

ORIGINAL

OPEN MEETING ITEM



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KRISTIN K. MAYES - Chairman
GARY PIERCE
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ARIZONA CORPORATION COMMISSION

2010 APR 13 P 12:00

DATE: APRIL 13, 2010

AZ CORP COMMISSION
DOCKET CONTROL

DOCKET NO.: W-01676A-08-0366

TO ALL PARTIES:

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

PINEVIEW WATER COMPANY, 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:

APRIL 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:

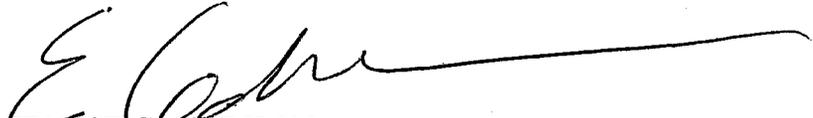
APRIL 27, 2010 and APRIL 28, 2010

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

APR 13 2010

DOCKETED BY 


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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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
PINEVIEW WATER COMPANY, INC. FOR
APPROVAL OF AN INCREASE IN ITS WATER
RATES.

DOCKET NO. W-01676A-08-0366

DECISION NO. _____

OPINION AND ORDER

DATE OF HEARING: February 4, 2010
PLACE OF HEARING: Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE: Sarah N. Harpring
APPEARANCES: Mr. Ronald McDonald, General Manager, on behalf of Pineview Water Company, Inc.; and Ms. Ayesha Vohra, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

This case involves a permanent rate application filed by Pineview Water Company, Inc. ("Pineview"), a Class C water utility providing service to approximately 1,175 customers in an area just southeast of Show Low, in Navajo County, during its 2008 test year. Pineview's current rates were approved in Decision No. 67989 (July 18, 2005), which also required Pineview to file a rate application by July 18, 2008. Pineview filed its rate application herein to comply with that filing requirement and did not propose its own rate design, although it requested a slight increase in revenues. Pineview agrees with Staff's recommended rates and charges, but has requested an increase to its off-site facilities hook-up fees ("HUFs"), authorized in Decision No. 67275 (October 5, 2004). The Commission's Utilities Division ("Staff") does not recommend an increase to Pineview's HUFs.

1 Administrative Law Judge Teena Wolfe presided over this matter from its inception until July 6, 2009.

* * * * *

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

FINDINGS OF FACT

Background

1. Pineview is an Arizona C corporation that provides water utility service in a service area just southeast of Show Low, in Navajo County. During its 2008 test year, Pineview served approximately 1,175 customers.² Pineview’s current rates were approved in Decision No. 67989 (July 18, 2005), which also required Pineview to file a rate application by July 18, 2008.

2. Pineview’s customers are mostly residential (approximately 70 percent), and approximately 50 to 55 percent of them are seasonal, leaving the service area in the winter months. (Tr. at 27.)

3. Pineview is wholly owned by Kathrine Sutter and has five employees: General Manager Ronald McDonald, Staff Accountant Leslie Boyse, Certified Operator Wayne Coats, Service Worker Kevin DeBruykere, and Receptionist/Service Worker Leslie Boyse. None of these employees are related to Ms. Sutter.

4. Pineview rents its office space from Ms. Sutter for \$1,453 per month, which is increased by a specified percentage every November. (Tr. at 34, 44.) Ms. Sutter owns the entire building in which the office space is located. (Tr. at 34.)

5. Pineview currently assesses each new customer an HUF ranging from \$500 for a 5/8” x 3/4” meter to \$25,000 for a 6” or larger meter, as authorized by Decision No. 67275 (October 5, 2004). In that Decision, the Commission authorized Pineview to assess the HUFs for the purpose of equitably apportioning the costs of constructing additional facilities to provide water production, storage, pressure, and fire flow among all new service connections. In that Decision, the Commission found that Pineview anticipated providing service to approximately 500 new customers and was

² Pineview’s system has 1,175 meter connections. (Ex. S-1.) At hearing, Pineview’s General Manager testified that Pineview then had approximately 1,145 active customers. (Tr. at 27.)

1 planning to undertake a \$730,978 construction project,³ to include installation of a new well,
2 upgrades of the electrical controls at two existing well sites, installation of a 2-million-gallon storage
3 tank, and installation of 5,100 feet of new 12-inch transmission mains. The Commission also found,
4 per the recommendations of Staff, that Pineview sought to install the 2-million-gallon storage tank as
5 part of a plan to convert its existing system and customers to a gravity flow system, not because it
6 needed an additional 2 million gallons of storage to serve the 500 new customers, and that it was
7 appropriate to calculate the HUFs based on the cost of a 400,000-gallon storage tank instead, as that
8 was the additional capacity needed to serve the 500 new customers. Staff recommended, and the
9 Commission adopted, additional modifications that reduced the authorized construction costs to
10 \$439,537, which the Commission determined represented the construction expenditures for the new
11 backbone facilities needed to serve the 500 new customers. The HUFs were expressly designed to
12 result in Pineview's collecting \$250,000 from the 500 new customers, which represented just over 50
13 percent of the construction costs for the new backbone facilities to serve those customers.

14 6. Pineview's current rates and charges were established in Decision No. 67989 (July 18,
15 2005), in which the Commission also considered a financing application requesting authority to
16 obtain a Water Infrastructure Finance Authority of Arizona ("WIFA") loan, in an amount not to
17 exceed \$730,978, to finance the construction project discussed in Decision No. 67275.⁴ The
18 Commission adopted Staff's recommendation that the financing be approved in the amount of
19 \$577,578, which included the cost for a 1-million-gallon storage tank rather than a 2-million-gallon
20 storage tank⁵ and excluded \$54,000 for a parcel of land to be used as a wellsite for an additional well
21 that Pineview intended to drill. The Commission again found that the addition of the 2-million-
22 gallon storage tank to Pineview's system was driven by Pineview's plan to convert its existing system
23 and customers to a gravity flow system, not by the system's needs. In analyzing the rate application,
24

25 ³ On the same day that Pineview filed its HUF Tariff application, Pineview had filed a financing application seeking
authority to borrow \$730,978 to fund the construction, indicating that it intended to use the HUF funds to pay the loan.

26 ⁴ Decision No. 67989 was amended in Decision No. 68244 (October 25, 2005) to allow Pineview to obtain its WIFA
loan with a higher interest rate than originally authorized.

27 ⁵ Staff had testified that the 2-million-gallon tank desired by Pineview exceeded Pineview's current and foreseeable
needs, would take three days to fill, would run the risk of not filling fast enough to prevent the pumps from burning out,
and would mean that Pineview's current customers would be paying for Pineview's future investment. Decision No.
28 67989 found that Pineview had 963 metered customers and anticipated adding 500 more.

1 the Commission also found that Pineview had engaged in self-dealing behavior⁶ and directed Staff to
 2 scrutinize Pineview's books carefully in its next rate case and to bring to the Commission's attention
 3 any questionable expenses and plant additions, indicating that punitive action would be taken if
 4 similar activity were found in the future. Specifically, among other things, the Commission ordered
 5 Pineview to cease and desist from further commingling of company expenses and capital equipment
 6 with non-company business, to obtain Commission pre-approval of all future transactions with
 7 affiliates or members of the Sutter family, and to institute mandatory training for its employees
 8 regarding appropriate recordkeeping for usage of Pineview equipment and the prohibition on paying
 9 non-Pineview expenses from water utility revenues. Staff was ordered to bring to the Commission's
 10 attention, in Pineview's next rate case, any expenses and plant additions in Pineview's books and
 11 records that were not clearly demonstrated to be for the sole benefit of Pineview in its provision of
 12 water utility service to the public.

