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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

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

MAR 17 2010

DOCKETED BY NR

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

DOCKET NO. W-20540A-09-0351

DECISION NO. 71509

ORDER

Open Meeting
March 2 and 3, 2010
Phoenix, Arizona

BY THE COMMISSION:

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

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

On October 6, 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 January 29, 2010, Staff filed its report recommending approval of its proposed rates and charges.

On February 2, 2010, by Procedural Order, pursuant to A.A.C. R14-2-103, the timeframe in 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.¹

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 ¹ 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>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$ 25.00	\$ 25.00	\$ 24.00
3/4" Meter	30.00	30.00	36.00
1" Meter	45.00	45.00	60.00
1-1/2" Meter	60.00	60.00	120.00
2" Meter	80.00	120.00	192.00
3" Meter	NT	250.00	384.00
4" Meter	NT	400.00	600.00
6" Meter	NT	900.00	1,200.00
Gallons in the Minimum	1,000	0	0
<u>Present rates 5/8 x 3/4-inch Meter</u>			
Over 1,000 gallons (per 1,000 gallons)	\$3.00		
<u>Company Proposed – All sizes</u>		\$3.00	
All Meter Sizes (per 1,000 gallons)			
<u>Staff Recommended – All Sizes</u>			
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. R14-2-405)

	<u>Company</u>		<u>Service Line Charge</u>	<u>Staff Recommended</u>	
	<u>Present</u>	<u>Proposed</u>		<u>Meter*</u>	<u>Total</u>
5/8" x 3/4" Meter	\$150.00	NT ²	NT	NT	NT
3/4" Meter	175.00	\$ 320.00	\$ 230.00	\$ 90.00	\$ 320.00
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
2" Meter	650.00	750.00	330.00	420.00	750.00
3" Meter	NT	980.00	380.00	600.00	980.00
4" Meter	NT	1,820.00	650.00	1,170.00	1,820.00
6" Meter	NT	3,920.00	1,200.00	2,720.00	3,920.00

* Note: Meter charge includes meter box or vault.

NT = No Tariff

² 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>
<u>SERVICE CHARGES:</u>			
Establishment	\$ 15.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	35.00	40.00	40.00
Reconnection (Delinquent)	15.00	25.00	25.00
Reconnection (Delinquent) (After Hours)	NT	40.00	40.00
Meter Test (If Correct)	50.00	40.00	25.00
Deposit	*	R14-2-403(B)	*
Deposit Interest	6%	R14-2-403(B)	**
Re-establishment (Within 12 Months)	**	R14-2-403(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 to be \$22,480 which is the same as its original cost rate base. Staff's adjustment to the Company's proposed FVRB resulted primarily from a \$30,199 reduction to plant in service due to unsupported plant values because of insufficient records for the Company.

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

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

14 13. The water rates and charges proposed by the Company would produce operating 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.

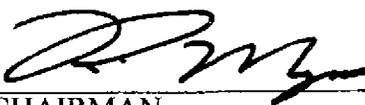
7 IT IS FURTHER ORDERED that Vernon Valley Water, Inc., in addition to the collection of
8 its regular rates and charges, shall collect from its customers their proportionate share of any
9 privilege, sale, or use tax as provided in A.A.C. R14-2-409(D).

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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.

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7 

8 CHAIRMAN



COMMISSIONER

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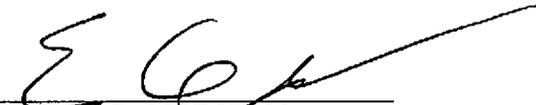
10 COMMISSIONER

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 17th day of March, 2010.



16 ERNEST G. JOHNSON
17 EXECUTIVE DIRECTOR

18
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
5 VERNON VALLEY WATER, INC.
6 P.O. Box 1270
7 Show Low, AZ 85902

8 Janice Alward, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, AZ 85007

13 Steve Olea, Director
14 Utilities Division
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