resulted primarily from a \$19,454 reduction to plant in service due to unsupported
4 plant values because of insufficient records for the Company.¹

5 10. Staff decreased Applicant's TY operating expenses by \$1,425 primarily due to the
6 removal of sales tax expense of \$1,054 which was included in taxes other than income. Additionally,
7 Staff reduced depreciation expense by \$709 after applying Staff's recommended depreciation rates to
8 Staff's recommended plant balances as set forth in Table B to the Engineering Report attached and
9 incorporated within the Staff Report. These decreases were partially offset by Staff increases of \$875
10 for repairs and maintenance and \$150 for outside services expense.

11 11. Applicant's present water rates and charges produce operating revenue of \$16,004 and
12 adjusted operating expenses of \$15,301, which resulted in operating income of \$703 or a 7.27 percent
13 rate of return on FVRB.

14 12. The water rates and charges proposed by the Company would produce operating
15 revenue of \$19,204 and adjusted operating expenses of \$15,301 resulting in net operating income of
16 \$3,903 or a 40 percent rate of return on FVRB or a 20.32 percent operating margin.

17 13. The water rates and charges recommended by Staff would produce adjusted operating
18 revenues of \$17,478 and adjusted operating expenses of \$15,301 resulting in net operating income of
19 \$2,177 or a 22.49 percent rate of return on FVRB or a 12.46 percent operating margin.

20 14. Staff's recommended increase in the Company's operating revenue is somewhat lower
21 than that requested by the Company. However, if the rates and the revenues recommended by Staff
22 are approved, a median user will see a significantly lower bill than if the Company's proposed rates
23 are adopted. Additionally, Staff's recommended rates should provide the Company with sufficient
24 funds for its ongoing operations and obligations.

25 15. Staff is recommending an increase in revenues of \$1,474, or approximately 9.21
26 percent, over TY revenues of \$16,004.

27 16. The Company's proposed rates would increase the average monthly metered customer

28 ¹ Due to the Company's significantly low rate base, it cannot be utilized to determine a meaningful rate of return and Staff chose to use Applicant's operating margin to calculate TKW's revenue requirements.

1 water bill by \$4.94 or 20.0 percent, from \$24.66 to \$29.60, and increase the median monthly metered
2 customer water bill by \$3.96 or 20.0 percent, from \$19.80 to \$23.76.

3 17. Staff's recommended rates would increase the average monthly metered customer
4 water bill by \$.51 or 2.1 percent, from \$24.66 to \$25.17, and increase the median monthly metered
5 customer water bill by \$.72 or 3.6 percent, from \$19.80 to \$20.52.

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

9 19. Applicant is not located in an active management area, and the Company is in
10 compliance with the requirements of the Arizona Department of Environmental Quality ("ADEQ")
11 and is providing water which meets the requirements of the Safe Drinking Water Act.

12 20. Staff further indicates that the Company does not maintain its books and records in
13 compliance with those of the National Association of Regulatory Utility Commissioners ("NARUC")
14 Uniform System of Accounts ("USOA").

15 21. The Company has a Cross-Connection Backflow Prevention Tariff, and Staff is
16 recommending that the Company file a Curtailment Tariff in a form consistent with that found on the
17 Commission's website within 45 days of the effective date of this Decision for review and approval
18 by Staff.²

19 22. Staff also indicates in its Report that TKW will need an additional 10,000 gallons of
20 storage capacity to serve its existing customer base.

21 23. Besides recommending approval of its recommended rates and charges, Staff is also
22 recommending that the Commission order the following:

- 23
- that the Company file, within 30 days of the effective date of this Decision, with the Commission's Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges;
 - that Applicant notify its customers of the water rates and charges approved hereinafter and their effective date by means of an insert in its next monthly billing and file a copy of the notice sent to its customers with the Commission's Docket Control as a compliance item in this docket;
- 24
25
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27

28 ² On March 4, 2010, in response to Staff's recommendation, Applicant filed a proposed Curtailment Tariff for Staff's approval.