13 7. Pineview has completed the construction project that includes the 2-million-gallon
 14 storage tank, which was placed into service in December 2009. Pineview has obtained Arizona
 15 Department of Environmental Quality ("ADEQ") Approvals of Construction ("AOC") for the 2-
 16 million-gallon storage tank and yard piping; 4 pressure-reducing valve assemblies; 5,100 linear feet
 17 of 12" water line; 5,000 linear feet of 8" water line; 9 fire hydrants; 95 service connections; and
 18 appurtenances to service 95 residential lots.⁷

19 8. Pineview has not received the anticipated 500 new customers because the residential
 20 development that was to bring in those new customers has stalled as a result of the current economic
 21 downturn. (Tr. at 24-25.) Mr. McDonald testified that the infrastructure needed for Pineview to

22 ⁶ The Commission found that Henry Sutter, then Pineview's President and a partial owner, had received inflated lease
 23 payments from Pineview for the use of two vehicles owned by him and Kathrine Sutter, his wife. The lease agreement
 24 had been entered into between Mr. Sutter and his son, Ernest E. Sutter, then Vice President of Pineview. The
 25 Commission also found that Pineview had turned over its backhoe to Mr. Sutter at a trade-in price significantly below
 26 book cost (\$17,000 rather than \$29,477.97) and that the original cost of the replacement backhoe at the time of acquisition
 27 was \$20,929.88 rather than the \$60,000 price agreed upon in the lease-to-purchase agreement entered into by Mr. Sutter
 28 and his son (as Vice President for Pineview). Staff also recommended, and the Commission agreed, that \$80,920 in
 salaries for Mr. Sutter, Ms. Sutter, and two additional Sutters be excluded as unnecessary expenses. The Commission
 also found that Pineview's accounts demonstrated significant intermingling of Pineview business with non-Pineview
 business and ordered that such intermingling cease and that mandatory training be implemented to ensure that it would
 cease.

⁷ Pineview did not provide an AOC for a new well, but Staff indicated in its Engineering Report that two of Pineview's
 five active wells were drilled in 2007 and 2008.

1 serve the residential development has been completed, the lots are ready to be sold, and each of the
2 lots will require service when the economy recovers. (See Tr. at 25.)

3 9. Staff found that Pineview has adequate storage and well production to serve its
4 existing customers and reasonable growth.

5 10. ADEQ has determined that Pineview is in full compliance with ADEQ requirements
6 and that it is delivering water that meets the water quality standards required by Arizona
7 Administrative Code ("A.A.C.") Title 18, Chapter 4.

8 11. Pineview is not located in an Arizona Department of Water Resources ("ADWR")
9 active management area ("AMA"). ADWR has determined that Pineview is in compliance with
10 ADWR requirements governing water providers and/or community water systems.

11 12. Pineview has an approved cross connection and backflow tariff and an approved
12 curtailment tariff.

13 13. Staff's Compliance Section reports that Pineview has no outstanding compliance
14 issues.

15 14. Pineview averages approximately 175 delinquent payment letters per month, which is
16 more than 10 percent of its customer base. (Tr. at 41.)

17 **Procedural History**

18 15. On July 18, 2008, Pineview filed with the Commission a rate application using a test
19 year ending March 31, 2008 ("initial TY"), and requesting an increase in total water revenues of
20 \$47,164, or approximately 6.58 percent, over unaudited initial TY total water revenues of \$716,936.
21 Pineview included with its application a schedule of proposed rates and charges that were identical to
22 its existing rates and charges, except as to its meter installation charges, which it proposed to
23 eliminate. Pineview did not include in its application proof that notice of the application had been
24 provided to its customers.

25 16. On August 15, 2008, Staff issued a Letter of Deficiency.

26 17. On August 22, 2008, Pineview filed a revised rate application in response to the Letter
27 of Deficiency. In the cover letter to the revised rate application, Pineview stated that it was not
28 seeking an increase in rates and was filing the rate application to comply with Decision No. 67989.

1 18. On September 19, 2008, Staff issued a Second Letter of Deficiency.

2 19. On October 7, 2008, Pineview filed a second revised rate application in response to
3 the Second Letter of Deficiency. Again, Pineview stated that it was not seeking an increase in rates.

4 20. On November 5, 2008, Staff issued a Third Letter of Deficiency.

5 21. On November 18, 2008, Pineview filed a third revised rate application in response to
6 the Third Letter of Deficiency. Pineview again indicated that it was not seeking an increase in rates.

7 22. On December 17, 2008, Staff issued a Fourth Letter of Deficiency.

8 23. On March 9, 2009, Pineview filed revised application schedules in response to the
9 Fourth Letter of Deficiency.

10 24. On April 8, 2009, Staff issued a Fifth Letter of Deficiency.

11 25. On April 13, 2009, Pineview filed a revised application schedule in response to the
12 Fifth Letter of Deficiency.

13 26. On April 23, 2009, Staff issued a Letter of Sufficiency, stating that Pineview's
14 application had met the sufficiency requirements of A.A.C. R14-2-103 and had been classified as a
15 Class C Utility.

16 27. On May 8, 2009, a Procedural Order was issued scheduling a hearing in this matter for
17 November 2, 2009, and establishing other procedural requirements and deadlines. An Amended Rate
18 Case Procedural Order was issued on May 13, 2009, in response to a Staff filing made on May 12,
19 2009.

20 28. On May 27, 2009, comments were filed opposing a rate increase due to poor water
21 quality.

22 29. On June 9, 2009, Pineview filed an affidavit stating that notice of the hearing had been
23 mailed to Pineview's customers on May 21, 2009, and had been published on May 22, 2009, in the
24 *White Mountain Independent*, a semi-weekly newspaper of general circulation published at Show
25 Low, Navajo County.

26 30. On August 10, 2009, Staff filed a Motion to Suspend the Time Clock, requesting that
27 the time clock in this matter be suspended by 90 days; that the hearing scheduled for November 2,
28 2009, be vacated; and that the procedural schedule be modified accordingly. Staff explained that

1 Pineview had had difficulty in providing Staff with an accurate bill count for the initial TY due to
2 glitches in its billing program and had implemented a new billing program that Pineview believed
3 had resolved the problem. Staff stated that Pineview desired to use calendar year 2008 as its test year
4 so that it could provide bill count information using only the new billing program. Staff stated that it
5 did not oppose the change in test year, but that both Pineview and Staff would need additional time as
6 a result of the change. Staff stated that it had contacted Pineview concerning the requested extension
7 of time and that Pineview did not oppose the extension.

8 31. On August 12, 2009, a Procedural Order was issued scheduling a procedural
9 conference for August 20, 2009, to discuss Staff's Motion and Pineview's request to change its test
10 year.

11 32. On August 20, 2009, a procedural conference was held at the Commission's offices in
12 Phoenix, Arizona. Pineview appeared through Mr. McDonald, and Staff appeared through counsel.
13 During the procedural conference, Mr. McDonald was directed to file, by the end of the following
14 week, a Board resolution authorizing Mr. McDonald to represent Pineview before the Commission;⁸
15 Mr. McDonald committed to filing the bill counts for the 2008 test year ("TY") by the same date; and
16 Staff was directed to make a filing within a week after receiving the bill counts stating whether a 90-
17 day extension of the procedural schedule would allow Staff sufficient time to complete its analysis of
18 the information for the TY. A ruling on Staff's Motion was withheld pending receipt of Staff's filing
19 on the bill counts. It was announced that the hearing scheduled for November 2, 2009, would
20 proceed at least for the taking of public comment in light of the notice that had already been
21 provided, and Pineview was informed that it would be required to provide additional notice once
22 Staff made its rate recommendations. In addition, Pineview revealed that it desired to obtain a rate
23 increase of approximately 2 to 3 percent.

