

OPEN MEETING ITEM



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COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

ORIGINAL



ARIZONA CORPORATION COMMISSION

RECEIVED

2011 FEB 11 P 3: 35

AT CORP COMMISSION
DOCKET CONTROL

DATE: FEBRUARY 11, 2011
DOCKET NO.: W-02678A-10-0303 and W-02678A-10-0304

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 Order on:

A. PETERSEN WATER COMPANY.
(RATES/FINANCING)

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:

FEBRUARY 22, 2011

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

MARCH 1, 2011 and MARCH 2, 2011

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

FEB 11 2011

DOCKETED BY

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF
A. PETERSEN WATER COMPANY FOR
APPROVAL OF FINANCING.

DOCKET NO. W-02678A-10-0303

IN THE MATTER OF THE APPLICATION OF
A. PETERSEN WATER COMPANY FOR
APPROVAL OF AN INCREASE IN RATES.

DOCKET NO. W-02678A-10-0304

DECISION NO. _____

ORDER

Open Meeting
March 1 and 2, 2011
Phoenix, Arizona

BY THE COMMISSION:

This case involves an application for a permanent rate increase and an application for approval of financing filed with the Arizona Corporation Commission ("Commission") on July 21, 2010, by A. Petersen Water Company ("APWC"), a Class E water utility providing service to approximately 46 customers in a service area located approximately 20 miles northwest of Show Low and 9 miles west of Snowflake on State Route 277 in Navajo County. APWC's current rates and charges were approved in Decision No. 69242 (January 19, 2007). APWC's rate application uses calendar year 2009 as its test year ("TY").

* * * * *

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. APWC is a Class E public service corporation providing water utility service to approximately 46 customers in a service area located approximately 20 miles northwest of Show Low

1 and 9 miles west of Snowflake on State Route 277 in Navajo County.

2 2. APWC is an S corporation owned equally by Mark E. Grapp and Thomas E. Grapp.
3 In addition to owning APWC, Mark Grapp owns three other Commission-regulated water utilities
4 (Cedar Grove Water, Inc.; Vernon Valley Water, Inc.; and Watco, Inc.) and Water Management
5 Company, LLC, a company that contracts to manage water utilities.

6 3. APWC's water system has one well, with a pump yield of 60 gallons per minute; two
7 10,000-gallon storage tanks; one 3,000-gallon pressure tank; and a distribution system, which was
8 serving 46 5/8" x 3/4" customer meters at the end of the TY. The Commission's Utilities Division
9 ("Staff") concluded that APWC's production and storage capacities are adequate to serve its present
10 customer base and reasonable anticipated growth.¹

11 4. APWC's customers are predominantly residential, with its two non-residential
12 customers being small businesses. During the TY, APWC's actual monthly customer count varied
13 from 41 to 47, averaging 43 customers per month.

14 5. APWC reported 3,598,400 gallons pumped and 3,537,560 gallons sold during the TY,
15 which reflects annual system water loss of 1.69 percent, well within the Commission's standard for
16 non-account water to be 10 percent or less and never more than 15 percent. The figures provided for
17 APWC's monthly water sold exceeded the figures provided for APWC's monthly water pumped
18 several times during the TY. According to Staff, this shows that APWC has failed to coordinate the
19 reading of its source meter with the reading of its customer meters, which results in inaccurate
20 historical monthly water use data. Staff asserted that APWC should be required to coordinate the
21 reading of its well meter and the reading of its individual customer meters each month and to report
22 this data in future Commission Annual Reports, so that it will be possible accurately to calculate non-
23 account water for each month.

24 6. Staff's Consumer Services Section database shows no complaints filed against APWC
25 from January 1, 2008, through January 4, 2011, although four customer comments opposing the rate
26 increase were filed during this time.

27

28 ¹ Staff asserted that while the existing water system is close to needing additional storage, the existing water system can adequately support 121 additional connections based on production.

1 7. Staff's Compliance Section database shows no outstanding compliance issues for
2 APWC.

3 8. APWC is current on its property and sales tax payments.

4 9. APWC is in good standing with the Commission's Corporations Division.

5 10. APWC is not located in an Arizona Department of Water Resources ("ADWR")
6 designated Active Management Area. An ADWR Report dated August 17, 2010, shows that APWC
7 is in compliance with ADWR requirements governing water providers and/or community water
8 systems.

