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BEFORE THE ARIZONA CORPORATION C

COMMISSIONERS

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

Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF MT. TIPTON WATER COMPANY, INC. FOR AN INCREASE IN ITS WATER RATES.

DOCKET NO. W-02105A-09-0522

DECISION NO. 72001

OPINION AND ORDER

DATE OF HEARING: July 29, 2010

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Sarah N. Harpring

APPEARANCES: Mr. Steve Wene, MOYES SELLERS & SIMS LTD., on behalf of Mt. Tipton Water Company, Inc.; and

Ms. Kimberly A. Ruht and Ms. Bridget A. Humphrey, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

This case involves a permanent rate application filed with the Arizona Corporation Commission ("Commission") by Mt. Tipton Water Company, Inc. ("Mt. Tipton"), a nonprofit Class C water utility providing service in an area approximately 35 miles northeast of Kingman, in Mohave County. Mt. Tipton's application uses a test year ("TY") ending June 30, 2009. Mt. Tipton's current regular rates and charges were established in Decision No. 67162 (August 10, 2004). Mt. Tipton also is currently assessing each metered customer an emergency interim surcharge of $10 per month, as approved by the Commission in Decision No. 70559 (October 23, 2008), which also required Mt. Tipton to file a permanent rate case application.

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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. Mt. Tipton is a nonprofit Arizona corporation, classified as a Class C water utility, with a service area located approximately 35 miles northeast of Kingman, in Mohave County. (Ex. S-1 Exec. Summ.) During its TY, ending June 30, 2009, Mt. Tipton provided service to approximately 720 metered customers, most of whom are residential customers served by 5/8" x ¾" meters. (Ex. A-1 Ex. 2 Scheds. E-7, H-5.) Mt. Tipton also provides water through three metered and locked standpipes, one that is coin-operated, one that is located in a remote area, and one that provides nonpotable water. (Tr. at 49.)

2. Mt. Tipton's current regular rates and charges were established in Decision No. 67162 (August 10, 2004). Mt. Tipton also currently charges each metered customer an emergency interim surcharge of $10 per month, as approved in Decision No. 70559 (October 23, 2008), which also required Mt. Tipton to file its permanent rate case application.

3. For the TY, Mt. Tipton's average metered customer count broke down as follows: 680 residential 5/8" x ¾" meter customers, 38 commercial 5/8" x ¾" meter customers, one commercial 1" meter customer, one commercial 1 ½" meter customer, one commercial 2" meter customer, and one commercial 4" meter customer. (Ex. A-1 Ex. 2 Sched. H-5.) During the TY, Mt. Tipton's overall metered customer count declined from 750 in July 2008 to 721 in June 2009.[1] (Ex. A-1 Ex. 3.) Post TY, Mt. Tipton's metered customer count has continued to decline, reaching 692 in May 2010.[2] (Ex. A-2 Att. 1 at 6-7.)

4. For Mt. Tipton's residential 5/8" x ¾" meter customers, average monthly water consumption during the TY was 3,552 gallons, and median monthly water consumption was 2,305 gallons. (Ex. A-1 Ex. 2 Sched. H-5.) A significant portion of the TY bills for this customer class (1,249 bills out of a total 8,157 bills) included no usage. (*See id.*) If the bills with zero usage are excluded from the calculation, the average monthly consumption for these customers was 4,194 gallons. (*See id.*)

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[1] There was some fluctuation from month to month, but the overall pattern is one of decline. (*See* Ex. A-1 Ex. 3.)

[2] Month-to-month fluctuation continued post TY, but the overall pattern continues to be one of decline. (*See* Ex. A-2 Att. 1 at 6-7.)

5. Mt. Tipton's operations are overseen by a Board of Directors, while its day-to-day operations are managed by a Business Manager, Michelle Monzillo, who served as a Board member from January through September 2009 before becoming Business Manager in September 2009. (*See* Ex. A-2 Att. 2 at 1; Tr. at 80-81.) Mt. Tipton's other employees include a field operator, a part-time office clerk, and a field assistant. (Tr. at 145.)

6. At the time of Staff's inspection, Mt. Tipton's potable water system consisted of four active drinking water wells,[3] capable of producing a total flow of 114 gallons per minute ("GPM"); 498,500 gallons of storage capability; several booster systems; and a distribution system serving 721 metered connections. (Ex. S-3 Eng. Rpt. at 1.) On May 13, 2010, Mt. Tipton reactivated its LDS Church Well, with a 10 GPM pump yield. (*Id.*) According to Staff, this brought Mt. Tipton's total flow to 124 GPM, which constituted adequate well production. (*Id.*) Staff determined that Mt. Tipton's system has adequate production and storage capacity to serve its existing customers and anticipated growth. (*Id.*)

7. In addition to the water system described above, Mt. Tipton leases a well, known as the Detrital Well, which is located in a remote area miles outside of its service area, is equipped with a standpipe, and is available to provide a back-up water supply through hauling. (*See* Ex. S-3 Eng. Rpt. at 2; Tr. at 66-67, 103.) The Detrital Well has a flow of 240 GPM, greater than the combined capacity of Mt. Tipton's other wells, but Mt. Tipton has abandoned prior plans to connect the well to its system. (*See* Ex. S-3 Eng. Rpt. at 2; Tr. at 98.) During the TY, the Detrital Well was used by Mt. Tipton when Mt. Tipton paid water haulers to transport water from the Detrital Well to fill a storage tank. (Tr. at 105-06.) It was also used post-TY, in December 2009, by a private company that needed to haul water to an area that was having water issues. (Tr. at 105.) Mt. Tipton charges its bulk water rate for the water taken by others from the Detrital Well. (*Id.*)

8. After the TY, in October 2009, Mt. Tipton's Field Well collapsed during cleaning. (Tr. at 69.) As of the hearing in July 2010, the Field Well was still nonoperational because Mt. Tipton lacked the funds to repair it. (*Id.*) In February 2010, Mt. Tipton's old Office Well, which had

[3] Mt. Tipton also has a Spring Well, with a flow of only 0.8 GPM, that is a back-up well used only for emergencies. (Ex. S-3 at 2.)

been inactive and disconnected from the system during Staff's inspection, also collapsed during cleaning. (*Id.*; Ex. S-3 Eng. Rpt. at 2.) Mt. Tipton had a new Office Well, located approximately 20 feet away from the old Office Well, placed into service in July 2010. (Tr. at 68-69.)

9. In addition to its potable water system, Mt. Tipton has a nonpotable water system consisting of two nonpotable water wells, with a combined flow of 12 GPM; a 70,000 gallons storage tank; and a standpipe. (Ex. S-3 Eng. Rpt. at 3.) Mt. Tipton reports that its nonpotable water supply is plentiful and is overflowing. (Tr. at 95, 112.) The County purchases nonpotable water through the standpipe to use in grading roads. (Tr. at 67.) The County used to use Detrital Well water for grading, but now purchases the nonpotable water, at least in part because the nonpotable standpipe is more conveniently located in town. (*See* Tr. at 67.) Mt. Tipton charges the same bulk water rate for its nonpotable standpipe water as it does for its potable standpipe water. (Tr. at 113.)

10. The Arizona Department of Environmental Quality ("ADEQ") has determined that Mt. Tipton is in full compliance with ADEQ requirements and is delivering water that meets the water quality standards required by Arizona Administrative Code ("A.A.C.") Title 18, Chapter 4. (Ex. S-3 Eng. Rpt. at 4.)

11. Mt. Tipton is not located in an Arizona Department of Water Resources ("ADWR") active management area ("AMA"). (Ex. S-3 Eng. Rpt. at 4.) ADWR has determined that Mt. Tipton is in compliance with ADWR requirements governing water providers and/or community water systems. (*Id.*)

12. Mt. Tipton has an approved cross connection and backflow tariff and an approved curtailment tariff. (Ex. S-3 Eng. Rpt. at 8.)

13. Mt. Tipton is in good standing with the Commission's Corporations Division. (Ex. S-1 at 4.)

14. Staff's Compliance Section reports that Mt. Tipton has one outstanding compliance issue, concerning its excessive water loss, which is discussed below. (*See* Ex. S-3 Eng. Rpt. at 3; Tr. at 127.)

15. Between 2007 and April 1, 2010, the Commission received 28 complaints and two opinions regarding Mt. Tipton. (Ex. S-1 at 4.) The two opinions were filed in opposition to Mt.

Tipton's requested rate increase. (*Id.*) According to Staff, all reported issues have been successfully resolved. (*Id.*)

Pertinent Prior Commission Decisions[4]

16. In Decision No. 67162 (August 10, 2004), the Commission granted Mt. Tipton a permanent rate increase. In the Decision, the Commission found that Mt. Tipton's system could not provide adequate fire flow, that its hydrants (used as standpipes) should be clearly marked as unavailable for fire department use until Mt. Tipton's system became able to provide adequate fire flow, and that Mt. Tipton had testified that unauthorized withdrawals of water had been made after business hours from its unsecured hydrants/standpipes. (Decision No. 67162 at 7.) The Commission also found that Mt. Tipton had experienced water loss of 19.42 percent during the test year. (*Id.* at 10.) Among other things, the Commission ordered Mt. Tipton to clearly mark its two fire hydrants as unavailable for fire department use until such time as Mt. Tipton's water system had adequate capacity to provide fire flow protection; ordered Mt. Tipton to secure and meter all of its standpipes and to charge tariffed rates for all standpipe usage; and ordered Mt. Tipton to make a filing, by October 15, 2004, certifying that all standpipes had been secured and metered or explaining why all standpipes had not yet been secured and metered as of that date. (*Id.* at 17.) The Commission also ordered Mt. Tipton to reduce its water loss to less than 10 percent within 18 months of the effective date of the Decision and provided that if Mt. Tipton did not bring water loss below 15 percent by that time, any new main extension agreements submitted by Mt. Tipton would be denied until average water loss for two consecutive quarters was below 15 percent. (*Id.* at 10-11, 18.) The Commission also ordered Mt. Tipton to file quarterly reports indicating its water pumped and sold each month and the efforts made to reduce water loss, with the first report due within 120 days of the effective date of the Decision, and provided that Staff could approve an end to the reporting if Mt. Tipton showed an average water loss below 10 percent for two consecutive quarters. (*Id.*) The Commission also increased Mt. Tipton's Off-Site Facilities Hook-Up Fees ("HUFs"), originally approved in Decision No. 60988 (July 15, 1998), and imposed reporting requirements and use restrictions on the HUFs.