- 1 • that Applicant, in addition to the collection of its regular rates and charges, collect
2 from its customers their proportionate share of any privilege, sales, or use tax as
3 provided for in A.A.C. R14-2-409(D);
- 4 • that the Company adopt the depreciation rates delineated by Staff in Table B of the
5 Engineering Report attached to the Staff Report on a going-forward basis;
- 6 • that the Company maintain its books and records in accordance with the NARUC
7 USOA;
- 8 • that if the reported water loss in the Company's 2009 Annual Report is greater
9 than 10.0 percent, the Company shall prepare a report containing a detailed
10 analysis and plan to reduce water loss to 10.0 percent or less. If the Company
11 believes it is not cost effective to reduce the water loss to less than 10.0 percent, it
12 should submit a detailed cost benefit analysis to support its opinion. Non-account
13 water for TKW was calculated to be 11.8 percent in 2008 which exceeds
14 acceptable limits. In no case shall the Company allow water loss to be greater than
15 15 percent. The water loss reduction report or the detailed analysis, whichever is
16 submitted, shall be filed with the Commission's Docket Control, as a compliance
17 item in this docket, within 15 months of the effective date of this Decision;
- 18 • that the Company file, within 45 days of the effective date of this Decision, with
19 the Commission's Docket Control, as a compliance item in this docket, a
20 Curtailment Tariff in the form found on the Commission's website at
21 [http://www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%20](http://www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%20009.doc)
22 [009.doc](http://www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%20009.doc) for review and approval by Staff;³
- 23 • that the Company file, within 45 days of the effective date of this Decision, with
24 the Commission's Docket Control, as a compliance item in this docket,
25 documentation that the Company has installed or updated an "information" sign at
26 the facility site. The sign should comply with ADEQ requirements and should
27 include the following information: system name, system PWS ID and emergency
28 contact phone numbers; and
- that the Company install a minimum of 10,000 gallons of additional storage
capacity, and file, with the Commission's Docket Control, as a compliance item in
this docket, no later than August 31, 2010, a Certificate of approval to Construct
("ATC") for the additional 10,000 gallons of storage capacity and that the
Company file no later than May 31, 2011, a Certificate of Approval of
Construction ("AOC") for the additional 10,000 gallons of storage capacity.

24. The Company, in its response, cited several minor differences with the Staff Report such as the correct number of metered customers, and also indicated its agreement with certain of Staff's recommendations such as filing a Curtailment Tariff as soon as possible. The Company mainly differs with Staff in the area of rate design and objects to Staff's choice of an inverted tier for excess gallonage charges, which encourages conservation and results in higher bills for larger water users. The Company requests approval of a single tier excess gallonage charge, which spreads the cost of larger water users over the water customers who use less water and who are required

³ This recommendation will be rendered moot upon Staff approving Applicant's proposed form of Curtailment Tariff which was filed on March 4, 2010.

1 essentially to subsidize those larger water users. As was stated by the Company in its response,
2 "Timber Knolls is a designated Agricultural area and lots vary from 1 acre to 26 acres. Some of our
3 members carry livestock on their property."

4 25. Because an allowance for the property tax expense of Applicant is included in the
5 Company's rates and will be collected from its customers, the Commission seeks assurances from the
6 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing
7 authority. It has come to the Commission's attention that a number of water companies have been
8 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,
9 some for as many as twenty years. It is reasonable, therefore, that as a preventive measure the
10 Company shall annually file, as part of its annual report, an affidavit with the Utilities Division
11 attesting that the company is current in paying its property taxes in Arizona.

12 25. Based upon our review of the application and the Staff Report, we find that Staff's
13 proposed rates are reasonable and together with Staff's additional recommendations should be
14 adopted. Further, the Commission has adopted a policy to encourage water conservation in Arizona,
15 and Staff's recommended rates which utilize an inverted tier commodity charge reflect this policy.

16 CONCLUSIONS OF LAW

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

19 2. The Commission has jurisdiction over Applicant and of the subject matter of the
20 Application.