9 11. An Arizona Department of Environmental Quality ("ADEQ") Drinking Water
10 Compliance Status Report dated June 30, 2010, shows that APWC has no major deficiencies and that
11 its system is delivering water that meets the water quality standards required by Code of Federal
12 Regulations Title 40, Part 141 and Arizona Administrative Code ("A.A.C.") Title 18, Chapter 4.

13 12. APWC has an approved curtailment plan tariff and an approved backflow prevention
14 tariff on file with the Commission.

15 **Procedural History**

16 13. On July 21, 2010, APWC filed with the Commission, in Docket No. W-02678A-10-
17 0304 ("ratemaking docket"), an application for a permanent rate increase ("rate application"), in
18 which APWC reported TY total operating revenue of \$18,632.00; total operating expenses of
19 \$21,937.00; and a net operating loss of \$3,305.00. APWC requested an increase in revenues of
20 \$12,001.00, which it proposed to collect through increased monthly service charges and increased
21 commodity rates. With its rate application, APWC included an affidavit stating that notice of its rate
22 application, which included a schedule of its current and proposed rates and charges, had been mailed
23 to its customers on July 19, 2010.

24 14. Also on July 21, 2010, APWC filed with the Commission, in Docket No. W-02678A-
25 10-0303 ("financing docket"), an application requesting approval of unsecured debt financing
26 ("financing application"), reflecting a loan made by Mark Grapp to APWC in the amount of
27 \$6,225.62, to cover the following operating expenses of APWC: \$4,325.93 in salaries and wages;
28 \$1,327.43 in repairs and maintenance; and \$572.26 in rents. APWC stated that the subsidization of

1 operations by Mark Grapp was necessary because APWC's current rates do not provide sufficient
2 revenue to cover expenses. APWC stated that repayment of the debt, with a 10-percent interest rate,
3 was to be completed over the 12-month period after Commission approval of the financing
4 application. With its financing application, APWC included an affidavit stating that notice of its
5 financing application had been mailed to its customers on July 19, 2010.

6 15. On August 19, 2010, in the ratemaking docket, Staff issued a Letter of Deficiency and
7 data request.

8 16. On August 26, 2010, in the ratemaking docket, APWC filed its response to Staff's data
9 request, including a revised TY bill count, a copy of its TY billing reports, a copy of its TY deposit
10 reports, and a corrected application page showing current and proposed monthly minimum charges
11 and commodity rates.

12 17. On November 5, 2010, in the ratemaking docket, Staff issued a Letter of Sufficiency,
13 stating that APWC's rate application had met the sufficiency requirements of A.A.C. R14-2-103 and
14 classifying APWC as a Class E water utility. On November 9, 2010, Staff issued a letter correcting
15 an erroneous date included in the Letter of Sufficiency.

16 18. On December 28, 2010, in the ratemaking docket, Staff filed a Request for Extension
17 of Time, asking that the deadline for issuance of the Staff Report for APWC's rate application be
18 extended by two weeks, to January 18, 2011. APWC did not file a response to Staff's Request.

19 19. On January 7, 2011, in the ratemaking docket, a Procedural Order was issued
20 extending the due date for the Staff Report to January 18, 2011, and extending the time-frame for the
21 Commission's final order by two weeks.

22 20. On January 10, 2011, in the financing docket, a Procedural Order was issued requiring
23 APWC and Staff each to file, by January 18, 2011, a document stating the party's position on
24 consolidating the financing docket and the ratemaking docket and, additionally, the party's position
25 on whether Commission approval of the debt is required under A.R.S. §§ 40-301 through 40-303.

26 21. On January 18, 2011, in the financing docket, Staff filed a document stating that Staff
27 did not oppose consolidation of the ratemaking docket and the financing docket and, further, stating
28 that Staff believes Commission approval is required, under A.R.S. §§ 40-301 through 40-303, for the

1 debt included in APWC's financing application because the proposed financing was to repay debt
2 incurred over a period greater than 12 months.

3 22. On January 18, 2011, in both the ratemaking docket and the financing docket, Staff
4 filed a Staff Report analyzing both the rate application and the financing application.

5 23. On January 21, 2011, APWC filed a document stating that APWC recommended
6 consolidation of the ratemaking docket and the financing docket and, further, that APWC does not
7 feel that the debt requires Commission approval because the debt has a repayment period of 12
8 months.