[4] Official notice is taken of Decision No. 67162 (August 10, 2004), Decision No. 70559 (October 23, 2008), Decision No. 70744 (February 12, 2009), Decision No. 70836 (March 17, 2009), Decision No. 70837 (March 17, 2009), Decision No. 70838 (March 17, 2009), Decision No. 71166 (June 16, 2009), and Decision No. 71418 (December 8, 2009).

(*Id.* at 17-18, Ex. A.)

17. In Decision No. 70559 (October 23, 2008), the Commission granted Mt. Tipton an emergency interim surcharge of $10.00 per month per metered customer, to become effective on the first day of the month after Mt. Tipton had posted a performance bond or irrevocable sight draft letter of credit ("ISDLOC") in the amount of $20,000 with the Commission's Business Office and filed a Certificate of Good Standing to demonstrate that Mt. Tipton had filed its 2008 annual report and come into good standing with the Commission's Corporations Division. (Decision No. 70559 at 20.) The Decision further required Mt. Tipton to file a permanent rate case application by April 30, 2009, using calendar year 2008 as its TY. (*Id.*) The Decision provided that the emergency interim surcharge would remain in effect until issuance of an order in the permanent rate case if Mt. Tipton brought its permanent rate case application to sufficiency by July 31, 2009, but would remain in effect only until July 31, 2009, if Mt. Tipton failed to bring its permanent rate case application to sufficiency by that date. (*Id.* at 20-21.) The Decision also provided that if Mt. Tipton failed to bring its permanent rate case application to sufficiency by that date, Staff was required to file an Order to Show Cause to install an interim manager and address any other appropriate remedies. (*Id.*)

18. Decision No. 70559 has since been amended several times. In Decision No. 70744 (February 12, 2009), it was amended to extend a filing deadline unrelated to the permanent rate case. In Decision No. 70837 (March 17, 2009), it was effectively amended to require the permanent rate case application to be filed by October 2, 2009, using a TY ending June 30, 2009, and to be brought to sufficiency by December 31, 2009. In Decision No. 70838 (March 17, 2009), it was amended to reduce the performance bond/ISDLOC amount from $20,000 to $5,000 and to require Mt. Tipton to file the performance bond/ISDLOC with the Commission's Business Office within 30 days after the date of the Decision. During the March 3, 2009, Open Meeting, the Commission also directed that all deadlines tied to the permanent rate case timeline be adjusted to reflect the new permanent rate case timeline. Finally, in Decision No. 71418 (December 8, 2009), it was amended to allow Mt. Tipton to file its permanent rate case application by November 13, 2009, although the sufficiency deadline of December 31, 2009, was to remain the same.

19. In Decision No. 70836 (March 17, 2009), Mt. Tipton was authorized to sell an office

building located at 16055 Pierce Ferry Road in Dolan Springs, Arizona, and ordered to use the proceeds from the sale for the following purposes, in the following order: (1) to pay its delinquent property taxes, (2) to reimburse its hook-up fee fund account in the amount determined in the Decision in Docket No. W-02105A-07-0510, and (3) to reduce its indebtedness as required by the Water Infrastructure Finance Authority of Arizona ("WIFA"). (Decision No. 70836 at 9.) The Decision authorized additional uses for the proceeds of the sale if any funds remained after the funds were used as set forth above. (*Id.*) Additional provisions were included to require Mt. Tipton to file attestations acknowledging the authorized uses for the proceeds and to file documentation regarding the specifics of the sale and confirming the sale and the manner in which the funds were used. (*Id.* at 9-11.)

20. In Decision No. 70837 (March 17, 2009), the Commission found that Mt. Tipton had violated Decision No. 67162 (August 10, 2004) by failing to deposit its HUF funds into a separate interest-bearing trust account, by spending its HUF funds on items other than off-site facilities as required by the HUF Tariff approved in Decision No. 67162, and by charging HUFs in an amount not authorized by the HUF Tariff. (Decision No. 70838 at 25-26, 30.) The Commission also found that Mt. Tipton had failed to supply a satisfactory and continuous level of service, in violation of A.A.C. R14-2-407(C), by failing to maintain compliance with ADEQ requirements in August 2007, January 2008, and September 2008 to such an extent that ADEQ was unable to determine whether Mt. Tipton was delivering water meeting the water quality standards of 18 A.A.C. 4. (*Id.* at 27, 31.) To address the HUF issue, the Commission (1) suspended Mt. Tipton's HUF Tariff and prohibited Mt. Tipton from charging or collecting HUFs until further Order of the Commission; (2) suspended Mt. Tipton's quarterly and annual HUF report filing obligations imposed by Decision Nos. 60988 and 67162 until further Order of the Commission; (3) ordered Mt. Tipton to cease making expenditures using the HUF funds already collected until further Order of the Commission; (4) ordered Mt. Tipton to reimburse, in the amount of $40,800, the separate, interest-bearing trust account required to be established for the HUF funds; and (5) ordered Mt. Tipton to file in the permanent ratemaking docket, by November 2, 2009, a consolidated HUF report showing specified information for each HUF charged in 2008 and a consolidated HUF expenditures report including specified information

for each HUF fund expenditure during 2008. (*Id.* at 31-32.) To address the ADEQ compliance issues, the Commission ordered Mt. Tipton to come into full compliance with ADEQ requirements by July 31, 2009; ordered Mt. Tipton to take immediate action to seek the water source approvals required by ADEQ for all of Mt. Tipton's wells located in the Dolan Spring Field and, if applicable, the Chambers Well; ordered Mt. Tipton to file a report each month describing its efforts to come into compliance with ADEQ requirements and providing an update of its ADEQ compliance status; and ordered Mt. Tipton to include in its first report documentation showing that it had filed the applications for the well approvals. (*Id.*) To address Mt. Tipton's longstanding water supply issue, the Commission ordered Mt. Tipton to analyze its water supply shortage, to create a plan proposing the most effective solution for improving its water supply and including its rationale, and to file the plan in its permanent ratemaking docket by November 2, 2009. (*Id.* at 32.) The Commission additionally ordered each Mt. Tipton Board member and employee to file an attestation concerning his or her understanding of the requirements imposed on Mt. Tipton and Mt. Tipton's obligation to comply with them. (*Id.*) To ensure monitoring of Mt. Tipton's progress toward ADEQ compliance, the Commission ordered Staff to file monthly reports analyzing Mt. Tipton's monthly reports concerning its ADEQ compliance efforts and, if Staff determined that Mt. Tipton was not completing the actions necessary to come into full ADEQ compliance by July 31, 2009, to include such determination and the reasons therefore in its monthly report and to file a Petition for an Order to Show Cause requesting authority to appoint an interim manager and any other remedies that Staff believed to be appropriate. (*Id.* at 33.) The Commission further required Staff to do the following in its written testimony or Staff Report in Mt. Tipton's permanent ratemaking docket: (1) analyze and recommend whether the HUF Tariff should be continued and, if so, for what purpose; (2) provide a rate schedule reflecting rates that would be appropriate if the HUF Tariff were to be cancelled in the permanent ratemaking docket; (3) analyze whether Mt. Tipton's inappropriately spending HUF funds was related to inappropriately low rates, inappropriately high expenses, improprieties in the handling of Mt. Tipton's funds, and/or any other reason; (4) make recommendations concerning how Mt. Tipton's operations should be changed or what other actions should be taken to remedy the situation/s that resulted in or contributed to Mt. Tipton's spending the HUF funds as it did; (5) analyze Mt.

Tipton's plan proposing the solution for improving its water supply and make specific recommendations regarding how Mt. Tipton should improve its water supply and whether the reimbursed HUF funds should be used toward increasing Mt. Tipton's water supply; and (6) analyze Mt. Tipton's calendar year 2008 HUF report and HUF expenditures report and make specific recommendations regarding whether Mt. Tipton's collection of HUFs complied with its HUF Tariff, whether any of the expenditures were for items other than off-site facilities, and whether and to what extent Mt. Tipton should be required to further reimburse the HUF trust account. (*Id.* at 33-34.)

21. In Decision No. 71166 (June 16, 2009), the Commission granted Mt. Tipton approval to incur long-term indebtedness in an amount up to $140,000, pursuant to a WIFA loan agreement under which 90 percent of the principal amount would become forgivable upon compliance with the American Recovery and Reinvestment Act of 2009, for the purpose of funding a Well Rehab Program, a New Source Program, and a Water Loss Reduction Program ("new WIFA loan"). Among other things, the Decision also required Mt. Tipton to make payment of the new WIFA loan the first priority use of the funds generated by the emergency interim surcharge approved in Decision No. 70559, until the emergency interim surcharge is no longer effective. (Decision No. 71166 at 11.) The Decision also required Mt. Tipton to file with Docket Control, within 60 days after the date of execution, copies of all executed financing documents related to the new WIFA loan and, by December 31, 2010, copies of the Certificates of Approval of Construction issued by ADEQ for the proposed well upgrades and other system improvements to be funded by the new WIFA loan. (*Id.* at 12.)

Status Update

22. Mt. Tipton has not yet been able to sell the office building at 16055 Pierce Ferry Road, as authorized by Decision No. 70836, because four prospective buyers thus far have been unable to obtain financing to make the purchase. (Tr. at 51.) As a result, Mt. Tipton has not yet received proceeds from the sale to use as directed in Decision No. 70836. Mt. Tipton is still delinquent in payment of its property taxes and is still accruing interest and penalties on its property tax arrearages. (Tr. at 117.) To date, Mt. Tipton has reimbursed the HUF Account for only $3,050 of the $40,800 required to be reimbursed under Decision No. 70837. (Tr. at 52.) The office building is still up for

sale, and the office space therein is still being rented. (Tr. at 114.)