24 33. On August 26, 2009, Pineview filed the TY bill counts along with a Board Resolution
25 authorizing Mr. McDonald to represent Pineview before the Commission and a list of new plant
26 added in 2008.

27 _____
28 ⁸ A Board Resolution filed with the original application authorized Pineview's officers to represent Pineview before
the Commission, but Mr. McDonald is not an officer.

1 34. On September 3, 2009, Staff filed an Update stating that Staff had reviewed the TY
2 bill counts and believed that its previous request for a 90-day extension of the time clock in this
3 matter was still appropriate.

4 35. On September 10, 2009, a Procedural Order was issued directing that the hearing
5 scheduled for November 2, 2009, would proceed only for the taking of public comment; scheduling
6 the evidentiary portion of the hearing in this matter to commence on February 4, 2010; and
7 establishing other procedural requirements and deadlines.

8 36. On December 3, 2009, Staff filed the Direct Testimony of Jeffrey Michlik, Public
9 Utilities Analyst V, and Dorothy Hains, Utilities Engineer.

10 37. On December 16, 2009, Pineview filed an affidavit stating that notice of the February
11 4, 2010, hearing and of Staff's recommended rates and charges had been sent to all of its customers
12 by first class mail on December 10, 2009, and published in the *White Mountain Independent* on
13 December 11, 2009.

14 38. On December 17, 2009, comments were filed suggesting that Pineview should allow
15 payment to be made through automatic payments or sure pay and that a rate increase might not be
16 needed if Pineview would do so.

17 39. On December 24, 2009, Pineview filed its response to Staff's Direct Testimony,
18 stating that it agrees with Staff's Direct Testimony except that Pineview believes it should receive an
19 increase in its HUFs to pay for plant that was financed through WIFA loans, as the HUFs collected
20 are not sufficient to cover the WIFA loan payments. Pineview also requested elimination of its
21 refundable service line and meter installation charges,⁹ asserting that refunding them during low
22 revenue earning months is a hardship.

23 40. On January 12, 2010, Staff filed a reply to Pineview's response, clarifying that
24 Pineview desires to eliminate its service line and meter installation charges rather than its meter
25 deposits and stating that Staff agrees with Pineview that the service line and meter installation
26 charges should be eliminated. Staff further stated that Pineview had not proposed any modification
27

28 ⁹ Pineview referred to these as "meter deposits" in this filing.

1 to its existing HUF Tariff in its application, that Staff did not address the HUFs in its direct testimony
2 because Staff was not proposing any changes to the existing HUF Tariff, and that Staff recommends
3 continuation of Pineview's existing HUF Tariff. Staff also corrected a typographical error from its
4 Direct Testimony.

5 41. On January 13 and 25, 2010, comments were filed by an individual opposing the rate
6 increase due to quality of service issues and outage problems. The commenter stated that rates
7 should not be increased because Pineview has never improved service or quality to homeowners and
8 that Pineview's piping is old, its water is discolored, there is a water outage at least once per month,
9 and Pineview has failed to fix breaks because of the difficulty and cost involved.

10 42. On January 28, 2010, Staff filed a Notice of Errata with a revised rate design schedule
11 that had been inadvertently omitted from Staff's filing of January 12, 2010.

12 43. On January 28, 2010, Pineview filed a response to Staff's reply, stating that Pineview
13 agrees with Staff's reply and that Pineview understands that the issue of increasing its HUFs could be
14 discussed at the hearing in this matter. Pineview included in its response the amount of HUFs
15 collected between October 5, 2004, and January 25, 2010, and the amount of WIFA loan payments
16 made during the same period.

17 44. On February 4, 2010, a full evidentiary hearing was held before a duly authorized
18 Administrative Law Judge of the Commission at the Commission's offices in Phoenix, Arizona.
19 Pineview was represented by Mr. McDonald, and Staff was represented by counsel. Pineview
20 presented documentary evidence and the testimony of Mr. McDonald and Leslie Boyse. Staff
21 presented documentary evidence and the testimony of Mr. Michlik and Ms. Hains. No members of
22 the public appeared to provide comment. During the hearing, Pineview and Staff were each
23 requested to file a late-filed exhibit ("LFE").

24 45. On February 17, 2010, Pineview filed its LFE.

25 46. On February 18, 2010, Staff filed its LFE.

26 **Ratemaking**

27 47. Pineview has adopted Staff's position in this matter, except as to its request for an
28 increase in its HUFs. (Tr. at 20-21.)

48. Pineview's current rates and charges and the rates and charges recommended by Staff and proposed by Pineview are as follows:

MONTHLY USAGE CHARGE:

	<u>Present Rates</u>	<u>Co. Proposed & Staff Recommended</u>
5/8" x 3/4" Meter	\$ 17.93	\$ 18.00
3/4" Meter	27.00	27.00
1" Meter	49.00	45.00
1-1/2" Meter	92.00	90.00
2" Meter	145.00	144.00
3" Meter	285.00	288.00
4" Meter	448.25	450.00
6" Meter	896.50	900.00
8" Meter	1,793.00	1,440.00
10" Meter	2,689.50	2,070.00

COMMODITY RATES (Per 1,000 Gallons):

5/8" x 3/4" and 3/4" Meters

1 to 3,000 Gallons	\$3.10	\$2.75
3,001 to 20,000 Gallons	3.66	
Over 20,000 Gallons	4.20	
3,001 to 10,000 Gallons		4.00
Over 10,000 Gallons		4.90

1" Meter

1 to 30,000 Gallons	3.10	
30,001 to 75,000 Gallons	3.66	
Over 75,000 Gallons	4.20	
1 to 24,000 Gallons		4.00
Over 24,000 Gallons		4.90

1 1/2" Meter

1 to 50,000 Gallons	3.10	
50,001 to 100,000	3.66	
Over 100,000 Gallons	4.20	
1 to 65,000 Gallons		4.00
Over 65,000 Gallons		4.90

2" Meter

1 to 120,000 Gallons	3.10	
120,001 to 250,000 Gallons	3.66	
Over 250,000 Gallons	4.20	
1 to 113,000 Gallons		4.00
Over 113,000 Gallons		4.90

1	<u>3" Meter</u>			
	1 to 150,000 Gallons	3.10		
2	150,001 to 250,000 Gallons	3.66		
	Over 250,000 Gallons	4.20		
3	1 to 240,000 Gallons		4.00	
	Over 240,000 Gallons		4.90	
4				
5	<u>4" Meter</u>			
	1 to 150,000 Gallons	3.10		
6	150,001 to 250,000 Gallons	3.66		
	Over 250,000 Gallons	4.20		
7	1 to 385,000 Gallons		4.00	
	Over 385,000 Gallons		4.90	
8				
9	<u>6" Meter</u>			
	1 to 150,000 Gallons	3.10		
10	150,001 to 250,000 Gallons	3.66		
	Over 250,000 Gallons	4.20		
11	1 to 795,000 Gallons		4.00	
	Over 795,000 Gallons		4.90	
12				
13	<u>8" Meter</u>			
	1 to 150,000 Gallons	3.10		
14	150,001 to 250,000 Gallons	3.66		
	Over 250,000 Gallons	4.20		
15	1 to 1,285,000 Gallons		4.00	
	Over 1,285,000 Gallons		4.90	
16				
17	<u>10" Meter</u>			
	1 to 150,000 Gallons	3.10		
18	150,001 to 250,000 Gallons	3.66		
	Over 250,000 Gallons	4.20		
19	1 to 1,850,000 Gallons		4.00	
	Over 1,850,000 Gallons		4.90	
20				
21	<u>Construction Water</u>			
	All Usage, Per 1,000 Gallons	4.75	4.90	