9 24. On January 24, 2011, a Procedural Order was issued consolidating the ratemaking
10 docket and the financing docket.

11 25. On January 31, 2011, APWC filed its response to the Staff Report, stating that
12 although it does not agree with all of Staff's findings therein, it does not wish to contest any portion
13 of the Staff Report.

14 26. Between August 4 and 6, 2010, four APWC customer comments opposing APWC's
15 requested rate increase were filed with the Commission's Consumer Services Section.

16 **Ratemaking**

17 27. APWC's current and proposed rates and charges and Staff's recommended rates and
18 charges are as follows:

<u>MONTHLY USAGE CHARGE:</u>	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
5/8" x 3/4" Meter (All Classes)	\$ 17.50	\$ 27.50	\$ 21.50
3/4" Meter (All Classes)	26.25	36.00	32.25
1" Meter (All Classes)	43.75	60.00	53.75
1-1/2" Meter (All Classes)	87.50	120.00	107.50
2" Meter (All Classes)	140.00	192.00	172.00
3" Meter (All Classes)	280.00	384.00	344.00
4" Meter (All Classes)	437.50	600.00	537.50
6" Meter (All Classes)	875.00	1,200.00	1,075.00

25
26 **COMMODITY RATES (Per 1,000 Gallons):**

<u>5/8" x 3/4" and 3/4" Meters (Residential)</u>	
1 to 3,000 Gallons	\$1.50
3,001 to 9,000 Gallons	2.20

1	Over 9,000 Gallons	2.96		
2	<u>All Commercial Sizes and any Residential Meters Larger than 3/4"</u>			
	1 to 9,000 Gallons	\$2.20		
3	Over 9,000 Gallons	2.96		
4	<u>All Meter Sizes</u>			
5	1 to 4,000 Gallons		\$3.50	
	4,001 to 10,000 Gallons		4.50	
6	Over 10,000 Gallons		6.00	
7	<u>All 5/8" x 3/4" and 3/4" Meters; 1" Meter (Residential)</u>			
	1 to 3,000 Gallons			\$2.50
8	3,001 to 9,000 Gallons			4.00
9	Over 9,000 Gallons			6.14
10	<u>1" Meter (Non-Residential)</u>			
	1 to 32,000 Gallons			\$4.00
11	Over 32,000 Gallons			6.14
12	<u>1-1/2" Meter (All Classes)</u>			
13	1 to 106,000 Gallons			\$4.00
	Over 106,000 Gallons			6.14
14	<u>2" Meter (All Classes)</u>			
15	1 to 195,000 Gallons			\$4.00
16	Over 195,000 Gallons			6.14
17	<u>3" Meter (All Classes)</u>			
	1 to 434,000 Gallons			\$4.00
18	Over 434,000 Gallons			6.14
19	<u>4" Meter (All Classes)</u>			
20	1 to 545,000 Gallons			\$4.00
	Over 545,000 Gallons			6.14
21	<u>6" Meter (All Classes)</u>			
22	1 to 755,000 Gallons			\$4.00
23	Over 755,000 Gallons			6.14
24	<u>Bulk Water</u>			
	All Usage	\$5.00	N/A	\$6.14
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SERVICE LINE AND METER INSTALLATION CHARGES:

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

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	<u>Present</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>		
	Total Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8" x 3/4" Meter	\$ 290.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
3/4" Meter	320.00	320.00	230.00	90.00	320.00
1" Meter	370.00	370.00	230.00	140.00	370.00
1-1/2" Meter	545.00	545.00	280.00	265.00	545.00
2" Meter	750.00	750.00	330.00	420.00	750.00
3" Meter	980.00	980.00	380.00	600.00	980.00
4" Meter	1,820.00	1,820.00	650.00	1,170.00	1,820.00
6" Meter	3,920.00	3,920.00	1,200.00	2,720.00	3,920.00

	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	\$40.00	\$40.00	\$40.00
Reconnection (Delinquent)	\$25.00	\$50.00	\$50.00
Reconnection (Delinquent)(After Hours)	N/A	\$75.00	\$75.00
Meter Test (If Correct)	\$40.00	\$75.00	\$40.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (within 12 mos.)	**	**	**
NSF Check	\$30.00	\$30.00	\$30.00
Deferred Payment (per month)	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	\$10.00	\$15.00	\$15.00
Late Fee (per month)	***	***	***