23. Mt. Tipton filed the HUF report and HUF expenditures report required by Decision No. 70837 in the docket for that Decision on November 2, 2009, before this docket was open, after first having submitted it to Staff's Compliance Section on October 27, 2009. (Ex. A-3 Att. 2 at 2.) Staff determined, upon review of the reports, that Mt. Tipton had made one inappropriate expenditure using HUF funds during 2008, a $250 maintenance expense for the Detrital Well. (Tr. at 156.) Mt. Tipton has repaid the HUF account for the $250 expenditure. (Ex. A-3 Att. 2 at 3.) Mt. Tipton has complied with the prohibition on collecting HUFs imposed by Decision No. 70837, (Tr. at 96), and has not requested for the HUF Tariff to be reinstated in this case, although Ms. Monzillo testified that Mt. Tipton would be able to handle HUF funds properly, (*see* Tr. at 96-98).

24. Mt. Tipton filed the Water Supply Improvement Plan ("Plan") required by Decision No. 70837 in the docket for that Decision on October 29, 2009, before this docket was open, after first having submitted it to Staff's Compliance Section on October 27, 2009. (Ex. A-3 Att. 2 at 2-3.) In response to a Staff request, Mt. Tipton submitted an Addendum to the Plan to the Compliance Section on July 16, 2010. (*Id.* at 3, Ex. 3.) Staff has accepted the Plan as amended through the Addendum. (Tr. at 128, 141-43.)

25. Mt. Tipton has come into full compliance with ADEQ. (Ex. S-3 Eng. Rpt. at 3.) Thus, there is no longer a need for Mt. Tipton to make the filings regarding its progress toward ADEQ compliance, or for Staff to make filings regarding Mt. Tipton's progress toward ADEQ compliance, both of which are required by Decision No. 70837.

26. Mt. Tipton has obtained the new WIFA loan authorized by Decision No. 71166. (Tr. at 52.) Ms. Monzillo testified that the executed financing documents for the new WIFA loan were filed in September 2009 as required by the Decision. (*Id.*) This appears to have been a misstatement, as another compliance filing was made in September 2009, in the docket for Decision No. 71166, but the financing documents were not filed in that docket until July 27, 2010.[5] As required by the Decision, Mt. Tipton has also filed a copy of the Approval of Construction, issued July 16, 2010, for

[5] Official notice is taken of the compliance filings made in Docket No. W-02105A-09-0145 on September 15, 2009, and July 27, 2010.

installation of the new Office Well, which Mt. Tipton paid for in part with funds from the new WIFA loan.[6]

Procedural History

27. On November 13, 2009, Mt. Tipton filed with the Commission an application for a permanent rate increase, using a TY ending June 30, 2009, as required by Decision No. 70559 (as amended by Decision Nos. 70837, 70838, and 71418). With its application, Mt. Tipton submitted the Direct Testimony of Sonn Rowell, Certified Public Accountant and managing member of Desert Mountain Analytical Services, PLLC, who had been hired by Mt. Tipton to perform a financial analysis of its books and prepare its rate application.

28. On December 4, 2009, Mt. Tipton filed a Certificate of Good Standing issued by the Arizona Department of Revenue ("ADOR") on November 23, 2009, stating that Mt. Tipton is in good standing with ADOR as to its federal employer identification number, its transaction privilege tax license, and its withholding license.

29. On December 14, 2009, Staff issued a Letter of Sufficiency stating that Mt. Tipton's application had met the sufficiency requirements outlined in A.A.C. R14-2-103(B)(7) and that it had been classified as a Class C utility.

30. On December 21, 2009, a Procedural Order was issued scheduling the prehearing conference in this matter for June 17, 2010; scheduling the hearing in this matter for June 21, 2010, and, if necessary, June 24, 2010; and establishing other procedural deadlines and requirements.

31. On January 25, 2010, the Commission received a complaint from a customer opposing the requested rate increase, apparently because the requested rates do not compare favorably to rates in Las Vegas, Nevada.

32. On January 28, 2010, Mt. Tipton filed an Affidavit stating that notice of the application and hearing had been sent to each known customer by First Class U.S. Mail on January 19, 2010.

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[6] Official notice is taken of the filing of the document filed in Docket No. W-02105A-09-0145 on September 13, 2010. The Approval of Construction was admitted as Exhibit A-10.

33. On February 3, 2010, Mt. Tipton filed a letter notifying the Commission that the membership of Mt. Tipton's Board had changed, along with a Board Resolution stating that the individuals previously authorized to speak for Mt. Tipton were no longer authorized and that the following individuals were newly authorized to speak for Mt. Tipton: President Donald Bertroch, Treasurer Gilbert Sanchez, and Director George Lee.

34. On February 5, 2010, the Commission received a complaint from a customer opposing the requested rate increase for economic reasons, complaining about Mt. Tipton's service, and complaining because the Commission scheduled the rate hearing in Phoenix rather than in Dolan Springs.

35. On February 19, 2010, Mt. Tipton filed an Affidavit stating that notice of the rate application and hearing had been published in *The Hometown Crier*, a newspaper of general circulation, on January 22, 2010.

36. On March 2, 2010, Mt. Tipton filed a Motion to Consolidate this docket with a financing application docket, in which Decision No. 71166 (June 16, 2009) had already been issued.

37. On March 18, 2010, Mt. Tipton filed a Motion to Withdraw Request to Consolidate Rate and Finance Dockets.

38. On April 7, 2010, Staff filed a Motion to Extend Filing Deadline and Schedule Procedural Conference. Staff explained that the scheduled due date would not allow Staff sufficient time to prepare its direct testimony in this matter and requested an extension of the due date from April 28, 2010, to May 26, 2010, and that a procedural conference be held to adjust the other filing deadlines in this matter. Staff stated that Mt. Tipton had no objection to Staff's request.

39. On April 7, 2010, a Procedural Order was issued extending Staff's deadline to file its direct testimony to May 26, 2010; scheduling a procedural conference for April 15, 2010; ordering that the hearing scheduled for June 21, 2010, would proceed only for the taking of public comment; vacating the additional hearing date of June 24, 2010; and setting forth a tentative procedural schedule to be discussed at the procedural conference.

40. On April 15, 2010, a procedural conference was held at the Commission's offices in Phoenix, Arizona, at which both Mt. Tipton and Staff appeared through counsel and agreed to the tentative procedural schedule that had been proposed in the Procedural Order of April 7, 2010.

41. On April 19, 2010, a Procedural Order was issued scheduling the prehearing conference in this matter for July 22, 2010; scheduling the hearing in this matter for July 29, 2010, and, if necessary, July 30, 2010; establishing other procedural deadlines and requirements; and extending the Commission's deadline to issue a decision in this matter by 38 days.

42. On May 5, 2010, the Commission received a complaint from customers questioning the requested rate increase, in light of Mt. Tipton's already receiving the $10 monthly surcharge, the use of which the customers did not know. The customers also expressed concern about Mt. Tipton's credibility and viability and the quality of the water supplied, but stated that they do not have a problem with a rate increase if the money is used to improve the water system or the maintenance of the system.

43. On May 26, 2010, Staff filed the Direct Testimony of Dorothy Hains, Utilities Engineer, and Alexander Ibhade Igwe, Executive Consultant III.

44. On June 18, 2010, Mt. Tipton filed a Notice of Compliance, with which it submitted a Water Supply Shortage Plan Report and a Hook-Up Fee Report, pursuant to Decision No. 70837. Mt. Tipton stated that both documents had previously been provided to Staff's Compliance Section and filed in the Docket for Decision No. 70837.

45. On June 18, 2010, Mt. Tipton filed the Rebuttal Testimony of Ms. Rowell and Ms. Monzillo.

46. On June 21, 2010, a proceeding convened at the Commission's offices in Phoenix, Arizona, for the taking of public comment at the time originally set for the hearing in this matter. Staff appeared through counsel, Mt. Tipton did not appear, and no members of the public attended. The new date and time for the hearing were announced.

47. On July 2, 2010, Staff filed the Surrebuttal Testimony of Mr. Igwe and Ms. Hains.

48. On July 16, 2010, Mt. Tipton filed the Rejoinder Testimony of Ms. Rowell and Ms. Monzillo.

49. On July 22, 2010, a prehearing conference was held at the Commission's offices in Phoenix, Arizona. Mt. Tipton and Staff appeared through counsel and were each provided a number of questions and topics to be addressed at hearing.

50. Also on July 22, 2010, Staff filed the Testimony Summaries of Mr. Igwe and Ms. Hains, and Mt. Tipton filed an Issues Matrix and a Summary of the testimony of Ms. Rowell and Ms. Monzillo.

51. On July 29, 2010, a full evidentiary hearing was held before a duly authorized Administrative Law Judge of the Commission at the Commission's offices in Phoenix, Arizona. Mt. Tipton and Staff appeared through counsel and presented testimony and documentary evidence. Mt. Tipton presented the testimony of Ms. Rowell and Ms. Monzillo. Staff presented the testimony of Mr. Igwe and Ms. Hains. No members of the public provided public comment. At the conclusion of the hearing, Mt. Tipton and Staff were directed to file final schedules. They were also instructed to file any closing briefs by the same deadline.

52. On August 12, 2010, Mt. Tipton filed its Post-Hearing Brief along with its Final Schedules, and Staff filed a Notice of Filing Final Schedules along with copies of the schedules that had changed since Mr. Igwe's Surrebuttal Schedules.

Excessive Water Loss

53. For the TY, Mt. Tipton pumped 49,238,186 gallons and sold 37,893,255 gallons, which represents water loss of 11,344,931 gallons, or 23.04 percent.[7] (Ex. A-1 Ex. 3.) This level of water loss greatly exceeds the maximum threshold of 10-percent water loss generally considered to be acceptable by the Commission.