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

		<u>Co. Proposed & Staff Recommended</u>		
	<u>Present</u>	<u>Service</u>		
	<u>Total Charge</u>	<u>Line Charge</u>	<u>Meter Charge</u>	<u>Total Charge</u>
27	5/8" x 3/4" Meter	\$ 475.00	\$0.00	\$0.00
	3/4" Meter	550.00	0.00	0.00
28	1" Meter	650.00	0.00	0.00

1	1-1/2" Meter	900.00	0.00	0.00	0.00
2	2" Turbine Meter	1,550.00	0.00	0.00	0.00
3	2" Compound Meter	2,300.00	0.00	0.00	0.00
4	3" Turbine Meter	2,200.00	0.00	0.00	0.00
5	3" Compound Meter	3,100.00	0.00	0.00	0.00
6	4" Turbine Meter	3,600.00	0.00	0.00	0.00
7	4" Compound Meter	4,400.00	0.00	0.00	0.00
8	6" Turbine Meter	6,200.00	0.00	0.00	0.00
9	6" Compound Meter	7,900.00	0.00	0.00	0.00
10	8" Turbine Meter	7,543.00	0.00	0.00	0.00
11	8" Compound Meter	7,980.00	0.00	0.00	0.00
12	10" Turbine Meter	9,629.00	0.00	0.00	0.00
13	10" Compound Meter	11,278.00	0.00	0.00	0.00

	<u>Present Rates</u>	<u>Co. Proposed & Staff Recommended</u>
9 <u>SERVICE CHARGES:</u>		
10 Establishment – Regular Hours	\$20.00	\$20.00
11 Establishment – After Hours	\$35.00	\$35.00
12 Re-Establishment Fee (Within 12 Mos.)	*	*
13 Reconnection of Service – Regular Hours	\$15.00	\$15.00
14 Reconnection of Service – After Hours	\$30.00	\$30.00
15 Meter Test – If Correct	\$20.00	\$20.00
16 Meter Relocation at Customer Request	Cost (1)	Cost (1)
17 Meter Re-Read – If Correct	**	\$15.00
18 NSF Check Charge	\$25.00 ¹⁰	\$25.00
19 Late Charge	1.50%	1.50%
20 Deferred Payment Finance Charge (Per Month)	1.50%	1.50%
21 Service Calls – Regular Hours	No Charge	No Charge
22 Service Calls – After Hours	\$25.00	\$25.00
23 Deposit	***	***
24 Deposit Interest	6.00%	6.00%

19 * Number of months off system times monthly minimum, per Commission rule A.A.C. R14-2-403(D).

20 ** Per Commission rule A.A.C. R14-2-408(C).

21 *** Per Commission rule A.A.C. R14-2-403(B).

22 (1) Cost Includes Materials, Labor, and Overheads.

23 49. Staff used an operating margin of 12.18 percent,¹¹ (Staff LFE), because after
 24 determining what Pineview's rates would be based on both a rate-of-return analysis and an operating-

25 _____
 26 ¹⁰ Ms. Boyce testified that Pineview assesses a \$15.00 charge for a NSF check charge. (Tr. at 43.) This is consistent with Decision No. 67989. Pineview's tariff shows \$25.00 for its NSF check charge. It is unclear why the discrepancy exists.

27 ¹¹ As of the hearing, Staff recommended an operating margin of 10.00 percent. Staff modified its recommendation after
 28 determining that an error had been made in its tax calculations. (Staff LFE.) Staff's recommended revenue increase and rates and charges have not changed from its earlier position, with which Pineview agrees.

1 margin analysis, Staff determined that the revenue requirement using a typical rate of return would be
2 too low for Pineview to have adequate cash flow to meet all of its obligations, (*See* Tr. at 53-56).

3 50. Pineview originally proposed an original cost rate base (“OCRB”) of \$957,645 for the
4 TY, but has accepted Staff’s adjustments, which resulted in an OCRB of \$445,278. (*See* Tr. at 23.)
5 Staff’s adjustments include an overall reduction of \$436,585 to plant in service, an overall reduction
6 of \$4,601 in accumulated depreciation resulting from the reduction in plant in service and elimination
7 of over-depreciation,¹² an increase of \$11,744 in customer deposits, and disallowance of \$68,638 in
8 cash working capital. (Ex. S-1.)

9 51. The large reduction to plant in service is due to Staff’s determination that Well No. 4B
10 and the 2-million-gallon storage tank were not used and useful during the TY. (*See* Ex. S-1.)
11 Pineview paid \$69,947.23 over a period of four years, beginning in 2004, for the construction of Well
12 No. 4B, only to have the well column collapse during drilling and the well be capped and unusable.
13 (*Id.*) Staff recommends that a total of \$366,637.98 in costs attributable to the 2-million-gallon
14 storage tank be excluded from Pineview’s OCRB in this matter because the tank was not used and
15 useful during the TY. (*Id.*) The 2-million-gallon storage tank was placed in service in December
16 2009, almost a full year after the close of the TY. (*See* Tr. at 23.) Staff’s recommendation to
17 disallow cash working capital is consistent with the Commission’s general policy not to allow cash
18 working capital for Class A, B, or C utilities in the absence of a lead-lag study establishing that it is
19 necessary to preserve cash flows. Pineview has not provided a lead-lag study to justify allowance of
20 cash working capital in this matter.

21 52. We find that Staff’s adjustments to Pineview’s OCRB are appropriate and that
22 Pineview’s OCRB is \$445,278. Staff asserts that Pineview’s fair value rate base (“FVRB”) is
23 equivalent to its OCRB, (Ex. S-1), and Pineview agrees, (*see* Tr. at 21). We agree and find that
24 Pineview’s FVRB is \$445,278.

25 53. Pineview and Staff agree that Pineview had TY total operating revenues of \$675,251.
26 Staff did not recommend any adjustments to Pineview’s TY revenues. We find that Pineview’s TY

27 _____
28 ¹² Staff determined that some assets had been depreciated beyond their useful lives, resulting in negative balances in
two accounts, which Staff adjusted to zero balances. (*See* Ex. S-1; Tr. at 59.)

1 revenue was \$675,251.

2 54. Pineview accepted Staff's adjusted TY operating expenses of \$619,432. Staff made
3 several adjustments to Pineview's TY operating expenses, resulting in an overall decrease from
4 \$632,804 to \$619,432. Staff eliminated \$9,979 in rate case expense,¹³ decreased depreciation
5 expense by \$7,700 based on adjusted plant in service, increased property tax expense by \$2,142 and
6 income tax expense by \$1,931 to be consistent with Staff's calculations based on state and federal
7 law, decreased office supplies and expense by \$201 for food and beverage expenses unnecessary for
8 provision of services, and increased water testing expense by \$435 to reflect water testing costs as
9 determined by Staff. These adjustments are appropriate and will be adopted herein.

10 55. As required by Decision No. 67989, Staff scrutinized Pineview's books and records
11 for non-arm's-length transactions. (Tr. at 52.) As part of this scrutiny, Staff reviewed a copy of the
12 lease agreement for office space between Ms. Sutter and Pineview, determining that the lease
13 agreement is in keeping with the market. (Tr. at 52-53.) Staff did not detect any expenses or plant
14 additions that were not for the sole benefit of Pineview in providing utility service. (*Id.*) Staff
15 determined that Pineview had very good records that enabled Staff to trace all of its invoices and that
16 there were no related parties with any invoices. (Tr. at 53.) In addition, Staff determined that none of
17 the water utility equipment was being used for purposes other than water utility service. (*Id.*)

18 56. Pineview's TY revenues and adjusted operating expenses resulted in TY operating
19 income of \$55,819. This represents a current rate of return of 12.54 percent using the FVRB adopted
20 herein and a current operating margin of 8.27 percent, which Staff determined could result in
21 Pineview's having cash flow problems. (*See* Tr. at 55.)