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

All Meter Sizes ***** Not Included *****

- * Per Commission rule A.A.C. R14-2-403(B).
- ** Number of months off system times monthly minimum, per Commission rule A.A.C. R14-2-403(D).
- *** 1.50% per month on the unpaid monthly balance.
- **** 1.00% of monthly minimum for a comparably sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinkler service is only applicable for service lines separate and distinct from the primary water service line.
- ***** 2.00% of monthly minimum for a comparably sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinkler service is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of its regular rates and charges, the company shall collect from its customers their proportionate share of any privilege, sales, or use tax in accordance with A.A.C. R14-2-409(D)(5).

1 28. In its rate application, APWC proposed an original cost rate base (“OCRB”) of
2 \$27,124 and waived the right to reconstruction cost new rate base.

3 29. Staff determined that APWC’s OCRB is \$7,566. Staff’s adjustments to APWC’s
4 proposed OCRB included an overall reduction in plant in service of \$3,220; an increase in
5 accumulated depreciation of \$14,809; inclusion of customer deposits of \$640; and a reduction of
6 \$890 in cash working capital. Staff’s adjustments were made to be consistent with plant account
7 balances from Decision No. 69242 (January 19, 2007) and to eliminate unsupported and duplicate
8 plant additions, to reflect Staff’s calculation of accumulated depreciation expense based on Staff’s
9 adjustments to plant, and to reflect Staff’s calculation of cash working capital based on Staff’s
10 recommendations for expenses.

11 30. We find that Staff’s adjustments to APWC’s OCRB are reasonable and appropriate,
12 and we will adopt them. We further find that APWC’s fair value rate base (“FVRB”) is equivalent to
13 its OCRB and is \$7,566.

14 31. In its application, APWC reported actual unaudited TY total operating revenue of
15 \$18,632² and TY operating expenses of \$21,937, which reflects a TY operating loss of \$3,305 and a
16 negative rate of return on rate base.

17 32. Staff determined that APWC had adjusted TY total operating revenue of \$17,346;
18 adjusted TY operating expenses of \$19,958; and a TY operating loss of \$2,612. Staff calculated
19 APWC’s TY total operating revenue using APWC’s TY bill count.

20 33. We find that Staff’s adjustments to APWC’s TY total operating revenue, to make it
21 consistent with APWC’s TY bill count, are reasonable and appropriate, and we adopt Staff’s adjusted
22 TY total operating revenue of \$17,346.

23 34. Staff decreased APWC’s adjusted TY operating expenses by \$2,733 overall, resulting
24 in a TY operating expense figure of \$19,958. Staff’s adjustments to operating expenses include an
25 increase of \$411 in repairs and maintenance, to reflect Staff’s computation and the expensing of a
26

27 ² According to APWC’s filing on August 26, 2010, this revenue figure includes sales tax, although the rate case
28 application form instructs that it should not. APWC stated that it also included sales tax in its operating expenses. The
monthly current charges included in the bill count provided by APWC in its August 26, 2010, filing calculate to
\$17,181.57 for the TY.

1 previously capitalized item; a decrease of \$42 in water testing expense, to reflect Staff's calculation
2 of annual water testing expense and to remove a pro forma adjustment by APWC; an increase of
3 \$250 in rate case expense, to reflect Staff's computation of reasonable rate case expense and use a
4 four-year normalization period; a decrease of \$1,222 in depreciation expense, to reflect Staff's
5 calculation using only depreciable plant,³ and a decrease of \$2,130 in taxes other than income, to
6 remove sales taxes incorrectly recorded to the account. In analyzing APWC's operating expenses,
7 Staff accepted a number of pro forma adjustments made by APWC to make its TY operating
8 expenses consistent with its 2010 operations.

9 35. We find that Staff's adjustments to APWC's TY operating expenses are reasonable
10 and appropriate, and we adopt Staff's adjusted TY operating expense figure of \$19,958.

11 36. APWC proposed total operating revenue of \$30,633, an increase of \$12,001, or 64.41
12 percent, over its reported TY operating revenue of \$18,632. Using the TY operating expenses and
13 FVRB adopted herein, this would result in operating income of \$10,675; a rate of return of 141.09
14 percent; and an operating margin of 34.85 percent.