54. Mt. Tipton attributes approximately 474,340 gallons of its TY water loss to line breaks, leaks, and blow-offs occurring during the TY, with this figure based on estimates made by its field personnel when each such incident occurred. (Ex. A-9; Tr. at 66, 118.) Ms. Monzillo believes

[7] The water loss figures provided by Mt. Tipton only account for its potable water system, not the nonpotable system, although Mt. Tipton also tracks the nonpotable water pumped and sold. (*See* Tr. at 94-95.) Ms. Monzillo testified that Mt. Tipton's nonpotable water tank overflows on a regular basis, but explained that it is free-flowing and gravity-fed, so it does not use any electricity. (Tr. at 95.)

that the figures are probably very much underestimated because it is hard to estimate accurately when water is gushing out of the ground. (Tr. at 66.)

55. Mt. Tipton believes that malfunctioning meters on its system also contributed to the excessive TY water loss, explaining that if meters get any sand or other substance stuck in them, they tend to slow down or even stop, so that some or even all of a customer's water use is not accurately recorded as water sold. (Tr. at 72.) Mt. Tipton has been actively replacing the meters on its system, with approximately 220 meters replaced thus far and another approximately 250 active meters to be replaced. (*Id.*) Mt. Tipton also intends to replace some very old meters that have been inactive for years, if the accounts are ever reactivated. (*Id.*)

56. Mt. Tipton also believes that its old Office Well contributed to its TY water loss because it was discovered during cleaning that the well's column pipe had a six-inch separation that allowed water already registered as pumped by the meter to go back into the well any time the well was off, so that the same water would be registered as pumped over and over. (Tr. at 75.) Mt. Tipton believes that this must have contributed greatly to its TY water loss because Mt. Tipton's system has had much lower water loss since the old Office Well was taken offline. (Tr. at 75-76.)

57. Mt. Tipton also believes that a portion of its TY water loss is attributable to Lake Mohave Ranchos Fire District's ("Fire District's") taking water from Mt. Tipton's hydrants, which are unmetered, and subsequently not reporting the full amount of water taken. (*See* Tr. at 25-26, 35-36.) The issue of the Fire District's water use is discussed further below.

58. Mt. Tipton explained that its monthly water loss figures also may be somewhat inaccurate because of its meter-reading process, which takes several days to complete because each meter is individually read by field personnel each month. (*See* Tr. at 84-85, 109.) Ms. Monzillo testified that Mt. Tipton has approximately 693 active meters on its system and that it takes three to six days to read them, depending on what other issues and crises arise during the same time period. (Tr. at 85.) The inaccuracies arise because the customer meters cannot all be read within one day, (Tr. at 86), but Ms. Monzillo testified that the figures become accurate in the aggregate over a period of time, (Tr. at 83). The well meters are read daily, and inactive customer meters are read periodically, but not every month. (Tr. at 85.)

59. Mt. Tipton provided updated water loss figures for the first six months of 2010, showing 16,986,111 gallons pumped and 15,535,448 gallons sold, which represents water loss of 1,450,663 gallons, or 8.54 percent. (Ex. A-3 Att. 2 Ex. 1.) Mt. Tipton also reported that during this period, its system had an enormous line break that was not discovered for at least half a day, one other small line break, five small overflows during tank regulation, and five blow-offs. (*Id.*) Mt. Tipton also reported that it installed 34 new meters during this period. (*Id.*)

60. Ms. Hains believes that Mt. Tipton's water pumped and sold figures are not reliable, both because of a February 2010 negative 8.2 percent water loss figure and because of Mt. Tipton's long history of unreliable reporting.[8] (*See* Tr. at 129.) Ms. Hains acknowledged that Mt. Tipton had provided a potentially legitimate explanation[9] for the February 2010 negative water loss, but stated that the timing differences could not explain more significant water loss discrepancies in earlier years. (Tr. at 129-30.) Ms. Hains further testified that, although Mt. Tipton's meter replacement and pipe corrections would result in improved water loss, she cannot say based on the post-TY data provided that Mt. Tipton's water loss will be below ten percent going forward. (Tr. at 132.) Ms. Hains testified that in her opinion, Mt. Tipton cannot demonstrate that its water loss has reached an acceptable level without providing a full 12 months of data to show that, which Mt. Tipton has not done.[10] (Tr. at 134-35, 173.) But Ms. Hains also testified that Staff would not object if the Commission were willing to allow Mt. Tipton's new rates to go into effect anyway. (Tr. at 155-56.)

61. Ms. Hains testified that Mt. Tipton could improve the reliability of its water pumped and sold figures by getting more qualified field personnel to do the meter reads; by setting up an automatic meter replacement program to replace meters every 10 years or whenever a meter goes up over a certain volume; by having its field personnel read meters twice or three times a month rather than just once a month; and by paying attention to the service area, such as to detect line breaks on customer properties and to prevent theft. (Tr. at 135-36.) Ms. Hains acknowledged that she does not know Mt. Tipton's employees well enough to say that they are not qualified, but stated that when a

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[8] Ms. Hains referred to water loss figures provided in 2005 and other years prior to the TY. (Tr. at 129.)

[9] Ms. Hains acknowledged that timing differences could result in inflated water sold figures, which eventually would resolve themselves over a long enough period of time, such as a year. (Tr. at 148-49.)

[10] Ms. Hains testified that she calculated the water loss from July 2009 through June 2010 to be 17.8 percent. (Tr. at 135.)

human reads a meter and records the reading, there is always the potential for error. (Tr. at 146-47.) She also stated that Mt. Tipton needs more personnel to help with meter reading, with data entry, and with data review, not just on a monthly basis but also on a six-month basis. (Tr. at 147-48.) Ms. Hains also testified that Mt. Tipton could enter the "modern world" of meter reading and reduce a lot of errors if it gradually changed all of its meters to the type that have sensors that can be read automatically, with the data recorded, just by driving past them, although she was unsure of the cost for such meters. (Tr. at 154-55.)

Fire District Water Use

62. Ms. Monzillo explained that the Fire District is supposed to provide Mt. Tipton with a log at the end of each month detailing how many gallons have been taken for fire use and characterized the arrangement as "an honor system setup." (Tr. at 54.) Mt. Tipton had trouble with the Fire District not turning in its logs in early 2009 and, until July 2009, did not have a separate fire use account set up for the Fire District. (*Id.*) Ms. Monzillo concluded from her review of the records that the Fire District had not been paying for any fire use water for many years. (Tr. at 54-55.) Ms. Monzillo testified that most months, the Fire District turns in a log showing zero usage. (Tr. at 55.) Mt. Tipton provided a customer detail printout from its billing system showing that for the period from July 2009 through June 2010, the Fire District reported fire use in only three months, for a total of 8,700 gallons. (Ex. A-6.) Ms. Monzillo was skeptical that this accurately reflected the Fire District's use, testifying that there were two or three large fires in Dolan Springs in fall 2009 and that a former member of Mt. Tipton's Board watched the fire trucks come and go for hours filling up their trucks. (*See* Tr. at 55.) Ms. Monzillo testified that Mt. Tipton does not feel that the Fire District is being honest and pointed out that the water used by the Fire District shows up as water loss and represents lost revenue. (*Id.*)

63. Mt. Tipton's hydrants are locked, but the Fire District has been provided keys to the hydrants because Mt. Tipton does not want to be responsible for the Fire District's failure to put out a fire because it does not have access to water. (*See* Tr. at 56.) Mt. Tipton has explained to the Fire District that the hydrants should only be used in an extreme emergency because Mt. Tipton's system does not have adequate fire flow and has informed the Fire District that the Commission has ordered

that the hydrants not be used for fire flow. (*Id.*) Ms. Monzillo testified that it seemed like the Fire District understood the information, and she is optimistic that the situation will improve. (*Id.*)

64. When asked why the hydrants are not metered, Ms. Monzillo testified that only the Fire District would be using the hydrants and that larger size meters are expensive. (Tr. at 93-94.) Ms. Monzillo believes that the hydrants would need four-inch meters, which cost approximately $2,500 to $3,000 each. (Tr. at 121-22.) Mt. Tipton has not discussed asking the Fire District to pay for hydrant meters, and Ms. Monzillo is "fairly confident" that the Fire District would refuse to pay for them, based on prior interactions. (Tr. at 94.) Ms. Monzillo testified that she does not believe it would be worthwhile to ask the Fire District to pay for such hydrant meters. (Tr. at 122.) Mt. Tipton also has not discussed giving the Fire District individually assigned meters that would then be attached to a hydrant whenever the hydrant is used, but Ms. Monzillo is skeptical about the Fire District's bothering to use such meters if they were provided. (Tr. at 110-11.) Ms. Monzillo testified that the hydrants could be locked, but said that the Fire District has told Mt. Tipton that if firefighters need water from a hydrant, they will cut off the locks. (Tr. at 111.) The Fire District has also told Mt. Tipton that it can also get water from blow-offs. (*Id.*) To Ms. Monzillo's knowledge, the Fire District has been in the area for decades and has no other source of water. (*Id.*)

65. Ms. Monzillo testified that she believes the Fire District uses the hydrants only to fill up its trucks, because the hydrants generally are not close enough to anything for the Fire District to hook up a hose and fight a fire using water directly from a hydrant. (Tr. at 110.)

66. The Fire District has also been provided a key to the nonpotable water standpipe, and Mt. Tipton has emphasized to it on many occasions that Mt. Tipton has an excess of nonpotable water that the Fire District is encouraged to use. (Tr. at 93, 112.) Ms. Monzillo testified that the Fire Chief informed Mt. Tipton that only two of the fire trucks can be filled from the top using a standpipe, while the others must be pressure fed from the bottom. (*Id.*) Ms. Monzillo was uncertain whether pressure feeding from the bottom is possible with a standpipe. (Tr. at 111-12.) Mt. Tipton charges the same bulk water rate for its nonpotable water as it does for its potable water. (Tr. at 113.)