22 57. Staff recommends total operating revenue of \$715,431, an increase of \$40,180, or 5.95
23 percent, over TY operating revenues of \$675,251. This would result in operating income of
24 \$87,161,¹⁴ a rate of return of 19.57 percent, and an operating margin of 12.18 percent.

25 58. With Staff's recommended increase in revenue, Pineview would have a DSC of 1.51

26 ¹³ The \$9,979 expense related to legal fees incurred in Pineview's last rate case, which have been paid in full, and
27 should have been characterized as outside legal expenses. (Ex. S-1.) Pineview has not incurred or requested recovery of
28 legal fees for this matter. (*See id.*)

¹⁴ This figure recognizes that the increased revenue will result in a \$8,838 increase in property and income tax expense
over adjusted TY operating expense figures. (Staff LFE.)

1 and a TIER of 1.74.¹⁵ (Staff LFE.) This indicates a level of cash flow that would allow Pineview to
 2 meet its current obligations.¹⁶

3 59. Staff's recommended rates and charges would decrease the monthly bill for a
 4 residential customer served by a 5/8" x 3/4" with median usage of 2,139 gallons from \$24.56 to
 5 \$23.88, a decrease of 68 cents or 2.77 percent. For such a customer with average usage of 3,944
 6 gallons per month, the monthly bill would be decreased from \$30.69 to \$30.03, a decrease of 66 cents
 7 or 2.15 percent. For a customer served by a 5/8" x 3/4" meter, Staff's recommended rates and charges
 8 would result in a very minimal increase (0.10 percent) starting at 6,000 gallons of monthly usage, and
 9 would result in incrementally greater percentages of increase as monthly usage increases. (Staff
 10 LFE.) This is due to Staff's decreasing the first-tier rate for 5/8" x 3/4" and 3/4" meter customers, while
 11 increasing their second- and third-tier rates and decreasing the break-over point between the second
 12 and third tiers. Staff designed its rates to encourage water conservation. (Ex. S-1.) For a customer
 13 served by a 3/4" meter, the second most prevalent meter size in Pineview's system, with average
 14 monthly usage of 8,969 gallons,¹⁷ Staff's recommended rates and charges would increase the monthly
 15 bill from \$58.15 to \$59.13, an increase of \$0.98 or 1.69 percent.

16 60. For customers with meters larger than 3/4" in size, Staff's rate design replaces the
 17 existing three-tiered rates with two-tiered rates and changes the break-over point to reach the second
 18 tier commodity rate.¹⁸

19 61. We find that Staff's recommended monthly minimum charges and commodity rates
 20 for Pineview's permanent metered customers, with which Pineview agrees, are just and reasonable

21 ¹⁵ These concepts were explained as follows in Decision No. 71167 (June 16, 2009), of which official notice is taken:

22 TIER represents the number of times earnings cover interest expense on short-term and long-term debt.
 23 A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than
 24 1.0 is not sustainable in the long term but does not mean that debt obligations cannot be met in the short
 25 term. DSC represents the number of times internally generated cash will cover required principal and
 interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that operating
 cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations
 cannot be met by cash generated from operations and that another source of funds is needed to avoid
 default.

26 ¹⁶ Pineview's current obligations include a WIFA loan in the amount of \$141,989 that was approved in Decision No.
 71167 (June 16, 2009). The Commission found in that Decision that Pineview's current revenues resulted in a TIER of
 0.72 and a DSC of 1.18. (Decision No. 71167 at 4.)

27 ¹⁷ This was calculated using Pineview's TY bill counts filed on August 26, 2009, of which official notice is taken.

28 ¹⁸ For 1", 1 1/2", 2", and 3" meters, the break-over point is decreased. For larger meter sizes, the break-over point is
 increased.

1 and appropriate, and we will adopt them.

2 **Construction Water**

3 62. Pineview provides construction water through individually assigned 3” meters that are
4 installed on hydrants at the request of construction companies. (Tr. at 38.) Pineview has six hydrant
5 meters that it uses to provide construction water. (Tr. at 39.) Pineview bills for construction water by
6 assessing the monthly minimum charge for a 3” meter and then billing for any usage using the
7 construction water commodity rate, which is currently \$4.75 per thousand gallons. (*Id.*) Each
8 hydrant meter is read every month, even though a hydrant meter may not have any usage during some
9 months. (Tr. at 39-40.) Pineview even reads the hydrant meters that are sitting on the shelf in its
10 shop, just to ensure that they have not been taken out, used, and returned. (Tr. at 40.) Pineview
11 sometimes also removes an assigned hydrant meter from a hydrant when it knows a construction site
12 will be inactive for a period of time, to ensure that no one else can use the meter while the
13 construction site is inactive; the meter is still assigned to the construction company while it is in the
14 shop. (Tr. at 40-41.) Pineview continues to assess a monthly minimum charge while a hydrant meter
15 is assigned, as long as the hydrant meter account is open, and cannot use an assigned hydrant meter
16 for any other account during that time. (Tr. at 64-65.) Pineview does not provide standpipe service.
17 (Tr. at 41.)

18 63. Staff’s recommended rate design would not impose a monthly minimum charge for
19 hydrant meters, instead simply charging the highest tiered commodity rate for all hydrant meter
20 usage.¹⁹ (Tr. at 60.) Staff does not recommend a monthly minimum charge for hydrant meters that
21 are individually assigned for construction use because they are not permanently assigned, although
22 Staff acknowledged that they could be assigned for an extended period of time, such as a year. (*See*
23 *Tr. at 60-61.*)

24 64. Recent Commission decisions have recognized that it is appropriate to allow a
25 monthly minimum charge for individually assigned hydrant meters to recognize the demand that
26 these meters place on a system and to allow recovery of administrative costs that are not fully
27

28 ¹⁹ This commodity rate is referred to as the “construction water” rate. (Staff LFE.)

1 recovered through commodity rates when the meters have been assigned but have no usage for a
 2 given period.²⁰ Thus, we find that it is appropriate to authorize a monthly minimum charge for
 3 individually assigned hydrant meters, based on the meter size of the hydrant meter. We will also
 4 authorize a commodity rate of \$4.90 for all construction water usage.²¹ For a construction water
 5 customer served by a 3" hydrant meter with average monthly usage of 23,933 gallons,²² this would
 6 increase the monthly bill from \$398.68 to \$405.27, an increase of \$6.59 or 1.65 percent over the
 7 current bill for the same usage.²³

8 Service Line and Meter Installation Charges

9 65. Pineview requests that its service line and meter installation charges be eliminated, as
 10 they are refundable by 10 percent per year, every November, until fully refunded,²⁴ which results in a
 11 large drain on Pineview at a time of the year when many of Pineview's customers are paying only
 12 minimum monthly charges. (Tr. at 26.) Many of Pineview's customers leave the service area during
 13 the period from October through March or April, resulting in Pineview's receiving only minimal
 14 revenue during those months. (*Id.*) Mr. McDonald testified that in November 2009, Pineview
 15 refunded approximately \$14,000 in service line and meter installation charges. (*Id.*) Pineview asserts
 16 that the service line and meter installation charges are detrimental to it. (*Id.*) Staff agrees that it is
 17 appropriate to eliminate Pineview's service line and meter installation charges as requested.