15 37. Staff recommends total operating revenue of \$26,896, an increase of \$9,550, or 55.06
16 percent, over Staff's adjusted TY operating revenue of \$17,346. Using the total operating expense
17 figure adopted herein, this would result in operating income of \$6,938; a rate of return of 91.70
18 percent; and an operating margin of 25.80 percent. Staff asserts that its recommended revenue
19 requirement is designed to provide APWC sufficient funds to manage contingencies, operating
20 expenses, and other expenses and will provide ample funds to meet APWC's operating needs. Staff
21 also explained that because of APWC's extremely low rate base, Staff's recommended revenue
22 requirement was not determined solely by applying a rate of return on rate base. Staff further
23 explained that its higher-than-normal recommended operating margin reflects the age of the system
24 and that a significant portion of the system is fully depreciated.

25 38. APWC's proposed rates and charges would increase the monthly bill for a residential
26 customer served by a 5/8" x 3/4" meter, with median usage of 3,934 gallons, from \$24.06 to \$41.27,
27

28 ³ APWC's calculation had included plant that was fully depreciated.

1 for an increase of \$17.21 or 71.5 percent. For a residential customer with a 5/8" x 3/4" meter and
2 average usage of 6,875 gallons, APWC's proposed rates and charges would increase the monthly bill
3 from \$30.52 to \$54.44, for an increase of \$23.92 or 78.4 percent.

4 39. Staff's recommended rates and charges would increase the monthly bill for a
5 residential customer with a 5/8" x 3/4" meter and median usage of 3,934 gallons from \$24.06 to
6 \$32.74, for an increase of \$8.68 or 36.1 percent. For a residential customer with a 5/8" x 3/4" meter
7 and average usage of 6,875 gallons, Staff's recommended rates and charges would increase the
8 monthly bill from \$30.52 to \$44.50, for an increase of \$13.98 or 45.8 percent.

9 40. APWC's proposed rate design would use the same three-tiered commodity rate
10 structure for all customers, regardless of meter size, while Staff's recommended rate design uses a
11 three-tiered commodity rate structure for all customers served by 5/8" x 3/4" or 3/4" meters and for
12 residential customers served by 1" meters and then uses a two-tiered commodity rate structure for
13 non-residential customers served by 1" meters and for all customers served by larger sized meters,
14 with increasing tier break-over points for increasing meter sizes. While APWC currently serves
15 customers only through 5/8" x 3/4" meters, it is possible that APWC's customer base may expand to
16 include additional meter sizes. In light of this, it is appropriate to adopt a commodity rate design that
17 would be appropriate if larger meter sizes were added to APWC's system. Thus, we will adopt
18 Staff's recommended monthly minimum charges and commodity rates.

19 41. APWC and Staff agree on the appropriate service line and meter installation charges to
20 be assessed by APWC and on eliminating the service line and meter charges currently authorized for
21 5/8" x 3/4" meters. APWC asserted, and Staff agreed, that it is preferable for APWC not to charge
22 for the 5/8" x 3/4" meters because the administrative costs associated with refunding the charges
23 outweigh any benefit to APWC. In addition, although the other service line and meter installation
24 charges proposed by APWC are below Staff's usual recommended range for these charges, APWC
25 asserted, and Staff agreed, that it would be appropriate to keep the charges as low as reasonable to
26 minimize potential annual refunds to customers. We find that the service line and meter installation
27 charges agreed upon by APWC and Staff are reasonable and appropriate, and we will adopt them.

28 42. APWC and Staff agree on APWC's proposal to increase its reconnection charge and

1 its meter re-read charge and to add a reconnection after hours charge, but disagree on APWC's
2 proposal to increase its meter test charge to \$75. Staff asserted that the \$75 charge is not a reasonable
3 and normal charge and recommended that the current \$40 charge be retained. In addition, although
4 APWC did not address monthly service charges for fire sprinklers in its rate application, Staff
5 recommended that the authorized charge be increased from that approved in APWC's last rate case.
6 We find that Staff's recommended service charges are reasonable and appropriate, and we will adopt
7 them.

8 **Cost Allocation**

9 43. In its rate application, APWC requested permission to use a single-factor allocation
10 method (using customer count as the single factor) to allocate shared expenses for the five companies
11 owned by Mark Grapp, as it used to do. APWC acknowledged that the Commission has mandated a
12 four-factor allocation method (using direct labor hours, direct operating expenses, number of
13 customers, and net plant), but asserted that the four-factor allocation method is misguided and does
14 not provide an accurate representation of each company's portion of shared expenses.