67. During the preparation of its rate case, Mt. Tipton discovered that the Fire District's fire house account, which is a metered account, had been charged for the wrong meter size (5/8" x

¾") from December 2004 through October 2009. (Tr. at 53, 91.) Mt. Tipton began to charge the Fire District for the correct meter size (1") in November 2009 and has been doing so ever since. (Tr. at 53, 91.) In addition, Ms. Monzillo went through all of the affected years of the Fire District's fire house account, determined what the Fire District should have paid in those years, and billed the Fire District for the underpayment amount of $1,787.94. (Tr. at 53-54; Ex. A-7.) The Fire District paid the underpayment amount in December 2009. (Tr. at 54.) Ms. Monzillo understands that undercharging the Fire District was a violation of Commission requirements, but believes that the fire house account situation has been completely rectified (*Id.*) Ms. Monzillo testified that the Fire Chief was President of Mt. Tipton's Board in 2003 or 2004 and was very influential with the Board even when no longer on the Board. (Tr. at 111-12.) She believes that the Fire Chief's affiliation with the Board may explain why the under-billing occurred. (Tr. at 112.)

68. Staff suggested that Mt. Tipton should have the Fire District provide the tank size for its trucks and a count of how many times each truck fills up, as that would provide a close estimate of how much water is being used for fire-related purposes. (*See* Tr. at 144-45.) Staff also explained that Mt. Tipton's system has no fire reservation in its design, which means that its pipes are not built for fire flow and that it has no additional booster pumps for fire flow. (Tr. at 151.) Staff explained that the Fire District could drain the tanks, leaving paying customers without service. (*Id.*) Ms. Hains testified that Mt. Tipton should consider upgrading its system to include fire flow, requesting either the Fire District or Mt. Tipton's customers[11] to pay for the upgrade. (*Id.*) Ms. Hains acknowledged, however, that the upgrade would be very expensive and would probably be rejected. (*Id.*) Staff also suggested a written agreement between Mt. Tipton and the Fire District, to make their relationship more productive. (Tr. at 152.) Ms. Hains also believes that Mt. Tipton's hydrants should still be marked as not for Fire District use, as required in Decision No. 67162, because Mt. Tipton's system has not been upgraded. (*Id.*) Ms. Hains testified that Mt. Tipton's nonpotable water supply is plentiful[12] and that it is spring water and should be good enough for firefighting. (Tr. at 153.) Ms. Hains testified that Staff would recommend that Mt. Tipton restrict the Fire District to using only the

[11] Ms. Hains stated that the customers could be asked to pay through a fire flow reservation tariff. (Tr. at 151.)

[12] Ms. Hains attributed the overflowing at least in part to corrosion on the nonpotable water tank, which is full. (Tr. at 153.)

nonpotable water for purposes other than the domestic purposes at the fire house. (Tr. at 153.) Ms. Hains did not know what recourse Mt. Tipton would have available to it if the Fire District were to cut locks off of the hydrants after Mt. Tipton tried to secure them. (Tr. at 153-54.)

Staff Recommendations

69. Staff recommends:

(a) That the Commission approve Staff's recommended rates and charges in this proceeding;

(b) That the rates and charges approved by the Commission in this proceeding not become effective until Mt. Tipton demonstrates that its water loss is less than 10 percent and that it is in full compliance with Decision No. 67162;

(c) That Mt. Tipton adopt Staff's recommended depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") plant category, as shown in Figure 5 of Staff's Engineering Report; and

(d) That Mt. Tipton's emergency interim surcharge be discontinued on December 31, 2010, or on the effective date of the Decision in this proceeding, whichever comes first.

70. Staff did not have a recommendation concerning whether Mt. Tipton's HUF Tariff should be reinstated, should remain suspended, or should be cancelled. (Tr. at 139-40.) Mr. Igwe testified that because Mt. Tipton had not requested for its HUF Tariff to be reinstated, Staff would not make a recommendation concerning the HUF Tariff. (Tr. at 191.)

71. Mr. Igwe testified that it seemed evident that Mt. Tipton still is not in compliance with Decision No. 67162, although it has had ample time to bring its system to a standard that would ensure less than 10-percent water loss. (Tr. at 191-92.) However, Mr. Igwe stated that Staff would not oppose the Commission's allowing the rates to go into effect at a time certain, contingent upon Mt. Tipton's filing a plan demonstrating why it cannot bring its water loss to less than 10 percent. (Tr. at 192-93.) Mr. Igwe stated that Mt. Tipton has a very negative history of water loss, but that Staff is somewhat optimistic because of the new Board, Ms. Monzillo, and the rest of Mt. Tipton's current personnel, who are willing to do and are doing the right things toward bringing the system into compliance. (Tr. at 193.)

Ratemaking

Rate Base Issues

72. Mt. Tipton and Staff agree as to plant in service, accumulated depreciation, advances in aid of construction ("AIAC"), and contributions in aid of construction ("CIAC") and agree that cash working capital allowance should be included in rate base. The parties disagree regarding whether customer security deposits should be factored into rate base calculation.

73. Mt. Tipton reports an original cost rate base ("OCRB") of $588,741 and did not present the results of a Reconstruction Cost New Rate Base study in its application. (Final Sched. B-1; Ex. S-1 at 8.) Thus, we will use Mt. Tipton's OCRB as its fair value rate base ("FVRB"). (*See* Ex. S-1 at 8.)

74. Staff determined Mt. Tipton's OCRB to be $569,669, due to Staff's inclusion of $14,940 in customer security deposits as a deduction from rate base and Staff's different cash working capital allowance. (Final Sched. AII-3; Ex. S-2 Sched. AII-5; Final Sched. B-5.)

Customer Security Deposits

75. Staff asserts that customer security deposits must be deducted from rate base, as they represent non-investor-provided capital, on which investors should not be permitted to earn a return. (Ex. S-1 at 12.) Staff further asserts that this is a normal ratemaking procedure. (*Id.*) Staff explained that customer security deposits are similar to AIAC and CIAC in that they are non-investor-provided capital, and that it is thus appropriate to treat customer security deposits like AIAC and CIAC and to eliminate them from rate base to avoid allowing the company to earn a return on them. (Ex. S-2 at 3.) In its Final Schedules, Staff added a corresponding adjustment to include customer security deposit interest paid during the TY as an operating expense. (Final Sched. AII-6.)

76. Mt. Tipton asserts that customer security deposits should not be deducted from rate base. Ms. Rowell testified that security deposit money belongs to the customer, not to the company; that the NARUC Uniform System of Accounts for Class C Water Utilities ("USOA") does not mention customer security deposits although they are commonly charged; and that customer security deposits do not meet the USOA definitions of AIAC or CIAC and should not be treated as such. (Ex. A-2 Att. 1 at 3-5.) Ms. Rowell pointed out that because Mt. Tipton is a nonprofit owned by its

ratepayers, there is no need to ensure that investors cannot earn a return on customer security deposits. (*Id.* at 5.) Ms Rowell further asserted that the security deposit funds are not reflected in rate base and thus should not be removed from it, but that any rate base adjustment made for customer security deposits would need to be modified to account for the six-percent interest that Mt. Tipton must pay on the security deposits. (*Id.* at 5-6.) Ms. Monzillo testified that customer security deposit funds are deposited into Mt. Tipton's general account and that Mt. Tipton does not ensure that the total amount of customer security deposits is maintained in its general account. (*See* Tr. at 100.)

77. At least one previous Commission decision has recognized that security deposits are appropriately deducted from rate base, (*see* Decision No. 59364 (November 1, 1995) at 4), and the Commission recently has recognized that security deposit interest should be included as an above-the-line operating expense because the deposits are deducted from rate base, (*see* Decision No. 71482 (February 3, 2010) at 22-23; W-01412A-08-0586 Tr. of 9/15/2009 at 114).[13] It is appropriate to treat security deposits in the same manner as we would treat any other customer deposit—as a reduction from rate base—because there are no constraints on a utility's use of the funds provided as security deposits, and it is not appropriate to allow a utility to earn a rate of return on any plant that may be purchased using non-investor-supplied funds. Furthermore, there is no reason to treat security deposits differently than we recently treated AIAC and CIAC in the face of arguments that AIAC and CIAC should not be deducted from rate base if there is not corresponding plant associated with the AIAC and/or CIAC included in rate base. (*See* Decision No. 71414 (December 8, 2009)[14] at 4-8.) All three types of funds are provided to a utility by persons other than investors, are available to be used to purchase plant items, and are appropriately deducted from rate base to ensure that a utility is not permitted to earn a return on non-investor-provided plant. Although Mt. Tipton is a nonprofit entity and has no investors, we believe that customer security deposits should be treated consistently even under these circumstances, just as AIAC and CIAC are deducted from rate base even when a utility is a nonprofit. Thus, we adopt Staff's rate base adjustment for customer security deposits and

[13] Official notice is taken of Decision No. 59364 and of Decision No. 71482 and of the cited transcript from the rate case involving Valley Utilities Water Company, Inc. that resulted in Decision No. 71482.

[14] Official notice is taken of Decision No. 71414.

will adopt Staff's corresponding operating expense adjustment for customer security deposit interest.

Cash Working Capital Allowance

78. Mt. Tipton and Staff agree on how to calculate cash working capital allowance using the formula method, (*see* Ex. S-2 Sched. AII-5; Ex. A-2 Att. 1 at 3), but reach different outcomes based upon their different operating expense figures. Although we typically require Class A, B, and C utilities to perform a lead-lag study to justify a cash working capital allowance, we are cognizant that Mt. Tipton is a relatively small nonprofit Class C utility and that smaller utility companies have argued that performing a lead-lag study is overly complicated and cost prohibitive. (*See* Ex. S-1 at 12; Tr. at 183-84.) Thus, we find that it is appropriate to allow Mt. Tipton a cash working capital allowance and, based upon our decision on purchased power expense discussed below, to adopt Staff's recommended cash working capital allowance of $92,647. (Final Sched. AII-3.)

Resolution

79. We find that Mt. Tipton's OCRB is $569,669 and that its FVRB is equivalent to its OCRB and is $569,669.

Revenue Requirement & Rate Design

80. Mt. Tipton had actual TY operating revenue of $313,539 (including $21,810 in emergency interim surcharge ("surcharge") revenue for the three months of the TY during which the surcharge was collected) and actual operating expenses of $293,735, for actual operating income of $19,804.[15] (Ex. A-2 Sched. C-1.)