18 66. We find that it is appropriate to eliminate Pineview's service line and meter
 19 installation charges, in light of the difficulties that Pineview experiences in refunding these charges

20 _____
 21 ²⁰ It is more appropriate that these costs be incurred by the individual customers that cause them than that they be
 spread over the entire customer base by increasing rates elsewhere to compensate.

22 ²¹ This reflects an increase of \$0.15 per thousand gallons. We note that a \$4.00 commodity rate for construction water
 23 usage, such as would be assessed for usage up to 240,000 gallons if the commodity rates for a 3" meter were charged,
 would represent a decrease of \$0.75 per thousand gallons from the current commodity rate assessed for construction water
 24 usage. This would not be appropriate. As we recognized in Decision No. 71482 (February 3, 2010), while construction
 water usage has its societal benefits, as does construction itself, and is largely the result of governmental requirements to
 25 keep down dust for public health reasons, we are fully cognizant that water being used for construction purposes is
 potable water being use for non-potable purposes. The increase approved herein is more likely to result in conservation
 of this potable water than a commodity rate decrease would be.

26 ²² This was calculated using Pineview's TY bill counts filed on August 26, 2009, of which official notice is taken.

27 ²³ Staff's recommended rates and charges, which would not assess a monthly minimum charge for construction water
 usage, would decrease the monthly bill for such a customer from \$398.68 to \$117.27, a decrease of \$281.41 or 70.59
 percent. We note that this would also be \$5.24 less than a customer served by a 5/8" x 3/4" meter would be charged for
 usage of 23,933 gallons using the rates adopted herein (\$122.51).

28 ²⁴ If there is no open account to receive the refund of the annual amount, Pineview must hold the refund amount until
 there is an open account to receive it. (Tr. at 66.)

1 during the months when its revenues are at their lowest.

2 **HUFs**

3 67. Pineview requests that its HUFs be increased by 54 percent so that they will generate
4 sufficient revenue to cover the full amount of the annual payments on its WIFA loan approved in
5 Decision No. 67989 (July 18, 2005). (Ex. A-1.) Pineview collected a total of \$121,000 in HUFs
6 between October 5, 2004, and January 25, 2010, and made WIFA loan payments of \$221,520.52
7 during the same period. (*Id.*; Tr. at 10-12.) Pineview asserts that the annual payments on the WIFA
8 loan total \$61,824 and that the average annual revenue from the HUFs is \$33,768, which results in a
9 shortfall that Pineview would like to have eliminated by the requested increase in HUFs.²⁵ (Ex. A-1.)
10 Mr. McDonald testified that the HUFs were meant to pay the WIFA loan for new plant, which has
11 now been completed,²⁶ and that they are not sufficient to make the full payments on the WIFA loan.
12 (Tr. at 14-15.)

13 68. Staff recommends that Pineview's HUFs remain unchanged. (Ex. S-2.) Staff
14 explained that HUFs are generally classified as contributions in aid of construction ("CIAC") and
15 treated as a reduction to rate base. (Tr. at 56.) Thus, if a company collects too much in HUFs, it
16 could end up with a negative rate base, which becomes a problem in the company's future cases.
17 (*Id.*) Staff tries to ensure that there is a good balance between HUFs, owner's equity, and debt to
18 avoid future problems that can arise if a company does not want to invest any more capital into its
19 water system. (Tr. at 57.) The Commission specifically found in Decision No. 67275, in which the
20 HUFs were approved, that the total amount to be collected in HUFs would be just over 50 percent of
21 the cost of the new plant to be constructed by Pineview, stating that CIAC should be established so
22 that it does not represent a significant portion of a company's capital structure. (Decision No. 67275
23 at 4.) Furthermore, Staff asserts that HUFs are intended to be used only for new plant construction,
24 not plant construction that has already been completed. (Tr. at 85.)

25 _____
26 ²⁵ The amount unpaid by the HUFs, \$28,056, is equivalent to approximately 83 percent of the average annual HUFs
collected, as reported by Pineview.

27 ²⁶ Mr. McDonald testified that the WIFA loan was obtained in 2005 to finance the new plant construction, that the new
28 plant construction continued until Pineview ran out of funds, and that Pineview obtained the new WIFA loan approved in
February 2010 to obtain the funds to finish the construction of the new plant, which has now been completed and is now
in service. (Tr. at 15.)

1 69. For the reasons expressed by Staff herein and previously recognized by the
2 Commission, we find that it is not appropriate to increase Pineview's HUFs. Increasing the HUFs as
3 requested would result in degradation of Pineview's rate base, which would be inappropriate,
4 especially as Pineview's rate base is already lower than is optimal for a utility of its size.

5 **Water Loss**

6 70. Pineview has excessive water loss. In the TY, Pineview's water loss was 18.6 percent.
7 Mr. McDonald attributes most of Pineview's ongoing water loss to the Scotts Pines subdivision that it
8 serves, estimating that 60 percent of its repairs are in Scotts Pines. (Tr. at 34.) Scotts Pines is served
9 by old transite pipes that Mr. McDonald testified were installed without proper bedding and without
10 adequate valves by a previous owner. (Tr. at 30-31.) Mr. McDonald testified that because of the
11 type of pipe and the lack of proper bedding, the presence of clay in the soil or of rocks causes the
12 transite pipes to break. (Tr. at 30.) Each such break is difficult to locate because of the inadequate
13 valves, and the entire segment of broken pipe must be replaced because the transite pipe cannot be
14 repaired, which means that the water must be shut off during the replacement. (Tr. at 31.) Pineview
15 had 23 water line breaks in 2009, most of which were in Scotts Pines. (Tr. at 30-31.) The water loss
16 problem in Scotts Pines has been exacerbated in the last few years by Pinetop-Lakeside Sanitary
17 District sewer system lines that cross Pineview's water lines in Scotts Pines and were installed using
18 cinder backfill, which is very porous. (See Tr. at 34.) According to Mr. McDonald, the presence of
19 the cinders means that leaks in the Scotts Pines water lines do not cause water to come to the surface,
20 thus making the leaks very difficult to detect and locate. (*Id.*) It took Pineview six months to find
21 one such leak, after digging approximately 100 holes to expose the line. (Tr. at 34-35.) That leak
22 was almost one-quarter mile from where water was coming to the surface. (Tr. at 35.) Mr.
23 McDonald testified that, as time permits, Pineview has been digging up all of its affected lateral lines
24 and putting in clay dams wherever the sewer line crosses the water main so that a leak in the water
25 main will result in water coming to the surface, making it easier to detect and locate. (*Id.*) Thus far,
26 Pineview has installed clay dams in approximately 40 percent of the Scotts Pines subdivision. (*Id.*)
27 The clay dam project is complicated by accessibility issues caused by fencing on approximately 70
28 percent of the Scotts Pines properties and a number of sheds built over the water lines in Scotts Pines,

1 by the weather, and by the presence of creeks in Scotts Pines that make it difficult to tell whether
2 water is coming from a leak or from a creek. (Tr. at 35-36.) Pineview intends to complete the clay
3 dam project as time permits. (Tr. at 35.)

4 71. Mr. McDonald testified that Pineview's water loss for 2009 was approximately 12
5 percent until its new system went on line in December 2009, resulting in the loss of approximately 3
6 million gallons from three different incidents when the gravity system blew off the end of a line.²⁷
7 (Tr. at 36.) The water from those incidents blew off into creeks, and Pineview did not detect the
8 leaks until there was substantial water loss. (See Tr. at 37.) For 2009, Pineview's water loss was
9 15.99 percent. Pineview's reported water pumped and sold during 2009 does not support Mr.
10 McDonald's testimony, instead showing that Pineview had excessive water loss each month in 2009
11 other than June, July, and September.²⁸ (Co. LFE.) As of the end of November 2009, Pineview's
12 cumulative water loss was 14.76 percent. (See *id.*)

13 72. Ms. Hains testified that she is concerned by the water loss that occurred after the new
14 storage tank was placed in service because Pineview's old pipes may not be able to handle the new
15 gravity flow system. (See Tr. at 90.) Ms. Hains recommends that Pineview consider replacing the
16 pipes in Scotts Pines, although she acknowledged that it would likely be difficult and may not be
17 economical. (See Tr. at 90-91.)