15 44. Staff stated that Mark Grapp uses shared services to manage and operate the five
16 companies and that shared service expenses account for a significant portion of the various
17 companies' operating expenses (including, *inter alia*, expenses for employees (including Mark
18 Grapp), office building space, office supplies, utilities, computers, computer software, telephone, and
19 insurance). Staff explained that the primary goal of cost allocation is to prevent or limit, as much as
20 possible, any cross-subsidization of the customers of one company by the customers of another
21 company. Staff further stated that the single-factor allocation method requested to be used by APWC
22 is inappropriate because it invariably results in the largest amounts of allocated costs being paid by
23 the utility companies with the most customers, regardless of any direct causal relationship between
24 the number of customers and the costs incurred. Staff stated that such allocation violates cost-
25 causation ratemaking principles, as the larger utility company is unfairly allocated expenses that it
26 has not caused. Staff asserted that the four factors currently being used to allocate shared costs
27 amongst the five companies better match cost causation with the appropriate company and result in
28 more accurate allocation.

1 **Financing Application**

2 45. In its financing application, APWC requested authority for an unsecured loan of
3 \$6,225.62 from one of its owners, Mark Grapp, to APWC for purposes of covering salaries and
4 wages expense, repairs and maintenance expense, and rent expense. APWC stated very clearly that
5 the loan was made not for the purpose of capital expenditures, but to subsidize APWC operations
6 because APWC's current rates produce insufficient revenue to cover the expenses. APWC further
7 stated that its current balance sheet and income statement do not support APWC's incurring debt as a
8 sound financial practice. Although APWC did not specify when the loan funds were provided by
9 Mark Grapp, APWC did refer to the loan as something that had already occurred. Additionally,
10 APWC asserted that the loan would be repaid during a period not to exceed 12 months, at an interest
11 rate of 10 percent, and included an undated and unexecuted Loan Document that would obligate
12 APWC to pay Mark Grapp for the loan that had already been made.

13 46. A.R.S. §§ 40-301 through 40-303 require a public service corporation to obtain
14 Commission authorization, in the form of a Commission order, before issuing stock, stock
15 certificates, bonds, notes, or other evidences of indebtedness payable at periods of more than 12
16 months after the date of issuance. Further, the statutes require that the Commission not enter an order
17 authorizing such issuance unless the Commission finds that such issuance is for lawful purposes
18 within the corporate powers of the public service corporation; is compatible with the public interest,
19 with sound financial practices, and with the proper performance by the public service corporation of
20 service as a public service corporation; and will not impair the public service corporation's ability to
21 perform service as a public service corporation. Further, the Commission must find that the issuance
22 is reasonable necessary or appropriate for the purposes specified in the order and that such purposes
23 are not, wholly or in part, reasonably chargeable to operative expenses or to income, except as
24 otherwise permitted in the order. The statutes also prohibit a public service corporation from
25 applying the proceeds of any issuance to any purpose not specified in the Commission's order and
26 make all stock, every stock certificate, and every bond, note, or other evidence of indebtedness of a
27 public service corporation issued without a valid Commission order authorizing the issuance, or not
28 in conformance to a Commission order authorizing it, void.

1 47. Staff determined that the proposed financing is to repay debt that was incurred over a
2 period greater than 12 months and asserted that Commission approval of the debt is required under
3 A.R.S. §§ 40-301 through 40-303. Staff also determined that APWC did not apply for Commission
4 authorization to incur the debt until after it had received the funds from Mark Grapp, although A.R.S.
5 § 40-301 requires prior approval.

6 48. Staff concluded that the \$6,225.62 in funds provided by Mark Grapp represent an
7 owner's investment in APWC and should not be considered a debt of APWC. Staff further noted that
8 it is impermissible for a public service corporation to use long-term debt to fund operating expenses.