81. Mt. Tipton and Staff agreed to several pro forma TY revenue adjustments, to include deducting the entire $21,810 in surcharge revenue; deducting $847 to annualize revenue to reflect end-of-TY customer counts;[16] and increasing revenue by $2,764 to correct under-billing of the Fire District and under-billing caused by a programming error that affected billing for third-tier consumption. (*See* Tr. at 28-29; Final Sched. AII-6; Ex. S-2 Sched. AII-8.) These pro forma

[15] If the surcharge revenue is excluded, actual TY operating revenue drops to $291,729, which would result in an operating loss of $2,006.

[16] Although Ms. Rowell testified that Mt. Tipton accepted Staff's adjustment to end-of-TY customers rather than May 2010 customers, (Tr. at 28-29), Mt. Tipton's Final Schedules continued to reflect revenue annualization based on May 2010 customer levels, (Final Sched. C-1; Final Sched. C-2a). We believe that this was an inadvertent error, and we are relying upon Ms. Rowell's sworn testimony at hearing rather than on the Final Schedules filed after the hearing.

adjustments result in adjusted TY revenue of $293,646. We find that these adjustments are reasonable and appropriate, and we adopt adjusted TY revenue of $293,646.

82. Mt. Tipton and Staff agreed on all but one pro forma adjustment to TY expenses, the adjustment proposed by Staff to deduct $4,815 in purchased power costs to exclude the portion of purchased power costs attributable to Mt. Tipton's excessive TY water loss. (*See* Tr. at 27-30, 38-39.) Mr. Igwe testified that such an adjustment is appropriate because the excess water loss provides no benefit to Mt. Tipton's ratepayers, and they should not be held responsible for paying costs that provide no benefit. (Tr. at 185.) Mr. Igwe further testified that such adjustments have been made for other water companies with excessive water loss, although he was unable to identify them at hearing.[17] (Tr. at 195-96.) When asked if he understood that Mt. Tipton's ratepayers are also its owners, Mr. Igwe testified that it did not make a difference to Staff, that Mt. Tipton's management has a responsibility to manage Mt. Tipton's resources effectively on behalf of its ratepayers, and that Staff's recommendation is based on what serves the public interest. (*Id.*) Ms. Rowell characterized this deduction as an unfair penalty, asserting that Mt. Tipton has now achieved an acceptable water loss, that Mt. Tipton is not intentionally losing water, that the system is past its prime, that water loss reports were inaccurate in the past but are now accurate, that Mt. Tipton has been actively seeking and stopping leaks to improve its water loss on an ongoing basis, and that much of Mt. Tipton's water loss could potentially be attributed to the Fire District's unreported use. (Ex. A-2 Att. 1 at 9-10.)

83. Staff's adjustment to purchased power expense is not a penalty. Rather, it is designed to normalize Mt. Tipton's TY purchased power expenses by bringing them into line with the purchased power expenses that should be incurred by Mt. Tipton when its water pumping is at the level necessary for the water sold by it, with an acceptable amount of water loss. This type of adjustment is appropriate not just because excess water loss is not beneficial to Mt. Tipton's customers, but because Mt. Tipton has provided evidence to demonstrate and has strongly advocated that its water loss is now at a level below 10 percent. Such a level of water loss will result in Mt. Tipton's over-recovering purchased power expenses if it is allowed to recover the full amount of its

[17] Official notice is taken of Decision No. 65917 (May 16, 2003) and Decision No. 65132 (August 22, 2002), in both of which the Commission reduced purchased power expense because of excessive water loss during the TY.

TY purchased power expenses. For these reasons, we find that Staff's adjustment to purchased power expense is reasonable and appropriate, and we will adopt it. Thus, we adopt Staff's adjusted TY operating expenses of $306,140.

84. We find that Mt. Tipton had adjusted TY operating revenue of $293,646 and adjusted TY operating expenses of $306,140, which reflect an operating loss of $12,494 and a negative rate of return and operating margin.

85. Mt. Tipton's current rates and charges,[18] Mt. Tipton's proposed rates and charges, and Staff's recommended rates and charges are as follows:

MONTHLY USAGE CHARGE:

	Present Rates	Company Proposed	Staff Recommended
5/8" x 3/4" Meter	$ 19.00	$ 22.60	$ 19.00
3/4" Meter	28.50	33.90	28.50
1" Meter	47.50	56.50	47.50
1-1/2" Meter	95.00	112.99	95.00
2" Meter	152.00	180.79	152.00
3" Meter	285.00	361.57	285.00
4" Meter	475.00	564.96	475.00
6" Meter	950.00	1,129.92	950.00
8" Meter	1,425.00	1,694.88	1,425.00

COMMODITY RATES (Per 1,000 Gallons):

All Meter Sizes			
0 to 4,000 Gallons		$3.48	$3.68
4,001 to 9,000 Gallons		5.00	5.15
Over 9,000 Gallons		6.46	6.55
5/8 x ¾-Inch Meter			
0 to 4,000 Gallons	$2.45		
4,001 to 9,000 Gallons	3.20		
Over 9,000 Gallons	4.20		
¾-Inch Meter			
0 to 4,000 Gallons	2.45		
4,001 to 15,000 Gallons	3.20		
Over 15,000 Gallons	4.20		

[18] The charges shown do not include the $10 interim emergency surcharge approved in Decision No. 70559.

1-Inch Meter			
0 to 25,000 Gallons	3.20		
Over 25,000 Gallons	4.20		
1 ½-Inch Meter			
0 to70,000 Gallons	3.20		
Over 70,000 Gallons	4.20		
2-Inch Meter			
0 to 125,000 Gallons	3.20		
Over 125,000 Gallons	4.20		
3-Inch Meter			
0 to 250,000 Gallons	3.20		
Over 250,000 Gallons	4.20		
4-Inch Meter			
0 to 400,000 Gallons	3.20		
Over 400,000 Gallons	4.20		
6-Inch Meter			
0 to 825,000 Gallons	3.20		
Over 825,000 Gallons	4.20		
8-Inch Meter			
0 to 1,250,000 Gallons	3.20		
Over 1,250,000 Gallons	4.20		
Standpipe Commodity Rates			
Bulk Sales (Per 1,000 Gallons)	$4.20	$6.45	$6.55
Vending Rate per 58 gallons[19]	0.25		
Vending Rate per 40 gallons		0.25	0.25

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	Present Charges	**Company Proposed & Staff Recommended**		
	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8" x ¾" Meter	$ 438.00	$ 445.00	$ 155.00	$ 600.00
¾" Meter	462.00	445.00	255.00	700.00
1" Meter	562.00	495.00	315.00	810.00
1-1/2" Meter	838.00	550.00	525.00	1,075.00

[19] This rate does not appear to have been authorized in Decision No. 67162. However, the issue was not remarked upon by the parties or litigated in this matter.

2" Turbine Meter	N/A	830.00	1,045.00	1,875.00
2" Compound Meter	1,094.00	830.00	1,890.00	2,720.00
3" Turbine Meter	N/A	1,045.00	1,670.00	2,715.00
3" Compound Meter	1,281.00	1,165.00	2,545.00	3,710.00
4" Turbine Meter	N/A	1,490.00	2,670.00	4,160.00
4" Compound Meter	3,375.00	1,670.00	3,645.00	5,315.00
6" Turbine Meter	N/A	2,210.00	5,025.00	7,235.00
6" Compound Meter	4,781.00	2,330.00	6,920.00	9,250.00
8" Turbine Meter	N/A	3,000.00	7,500.00	10,500.00
8" Compound Meter	5,000.00	3,200.00	8,000.00	11,200.00

SERVICE CHARGES:	Present Rates	Company Proposed	Staff Recommended
Establishment	$25.00	$30.00	$25.00
Establishment (After Hours)	40.00	40.00	40.00
Reconnection (Delinquent)	40.00	40.00	40.00
Reconnection (After Hours)	40.00	40.00	40.00
Meter Test (if correct)	40.00	40.00	40.00
NSF Check	15.00	25.00	25.00
Meter Re-Read (if correct)	10.00	15.00	15.00
Deposit	*	*	*
Deposit Interest (per month)	**	**	**
Deferred Payment (per month)	***	***	***
Late Charge (per month)	***	***	***
Re-Establishment (within 12 months)	****	****	****
Main Extension	N/A	Cost	Cost
Monthly Service Charge for Fire Sprinkler			
All Sizes	N/A	*****	******

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

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

*** 1.50% of unpaid monthly balance

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

***** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

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

86. Mt. Tipton proposes total operating revenue of $371,764, an increase of $78,118, or 26.60 percent, over the adjusted TY revenue figure adopted herein. (*See* Final Sched. C-1.) With its proposed adjusted operating expenses of $312,890, Mt. Tipton's proposed revenue would result in operating income of $58,874, for a 10.33-percent rate of return on FVRB and a 15.84-percent

operating margin. (*See id.*; Final Sched. A-1.)

87. Staff recommends total operating revenue of $356,490, an increase of $62,844, or 21.40 percent, over the adjusted TY revenue figure adopted herein. (*See* Final Sched. AII-6; Final Sched. AII-1.) With its proposed adjusted operating expenses of $308,363, Staff's recommended revenue would result in operating income of $48,127, for an 8.45-percent rate of return on FVRB and a 13.50-percent operating margin. (*See* Final Sched. AII-6; Final Sched. AII-1.)

88. When the surcharge revenue is excluded, Mt. Tipton currently has a DSC of less than one and a negative TIER, which indicates that without the surcharge revenue, Mt. Tipton is currently unable to meet its debt service obligations.[20] (Tr. at 190-91, 204-05; Final Sched. AII-2.) With Staff's recommended revenue requirement, Mt. Tipton would have a DSC of 1.26 and a TIER of 1.98. (Final Sched. AII-2.) This indicates a level of cash flow that would allow Mt. Tipton to meet its current obligations. (Tr. at 199-200.)