18 **Public Comments**

19 73. Comments filed in this docket asserted that Pineview's water is discolored and of poor
20 quality and that Pineview fails to fix leaks because of the expense involved. Mr. McDonald testified
21 that he was unable to connect the commenter with a service address and that it is possible the
22 customer is confusing Pineview with another water utility. (Tr. at 27-28.) Mr. McDonald testified
23 that 30 to 40 percent of the calls Pineview receives are actually from customers of other utilities who
24 are confused about which utility provides their service, either due to similar names or proximity of
25 service areas. (See *id.*) Mr. McDonald acknowledged, however, that there is a periodic discoloration

26 ²⁷ The lines affected were directly connected to the new storage tank and could not take the added pressure from the
27 gravity feed system. (Tr. at 37.) Pineview's policy is not to install dead-end lines, but these incidents occurred with
developer-installed line and old line. (See Tr. at 36-37.)

28 ²⁸ Pineview had water loss in excess of 23 percent in the months of January, February, November, and December. (Co.
LFE.)

1 issue in Scotts Pines subdivision that is caused by the water being stirred up after lines are shut down
 2 and drained for repairs and then recharged. (See Tr. at 29-30.) In addition, discoloration
 3 occasionally occurs elsewhere due to disturbance of the lines resulting from the use of a hydrant for
 4 fire fighting. (Tr. at 17, 29-30.) Mr. McDonald testified that the water has been tested while
 5 discolored and that it is perfectly safe to drink, that he has consumed it himself. (Tr. at 30.) Mr.
 6 McDonald further testified that Pineview has never had any water quality issues, *i.e.*, bad test
 7 outcomes, just periodic complaints of discoloration. (Tr. at 16-17.) Regarding the alleged willful
 8 failure to fix leaks, Mr. McDonald testified that Pineview always repairs leaks because leaks create a
 9 lack of pressure in the system that would cause booster pumps to run constantly, driving up costs.
 10 (Tr. at 31-32.)

11 74. Ms. Hains testified that Pineview should provide water to its customers that is
 12 colorless and odorless and that meets all of the maximum contaminant level (“MCL”) standards. (Tr.
 13 at 87.) Ms. Hains further testified that the presence of particulates in the water could indicate the
 14 presence of bacteria, which could represent a health risk. (Tr. at 88.) In addition, Ms. Hains
 15 questioned whether water containing metal contaminants still meets the MCL standards.²⁹ (*Id.*) Ms.
 16 Hains disagreed with Mr. McDonald’s position that the water discoloration is not a water quality
 17 issue and testified that water discoloration should be addressed by Pineview immediately when it
 18 occurs. (Tr. at 87-88.) Ms. Hains also acknowledged, however, that the homes in Scotts Pines are
 19 more than 50 years old and that galvanized pipes of that age, installed beyond the meter to a home,³⁰
 20 would cause discoloration of the water provided to the home. (See Tr. at 95.)

21 Staff Recommendations

22 75. Staff recommends the following:

- 23 (a) That Staff’s recommended rates and charges be approved;
- 24 (b) That Pineview be ordered to use the depreciation rates set forth by National
 25 Association of Regulatory Commissioners (“NARUC”) account number in Figure 6 of the Staff
 26 Engineering Report filed in this docket;

27 ²⁹ Ms. Hains testified that reddish discoloration probably indicates the presence of iron or magnesium, which is subject
 28 to a secondary MCL standard that ADEQ does not enforce. (Tr. at 88.)

³⁰ Pineview is not responsible for the pipes that go from the water meter to the home. (Tr. at 95.)

1 (c) That Pineview be required to reduce its water loss to a level below 10 percent
2 by December 31, 2010, or before it files its next rate increase application or Certificate of
3 Convenience and Necessity ("CC&N") application, whichever comes first;

4 (d) That Pineview be required to begin water loss monitoring and to take action to
5 reduce its water loss to less than 10 percent;

6 (e) That Pineview be required to evaluate its water system and file with the
7 Commission, by January 31, 2011, as a compliance item in this docket, either a water loss reduction
8 report setting forth the corrective measures that Pineview will use to reduce its water loss to less than
9 10 percent or, if Pineview finds that reduction of water loss to less than 10 percent is not cost
10 effective, a detailed cost analysis and explanation demonstrating why water loss reduction to less than
11 10 percent is not cost effective; and

12 (f) That Pineview be prohibited from having annual water loss that exceeds 15
13 percent.

14 **Resolution**

15 76. As stated previously, we are adopting Staff's recommended monthly minimum
16 charges and commodity rates for Pineview's permanent customers and are adopting a monthly
17 minimum charge by meter size for construction meters and a commodity rate of \$4.90 per thousand
18 gallons for construction meter water usage.

19 77. In addition, as recommended by Staff, we are eliminating Pineview's service line and
20 meter installation charges as requested by Pineview and are retaining Pineview's current HUFs rather
21 than increasing them as requested by Pineview.

22 78. We are concerned about Pineview's excessive water loss and agree with Staff's
23 recommendations set forth in Findings of Fact No. 75(d) through (f). While it generally may be
24 appropriate to establish a deadline for the reduction of water loss to an acceptable level, as Staff has
25 recommended in Findings of Fact No. 75(c), we find that the deadline expressed in Findings of Fact
26 No. 75(c) is inconsistent with the second alternative provided in Findings of Fact No. 75(e)—for
27 Pineview to file, by January 31, 2011, a detailed cost analysis and explanation demonstrating why
28

1 water loss reduction to less than 10 percent is not cost effective.³¹ Pineview is in the process of
2 installing clay dams in certain areas within Scotts Pines as part of an ongoing effort to detect water
3 leaks in that area more rapidly and thus reduce water loss. While this clay dam project appears to be
4 a good start and appropriate for the time being, we find that it is also appropriate for Pineview to
5 analyze whether reducing its water loss to an acceptable level will necessitate replacement of all of
6 the transite pipe within its system and to determine the costs that would be incurred from the
7 replacement of all of the transite pipe. We will require Pineview to include its analysis and the
8 estimated costs of replacing the transite pipe in the filing that it makes under Findings of Fact No.
9 75(e).

10 79. Based upon Staff's testimony, we are concerned that Pineview may not be responding
11 to the water discoloration issue as actively as it should. Pineview must ensure that it is providing
12 potable water to each customer's point of delivery, as required by A.A.C. R14-2-407(A). Rather than
13 assuming that the particulates causing discoloration are caused by old galvanized piping on the
14 customer side of the meter or are harmless sediment stirred up by fire operations or repairs, Pineview
15 should have discolored water samples tested to determine definitively what particulates are present;
16 whether the discolored water meets all of the MCL standards; and, if possible, what is causing the
17 discoloration. If the discolored water does not meet the MCL standards, Pineview should create a
18 remediation plan to bring it into compliance, unless Pineview can establish that the discoloration is
19 caused by customer facilities. Thus, we will require Pineview to respond to the next reported
20 discoloration incident within its service area by obtaining samples from a property at which
21 discoloration is reported, within 24 hours after discoloration is reported, and submitting the samples
22 to a laboratory qualified to perform drinking water testing for testing to determine the nature of any
23 present particulates; whether the sampled water meets the applicable MCL standards; and, if possible,
24 the cause of the discoloration. We will also require Pineview to submit to Docket Control, as a
25 compliance item in this docket, within 30 days after they are received, the results of the testing and, if
26 necessary, a written plan for remediation necessitated by the test results.