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

22 4. The rates and charges proposed by Staff and authorized hereinafter are just and
23 reasonable.

24 5. Staff's recommendations as set forth in Findings of Fact No. 23 are reasonable and
25 should be adopted.

26 ORDER

27 IT IS THEREFORE ORDERED that Timber Knoll Homeowner's Association, Inc. dba T.K.
28 Water Service shall file, on or before April 1, 2010, a revised rate schedule setting forth the following

1 rates and charges:

2 **MONTHLY USAGE CHARGE:**

3	5/8" x 3/4" Meter	\$ 18.00
3	3/4" Meter	27.00
4	1" Meter	45.00
4	1-1/2" Meter	90.00
5	2" Meter	144.00
5	3" Meter	288.00
6	4" Meter	450.00
6	6" Meter	900.00

7 **GALLONAGE CHARGES:**

(Per 1,000 Gallons)

8	0 - 3,000 gallons	\$1.50
9	3,001 - 8,000 gallons	2.15
9	Over 8,000 gallons	3.50

11 **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>
13	5/8" x 3/4" Meter	\$ 251.00	\$ 338.00
14	3/4" Meter	240.00	378.00
15	1" Meter	262.00	428.00
15	1-1/2" Meter	326.00	638.00
16	2" Meter	687.00	1,553.00
16	3" Meter	782.00	2,033.00
17	4" Meter	1,049.00	2,930.00
17	6" Meter	1,750.00	3,978.00

18 **SERVICE CHARGES:**

19	Establishment	\$ 25.00
19	Establishment (After Hours)	40.00
20	Reconnection (Delinquent)	25.00
20	Reconnection (Delinquent) (After Hours)	40.00
21	Meter Test (If Correct)	25.00
21	Deposit	*
22	Deposit Interest	**
22	Re-establishment (Within 12 Months)	***
23	NSF Check	\$ 25.00
23	Deferred Payment	1.5%
24	Meter Re-Read (If Correct)	15.00

25 **MONTHLY CHARGE FOR FIRE SPRINKLERS:**

26	4" or Smaller	****
26	6"	****
27	8"	****
27	10"	****
28	Larger than 10"	****

- 1 * Per Commission Rule A.A.C. R14-2-403(B)(7).
- 2 ** Per Commission Rule A.A.C. R14-2-403(B)(3).
- 3 *** Number of months off system times the monthly minimum A.A.C. R14-2-403(D).
- 4 **** 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.

5 IT IS FURTHER ORDERED that Timber Knoll Homeowner's Association, Inc. dba T.K.
 6 Water Service shall notify its customers of the water rates and charges approved herein, and their
 7 effective date, by means of an insert in its next monthly billing and file a copy of the notice when sent
 8 to its customers with the Commission's Docket Control as a compliance item in this docket.

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

11 IT IS FURTHER ORDERED that Timber Knoll Homeowner's Association, Inc. dba T.K.
 12 Water Service is hereby directed to comply with Staff's recommendations as set forth in Findings of
 13 Fact No. 23.

14 IT IS FURTHER ORDERED that Timber Knoll Homeowner's Association, Inc. dba T.K.
 15 Water Service, in addition to the collection of its regular rates and charges, shall collect from its
 16 customers their proportionate share of any privilege, sale, or use tax as provided in A.A.C. R14-2-
 17 409(D).

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1 IT IS FURTHER ORDERED that Timber Knoll Homeowner's Association, Inc. dba T.K.
2 Water Service shall annually file, as part of its Annual Report, an affidavit with the Utilities Division
3 attesting that the Company is current in paying its property taxes in Arizona.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRMAN _____ COMMISSIONER _____

9
10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

11 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: TIMBER KNOLL HOMEOWNER'S ASSOCIATION, INC.
2 DBA T.K. WATER SERVICE

3 DOCKET NO.: W-01902A-09-0293

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6 HOMEOWNER'S ASSOCIATION, INC.
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