89. We find that Staff's recommended revenue requirement is just and reasonable, and we will adopt it.

90. Mt. Tipton and Staff have agreed to increase the rate for Mt. Tipton's coin-operated standpipe by decreasing the volume dispensed per $0.25 from 58 gallons to 40 gallons.[21] Mt. Tipton has asserted, and Staff has accepted, that the change in volume will result in approximately $7,492 in increased revenue. (*See* Ex. A-2 Att. 1 at 11; Final Sched. C-1; Final Sched. AII-6.) This increase amount is based on an assumption that Mt. Tipton's coin-operated standpipe users will continue to take less than their allotment of water per $0.25 coin ("coin") even when the allotment is reduced from 58 gallons to 40 gallons. (*See* Tr. at 29-32.) Currently, Mt. Tipton's customers take approximately 49.69 gallons per coin, which represents approximately 85.67 percent of their

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

> TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not mean that debt obligations cannot be met in the short 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.

[21] The 40-gallon allotment per coin reflects a commodity rate of $6.25 per thousand gallons.

allotment. (*See* Ex. A-2 Att. 1 at 11.) Mt. Tipton assumes, and Staff accepts, that Mt. Tipton's customers will continue to take approximately 85.67 percent of their allotment when the allotment is reduced to 40 gallons, which would result in their taking approximately 34.27 gallons per coin. (*Id.*) Ms. Monzillo, herself a Mt. Tipton coin-operated standpipe customer, testified that customers typically use the coin-operated standpipe to fill large containers that take hundreds of gallons and typically ensure that their tanks are full, even if it means putting in another coin and paying for some water not taken, because an under-filled tank can result in a driving hazard. (Tr. at 49-50.) In spite of Ms. Monzillo's testimony, we do not think that the adjustment is appropriate. We are not convinced that Mt. Tipton's customers will continue to take only 85.67 percent of their allotment when their allotment is reduced to a level below their current allotment, and we believe that it will do Mt. Tipton a disservice to assume that this will occur when it is far from certain, as the assumption could result in Mt. Tipton's not earning its full revenue requirement. Thus, rather than adopting the projected increase of $7,492 to coin-operated sales, we will adopt a projected increase of $4,036 in coin-operated sales, which reflects the difference between actual TY coin-operated revenue of $16,646.50 and projected coin-operated revenue of $20,682.50, calculated by taking the 3,309,200 actual gallons sold from the coin-operated standpipe during the TY and dividing it by the new allotment of 40 gallons per coin. As a result of this adjustment, an additional $3,456 will need to be generated by monthly minimum charges and metered customer commodity rates in order to allow Mt. Tipton to earn the revenue requirement adopted herein.

91. The parties have agreed to change Mt. Tipton's commodity rate structure to include the same three-tiered commodity rate structure for all customers, regardless of meter size, instead of having a three-tiered commodity rate structure for small meter sizes and then a two-tiered commodity rate structure, with increasingly higher second-tier thresholds, for larger meter sizes. Mr. Igwe explained that the recommended commodity rate structure is appropriate because Mt. Tipton's current commodity rate thresholds have little relationship to its customer consumption patterns and thus do not encourage efficient use of water. (Ex. S-1 at 22.) Although we generally adopt a commodity rate structure similar to Mt. Tipton's current commodity rate structure, it is apparent that the second-tier thresholds for the larger meter sizes in Mt. Tipton's current rate design are far too

high to encourage Mt. Tipton's customers to conserve water. We also see a benefit in simplifying Mt. Tipton's rate structure so that it is easier to implement and follow. Thus, we will adopt the three-tiered commodity rate structure on which Staff and Mt. Tipton have agreed for all meter sizes.

92. Mt. Tipton's proposed rates and charges would increase both monthly minimum charges and commodity rates, while Staff's recommended rates and charges would increase only commodity rates. Staff asserts that Mt. Tipton obtained more than 60 percent of its TY revenues from monthly minimum charges, which Staff believes is excessive and does not contribute to conservation efforts because usage has less impact on customer bills. (*See* Ex. S-1 at 23.) Staff's recommended rates would result in approximately 50 percent of Mt. Tipton's revenues coming from monthly minimum charges. (Ex. S-1 at 23.) Mt. Tipton asserts that it is appropriate to collect the rate increase through both increased monthly minimum charges and increased commodity rates, as Mt. Tipton's customers are accustomed to paying the flat surcharge each month, and Mt. Tipton needs the kind of revenue stability that has existed with the surcharge in place. (*See* Tr. at 13.) Ms. Rowell stated:

> Mount Tipton has had a lot of financial problems and inability to pay their bills, and we have concerns that taking that much out of the base rate and putting it in the commodity rate, going forward, if customers start to conserve, which we assume they will at such high commodity rates, that could sort of put them back in the same position they're in right now as far as not having the money to pay their bills.[22]

93. For the 5/8" x ¾" meter residential customer with monthly usage of 4,194 gallons, Mt. Tipton's proposed rates and charges would increase the bill from $29.42 to $37.49, an increase of $8.07 or 27.43 percent. If the current $10 surcharge is considered, the customer with usage of 4,194 gallons would actually see a decrease of $1.93 or 4.90 percent.

94. For the 5/8" x ¾" meter residential customer with monthly usage of 4,194 gallons, Staff's recommended rates and charges would increase the bill from $29.42 to $34.72, an increase of $5.30 or 18.01 percent. When the current $10 surcharge is considered, the customer with usage of 4,194 gallons would actually see a decrease of $4.70 or 11.92 percent.

95. While we agree that it is appropriate for a utility to have a rate design that encourages

[22] Tr. at 13.

conservation by emphasizing the importance of the commodity rate, we are also very much aware of Mt. Tipton's nonprofit status, of its negative equity position, of its troubled compliance history, of its current compliance with ADEQ, of its ongoing efforts to control its water loss and improve its water supply, of its need to continue improving its system, and of its customers' already low consumption levels. It appears that the surcharge revenue has greatly assisted Mt. Tipton in bringing its field operations to a level that ensures its customers are receiving water that complies with ADEQ requirements and in bringing its day-to-day business operations to a point where it has been able to identify programming errors and billing errors and to take action to correct them. We hear Mt. Tipton's concerns related to losing the revenue stability that the surcharges have represented, and we find that it is appropriate to adjust Staff's recommended rate design somewhat to address those concerns. Thus, rather than having the entire revenue increase come from commodity rates, as recommended by Staff, we find that it is appropriate to divide the revenue increase between monthly minimum charges and commodity rates, with 50 percent coming from monthly minimum charges and 50 percent coming from commodity rates. This results in the following monthly minimum rates and commodity charges, which we will adopt herein:

MONTHLY USAGE CHARGE:

	Rates
5/8" x 3/4" Meter	$ 22.25
3/4" Meter	33.38
1" Meter	55.63
1-1/2" Meter	111.25
2" Meter	178.00
3" Meter	356.00
4" Meter	556.25
6" Meter	1,112.50
8" Meter	1,780.00

COMMODITY RATES (Per 1,000 Gallons):

All Meter Sizes	
0 to 4,000 Gallons	$3.05
4,001 to 9,000 Gallons	4.60
Over 9,000 Gallons	5.50
Standpipe Commodity Rates	
Bulk Sales (Per 1,000 Gallons)	$5.50
Vending Rate per 40 gallons	0.25

96. For the 5/8" x ¾" meter residential customer with monthly usage of 4,194 gallons, the rates and charges adopted herein will increase the bill from $29.42 to $35.34, an increase of $5.92 or 20.12 percent. When the current $10 surcharge is considered, the customer with usage of 4,194 gallons will see a decrease of $4.08 or 10.35 percent.

97. We find that the monthly minimum rates and commodity charges adopted herein are just and reasonable and in the public interest. We further find that Staff's recommended service charges and service line and meter installation charges[23] are just and reasonable and in the public interest, and we will adopt them.

Resolution of Other Issues

98. We are troubled by the current situation with the Fire District, including both its apparent failure to report regularly and accurately to Mt. Tipton the amount of water that it is using for non-domestic purposes and its use of potable water for those purposes when there is a readily available supply of nonpotable water. We find that it is necessary for Mt. Tipton to engage in discussions with the Fire District regarding whether the Fire District can and will transition all or most of its non-domestic water use to Mt. Tipton's nonpotable system. We find that these discussions need to explore, at a minimum, the following: (1) whether Mt. Tipton's nonpotable water supply would be sufficient to serve the Fire District's non-domestic water supply needs in a typical year; (2) what modifications, if any, to the Fire District's equipment would be necessary to enable the Fire District to transition all or most of its non-domestic water use to the nonpotable water system; (3) what modifications, if any, to Mt. Tipton's equipment or facilities would be necessary to enable the Fire District to transition all or most of its non-domestic water use to the nonpotable water system; (4) the estimated costs for any such modifications; (5) the sources of funding available to cover the costs of any such modifications; (6) what procedures and/or equipment modifications would help to ensure that all of the Fire District's non-domestic water use is accurately accounted for each month; (7) the amount the Fire District has budgeted annually for its non-domestic water supply; and (8) what changes, if any, to Mt. Tipton's rates and/or charges would be appropriate for use of Mt.

[23] Mt. Tipton and Staff agreed on service line and meter installation charges.

Tipton's nonpotable water supply.[24] We will require that these discussions take place and that Mt. Tipton file, within 120 days after the effective date of this Decision, a report describing the outcome of the discussions and providing responses to each of the discussion items listed above. We will also require Staff to scrutinize the report and file a memorandum analyzing the report and making specific recommendations. Because we have great confidence in Staff's ability to convey technical assistance and advice, we will also require Staff to participate in the discussions with the Fire District, upon the request of Mt. Tipton, to the extent that Staff has the resources to do so.

99. In Decision No. 67162, the Commission ordered Mt. Tipton to reduce its water loss to less than 10 percent within 18 months and provided that if Mt. Tipton failed to bring its water loss to below 15 percent within that timeframe, Mt. Tipton would be denied approval of any new main extension agreements until average water loss was below 15 percent for two consecutive quarters. The Decision also required Mt. Tipton to file quarterly reports showing its monthly water pumped and sold, a requirement that the Decision stated could end if Staff found that Mt. Tipton showed average water loss below 10 percent for two consecutive quarters.