27 _____
28 ³¹ There would be no reason to allow for this detailed cost analysis if Pineview has already reduced its water loss to 10 percent or less by December 31, 2010.

1 80. Staff's recommendation set forth in Findings of Fact No. 75(b) is appropriate, and we
2 adopt it.

3 **CONCLUSIONS OF LAW**

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

6 2. The Commission has jurisdiction over Pineview and the subject matter of the
7 application.

8 3. Notice of Pineview's application and this matter was provided in accordance with the
9 law.

10 4. Pineview's FVRB is \$445,278.

11 5. The rates, charges, and conditions of service established herein are just and reasonable
12 and in the public interest.

13 6. It is just and reasonable and in the public interest to take the actions described in
14 Findings of Fact Nos. 76 through 80.

15 **ORDER**

16 IT IS THEREFORE ORDERED that Pineview Water company, Inc. is hereby authorized and
17 directed to file with the Commission's Docket Control, as a compliance item in this docket, on or
18 before May 3, 2010, a revised tariff setting forth the following rates and charges:

19 **MONTHLY USAGE CHARGE:**

20	5/8" x 3/4" Meter	\$ 18.00
	3/4" Meter	27.00
21	1" Meter	45.00
	1-1/2" Meter	90.00
22	2" Meter	144.00
	3" Meter	288.00
23	4" Meter	450.00
	6" Meter	900.00
24	8" Meter	1,440.00
	10" Meter	2,070.00
25	Construction Meter ³²	By Meter Size

26
27
28 ³² A construction meter is an individually assigned meter attached to a hydrant to provide water for construction purposes.

COMMODITY RATES (Per 1,000 Gallons):

5/8" x 3/4" and 3/4" Meters

1 to 3,000 Gallons	\$2.75
3,001 to 10,000 Gallons	4.00
Over 10,000 Gallons	4.90

1" Meter

1 to 24,000 Gallons	4.00
Over 24,000 Gallons	4.90

1 1/2" Meter

1 to 65,000 Gallons	4.00
Over 65,000 Gallons	4.90

2" Meter

1 to 113,000 Gallons	4.00
Over 113,000 Gallons	4.90

3" Meter

1 to 240,000 Gallons	4.00
Over 240,000 Gallons	4.90

4" Meter

1 to 385,000 Gallons	4.00
Over 385,000 Gallons	4.90

6" Meter

1 to 795,000 Gallons	4.00
Over 795,000 Gallons	4.90

8" Meter

1 to 1,285,000 Gallons	4.00
Over 1,285,000 Gallons	4.90

10" Meter

1 to 1,850,000 Gallons	4.00
Over 1,850,000 Gallons	4.90

Construction Meter

All Usage, Per 1,000 Gallons	4.90
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SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	<u>Service Line Charge</u>	<u>Meter Charge</u>	<u>Total Charge</u>
All Meters	\$0.00	\$0.00	\$0.00

SERVICE CHARGES:

1	Establishment – Regular Hours	\$20.00
2	Establishment – After Hours	\$35.00
3	Re-Establishment Fee (Within 12 Mos.)	*
4	Reconnection of Service – Regular Hours	\$15.00
5	Reconnection of Service – After Hours	\$30.00
6	Meter Test – If Correct	\$20.00
7	Meter Relocation at Customer Request	Cost**
8	Meter Re-Read – If Correct	\$15.00
9	NSF Check Charge	\$25.00
10	Late Charge	1.50%
11	Deferred Payment Finance Charge (Per Month)	1.50%
12	Service Calls – Regular Hours	No Charge
13	Service Calls – After Hours	\$25.00
14	Deposit	***
15	Deposit Interest	6.00%

* Number of months off system times monthly minimum, per Commission rule A.A.C. R14-2-403(D).

** Cost Includes Materials, Labor, and Overheads.

*** Per Commission rule A.A.C. R14-2-403(B).

IT IS FURTHER ORDERED that the rates and charges set forth above shall be effective for all services rendered by Pineview Water Company, Inc. on and after May 1, 2010.

IT IS FURTHER ORDERED that Pineview Water Company, Inc. shall notify its customers of the revised schedule of rates and charges authorized herein by means of an insert in its next regularly scheduled billing, or by separate mailing, in a form acceptable to the Commission’s Utilities Division Staff.

IT IS FURTHER ORDERED that Pineview Water Company, Inc. shall, on a going-forward basis, use the depreciation rates set forth by National Association of Regulatory Commissioners account number in Figure 6 of the Staff Engineering Report filed in this docket and ensure that no plant items are over-depreciated.

IT IS FURTHER ORDERED that Pineview Water Company, Inc. shall begin water loss monitoring and take action to reduce its water loss to a level lower than 10 percent.

IT IS FURTHER ORDERED that Pineview Water Company, Inc. shall evaluate its water system and file with the Commission, as a compliance item in this docket, by January 31, 2011, either a water loss report setting forth the corrective measures that Pineview Water Company, Inc. will use

1 to reduce its water loss to a level lower than 10 percent or, if Pineview determines that reduction of
2 water loss to a level lower than 10 percent is not cost effective, a detailed cost analysis and
3 explanation demonstrating why water loss reduction to a level lower than 10 percent is not cost
4 effective.

5 IT IS FURTHER ORDERED that Pineview Water Company, Inc. shall analyze whether
6 reducing its water loss to a level lower than 10 percent will necessitate replacement of all of the
7 transite pipe within its system and shall determine the costs that would be incurred in replacing all of
8 the transite pipe.

9 IT IS FURTHER ORDERED that Pineview Water Company, Inc. shall include its analysis
10 regarding the need to replace transite pipe and the estimated costs of replacing the transite pipe in its
11 compliance filing required to be made in this docket by January 31, 2011.

12 IT IS FURTHER ORDERED that Pineview Water Company, Inc. is prohibited from having
13 annual water loss that exceeds 15 percent.

14 IT IS FURTHER ORDERED that the next time water discoloration is reported to Pineview
15 Water Company, Inc., at a location in its service area, Pineview Water Company, Inc. shall obtain
16 samples from a property at which discoloration is reported, within 24 hours after discoloration is
17 reported, and submit the samples to a laboratory qualified to perform drinking water testing for
18 testing to determine the nature of any present particulates; whether the sampled water meets the
19 applicable maximum contaminant level standards; and, if possible, the cause of the discoloration.

20 IT IS FURTHER ORDERED that Pineview Water Company, Inc. shall, within 30 days after
21 receiving the test results from the laboratory, file with Docket Control, as a compliance item in this
22 docket, a copy of the test results and, if necessary, a written plan for remediation necessitated by the
23 test results.

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1 IT IS FURTHER ORDERED that Pineview Water Company, Inc. shall continue to charge the
2 Off-Site Facilities Hook-up Fees authorized in Decision No. 67275, in accordance with the Off-Site
3 Water Facilities Hook-up Fee Tariff approved therein.

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 _____, 2010.

17 _____
ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

18 DISSENT _____
19

20 DISSENT _____
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28

1 SERVICE LIST FOR: PINEVIEW WATER COMPANY, INC.

2 DOCKET NO.: W-01676A-08-0366

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4 Ronald L. McDonald, General Manager
5 PINEVIEW WATER COMPANY
6 5198 Cub Lake Road
7 Show Low, Arizona 85901

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

13
14 Steve Olea, Director
15 Utilities Division
16 ARIZONA CORPORATION COMMISSION
17 1200 West Washington Street
18 Phoenix, Arizona 85007

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