100. As of February 10, 2006, Mt. Tipton had failed to comply with Decision No. 67162 because its water loss had not been reduced to a level below 10 percent. After that date, it was no longer possible for Mt. Tipton to come into full compliance with Decision No. 67162. However, it appears that Mt. Tipton has been making great strides to decrease its water loss, most notably through its ongoing efforts to replace the meters on its system to ensure that the water sold is accurately measured and its troubleshooting of the programming errors for some meters. Although Staff is skeptical concerning the validity of Mt. Tipton's reported water loss for the first half of 2010 and would require Mt. Tipton to provide a full 12 months of data to demonstrate that its water loss is at an acceptable level, we find that Mt. Tipton has demonstrated water loss of less than 10 percent for the first half of 2010 based on the data that it has provided herein. We also find that it is appropriate to allow Mt. Tipton's new rates and charges adopted herein to go into effect sooner rather than later, as the surcharge will expire upon the issuance of this Decision, and its expiration would leave Mt.

[24] The evidentiary record in this case is insufficient to adopt a reduced nonpotable water rate herein, to provide an incentive to the Fire District to switch to nonpotable water for nonpotable uses.

Tipton unable to cover its debt service obligations or to pay its bills in the absence of the rate increase.

101. While we find that Mt. Tipton has established that its water loss is currently at an acceptable level, we do not believe that it would be appropriate to allow Mt. Tipton to cease reporting its water pumped and sold to the Commission on a quarterly basis. Rather, we find that it is appropriate to terminate the quarterly water loss reporting required by Decision No. 67162 and instead to order Mt. Tipton to make such filings in this docket on a going forward basis, with the proviso that the reporting may stop after Mt. Tipton has demonstrated, and Staff has verified, that Mt. Tipton's water loss is at a level at or below 10 percent for two consecutive quarters, beginning with or after the first quarter of 2011.

102. Because Mt. Tipton is currently in full compliance with ADEQ requirements, we find that it is appropriate to terminate the monthly reporting requirement, adopted in Decision No. 70837, related to Mt. Tipton's progress in attaining ADEQ compliance.

103. Mt. Tipton did not request to have its HUF Tariff reinstated in this case, Staff did not make any recommendation regarding whether such reinstatement would be appropriate, and it appears that there is currently no growth in Mt. Tipton's service area. Thus, we will not take any action herein to modify the suspended status of Mt. Tipton's HUF Tariff. If Mt. Tipton desires to have its HUF Tariff reinstated in the future, it must file an application with the Commission requesting such authority and must not assess any HUF unless and until such authority is obtained. In addition, once Mt. Tipton has reimbursed its HUF account as ordered by Decision No. 70837, if Mt. Tipton desires to be able to spend any of the HUF funds therein, Mt. Tipton must file an application with the Commission requesting such authority and must not spend any of the reimbursed HUF funds unless and until such authority is obtained.

104. Because we are concerned that Mt. Tipton may not file a rate case in a timely fashion, as it has previously waited too long before filing a rate application, to the disadvantage of its system and its ratepayers, we will order Mt. Tipton to file another permanent rate case application within three years of the effective date of this Decision.

105. Staff's recommendations set forth in Findings of Fact No. 69(c) and (d) are reasonable

and appropriate, and we will adopt them.

CONCLUSIONS OF LAW

1. Mt. Tipton Water Company, Inc. is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Mt. Tipton Water Company, Inc. and the subject matter of the application.

3. Notice of Mt. Tipton Water Company, Inc.'s application and this matter was provided in accordance with the law.

4. Mt. Tipton Water Company, Inc.'s FVRB is $569,669.

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

6. It is just and reasonable and in the public interest to take the actions described in Findings of Fact Nos. 77, 78, 81, 83, 89, 90, 95, 97, and 98 through 105.

ORDER

IT IS THEREFORE ORDERED that Mt. Tipton Water Company, Inc. is hereby authorized and directed to file with the Commission's Docket Control, as a compliance item in this docket, on or before November 30, 2010, a revised tariff setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	$22.25
3/4" Meter	33.38
1" Meter	55.63
1-1/2" Meter	111.25
2" Meter	178.00
3" Meter	356.00
4" Meter	556.25
6" Meter	1,112.50
8" Meter	1,780.00

COMMODITY RATES (Per 1,000 Gallons):

All Meter Sizes	
0 to 4,000 Gallons	$3.05
4,001 to 9,000 Gallons	4.60
Over 9,000 Gallons	5.50

Standpipe Commodity Rates

Bulk Sales (Per 1,000 Gallons)	$5.50
Vending Rate per 40 gallons	0.25

SERVICE LINE AND METER INSTALLATION CHARGES:

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

	Service Line Charge	Meter Charge	Total Charge
5/8" x ¾" Meter	$ 445.00	$ 155.00	$ 600.00
¾" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine Meter	830.00	1,045.00	1,875.00
2" Compound Meter	830.00	1,890.00	2,720.00
3" Turbine Meter	1,045.00	1,670.00	2,715.00
3" Compound Meter	1,165.00	2,545.00	3,710.00
4" Turbine Meter	1,490.00	2,670.00	4,160.00
4" Compound Meter	1,670.00	3,645.00	5,315.00
6" Turbine Meter	2,210.00	5,025.00	7,235.00
6" Compound Meter	2,330.00	6,920.00	9,250.00
8" Turbine Meter	3,000.00	7,500.00	10,500.00
8" Compound Meter	3,200.00	8,000.00	11,200.00

SERVICE CHARGES:

Establishment	$25.00
Establishment (After Hours)	40.00
Reconnection (Delinquent)	40.00
Reconnection (After Hours)	40.00
Meter Test (if correct)	40.00
NSF Check	25.00
Meter Re-Read (if correct)	15.00
Deposit	*
Deposit Interest (per month)	**
Deferred Payment (per month)	***
Late Charge (per month)	***
Re-Establishment (within 12 months)	****
Main Extension	Cost

Monthly Service Charge for Fire Sprinkler

All Sizes	*****

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

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

*** 1.50% of unpaid monthly balance

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

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

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

IT IS FURTHER ORDERED that Mt. Tipton 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 Mt. Tipton Water Company, Inc. shall, on a going-forward basis, use the depreciation rates set forth by National Association of Regulatory Commissioners plant category in Figure 5 of the Staff Engineering Report filed in this docket.

IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall continue monitoring and recording its water pumped and sold each month and shall file with the Commission's Docket Control, as a compliance item in this docket, quarterly reports showing the water pumped and sold for each month of the quarter, expressing separately the water pumped and sold for its potable water system and for its nonpotable water system, with the first report due on January 15, 2011, for the quarter ending December 31, 2010, and subsequent reports due on the 15th day of the month following the end of each quarter.

IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall, within 90 days after the effective date of this Decision, engage in discussions with the Lake Mohave Ranchos Fire District regarding whether the Fire District can and will transition all or most of its non-domestic water use to Mt. Tipton's nonpotable water system. These discussions shall explore, at a minimum, the following: (1) whether Mt. Tipton's nonpotable water supply would be sufficient to serve the Fire District's non-domestic water supply needs in a typical year; (2) what modifications, if any, to the Fire District's equipment would be necessary to enable the Fire District to transition all or most of its non-domestic water use to the nonpotable water system; (3) what modifications, if any, to Mt. Tipton's equipment or facilities would be necessary to enable the Fire District to transition all or most of its non-domestic water use to the nonpotable water system; (4) the estimated costs for any such modifications; (5) the sources of funding available to cover the costs of any such modifications; (6) what procedures and/or equipment modifications would help to ensure that all of the Fire District's non-domestic water use is

accurately accounted for each month; (7) the amount the Fire District has budgeted annually for its non-domestic water supply; and (8) what changes, if any, to Mt. Tipton's rates and/or charges would be appropriate for use of Mt. Tipton's nonpotable water supply.

IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall file with the Commission's Docket Control, as a compliance filing in this Docket, within 120 days after the effective date of this Decision, a report describing the outcome of the discussions with the Fire District and providing responses to each of the discussion items listed above.

IT IS FURTHER ORDERED that the Commission's Utilities Division shall, within 45 days after the report required above is filed, scrutinize the report and file in this Docket a memorandum analyzing the feasibility of the Fire District's transitioning all or most of its non-domestic water use to Mt. Tipton Water Company, Inc.'s nonpotable water system and recommending (1) whether the Commission should restrict Mt. Tipton Water Company, Inc.'s sales of potable water to the Fire District for non-domestic uses when nonpotable water is available; (2) whether any changes should be made to Mt. Tipton Water Company, Inc.'s rates and/or charges for use of nonpotable water; and (3) whether the Commission should impose any additional requirements on Mt. Tipton Water Company, Inc. related to the Fire District's use of water for non-domestic purposes.

IT IS FURTHER ORDERED that the Commission's Utilities Division shall, upon the request of Mt. Tipton Water Company, Inc., participate in the discussions with Lake Mohave Ranchos Fire District to the extent that the Utilities Division has the resources to do so, so that the Utilities Division may convey technical assistance and advice during those discussions.

IT IS FURTHER ORDERED that the requirement for Mt. Tipton Water Company, Inc. to submit quarterly water loss reports in Docket No. W-02105A-03-0303, pursuant to Decision No. 67162, is hereby terminated.

IT IS FURTHER ORDERED that the requirement for Mt. Tipton Water Company, Inc. to submit monthly reports regarding its Arizona Department of Environmental Quality compliance status in Docket No. W-02105A-07-0510, pursuant to Decision No. 70837, is hereby terminated.

IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall, within three years after the effective date of this Decision, file a permanent rate case application with the Commission's

Docket Control.

IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc.'s emergency interim surcharge is hereby terminated.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 10th day of December, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

SERVICE LIST FOR: MT. TIPTON WATER COMPANY, INC.

DOCKET NO.: W-02105A-09-0522

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