9 **Staff Recommendations**

10 49. Staff recommends the following:

11 (a) That Staff's recommended rates and charges be approved;

12 (b) That APWC be authorized to collect from its customers a proportionate share
13 of any privilege, sales, or use tax, as provided for in A.A.C. R14-2-409(D);

14 (c) That APWC be ordered to file with Docket Control, as a compliance item in
15 this docket, within 30 days after the decision in this matter, a tariff schedule of its new rates and
16 charges;

17 (d) That APWC be ordered to adopt the depreciation rates delineated in Table B of
18 the Engineering Report portion of the Staff Report in this matter;

19 (e) That APWC's financing application be denied;

20 (f) That APWC be required to classify the \$6,225.62 in funds provided to it by
21 Mark Grapp as "Other Paid-In-Capital" instead of debt, for ratemaking purposes, in accordance with
22 the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of
23 Accounts; and

24 (g) That APWC be required to coordinate the reading of its well meter and
25 individual customer meters on a monthly basis and report its monthly water pumped and sold data in
26 future Commission Annual Reports, starting with its 2011 Commission Annual Report, so that non-
27 account water can be calculated accurately on a monthly basis.

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MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter (All Classes)	\$ 21.50
3/4" Meter (All Classes)	32.25
1" Meter (All Classes)	53.75
1-1/2" Meter (All Classes)	107.50
2" Meter (All Classes)	172.00
3" Meter (All Classes)	344.00
4" Meter (All Classes)	537.50
6" Meter (All Classes)	1,075.00

COMMODITY RATES (Per 1,000 Gallons):**(Applicable to All Classes as Specified, Except Bulk Water)**5/8" x 3/4" Meters (All Classes); 3/4" Meters (All Classes); and 1" Meters (Residential)

1 to 3,000 Gallons	\$2.50
3,001 to 9,000 Gallons	4.00
Over 9,000 Gallons	6.14

1" Meter (Non-Residential)

1 to 32,000 Gallons	\$4.00
Over 32,000 Gallons	6.14

1 -1/2" Meter (All Classes)

1 to 106,000 Gallons	\$4.00
Over 106,000 Gallons	6.14

2" Meter (All Classes)

1 to 195,000 Gallons	\$4.00
Over 195,000 Gallons	6.14

3" Meter (All Classes)

1 to 434,000 Gallons	\$4.00
Over 434,000 Gallons	6.14

4" Meter (All Classes)

1 to 545,000 Gallons	\$4.00
Over 545,000 Gallons	6.14

6" Meter (All Classes)

1 to 755,000 Gallons	\$4.00
Over 755,000 Gallons	6.14

Bulk Water

All Usage, Per 1,000 Gallons	\$6.14
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SERVICE LINE & METER INSTALLATION CHARGES:

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

	Service Line Charge	Meter Charge	Total Charge
5/8" x 3/4" Meter	\$ 0.00	\$ 0.00	\$ 0.00
3/4" Meter	230.00	90.00	320.00
1" Meter	230.00	140.00	370.00
1-1/2" Meter	280.00	265.00	545.00
2" Meter	330.00	420.00	750.00
3" Meter	380.00	600.00	980.00
4" Meter	650.00	1,170.00	1,820.00
6" Meter	1,200.00	2,720.00	3,920.00

SERVICE CHARGES:

Establishment	\$25.00
Establishment (After Hours)	\$40.00
Reconnection (Delinquent)	\$50.00
Reconnection (Delinquent) (After Hours)	\$75.00
Meter Test (If Correct)	\$40.00
Deposit	*
Deposit Interest	*
Re-Establishment (within 12 mos.)	**
NSF Check	\$30.00
Deferred Payment (per month)	1.50%
Meter Re-Read (If Correct)	\$15.00
Late Fee (per month)	***

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER:

All Meter Sizes *****

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

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

*** 1.50 % per month on the unpaid monthly balance.

**** 2.00% of monthly minimum for a comparably sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinkler service is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of its regular rates and charges, the company shall collect from its customers their proportionate share of any privilege, sales, or use tax in accordance with A.A.C. R14-2-409(D)(5).

IT IS FURTHER ORDERED that the rates and charges set forth above shall be effective for all services rendered by A. Petersen Water Company on and after April 1, 2011.

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

5 IT IS FURTHER ORDERED that A. Petersen Water Company shall use, on a going-forward
6 basis, the depreciation rates delineated in Table B of the Engineering Report portion of the Staff
7 Report in this matter.

8 IT IS FURTHER ORDERED that A. Petersen Water Company's financing application is
9 denied.

10 IT IS FURTHER ORDERED that A. Petersen Water Company shall classify the \$6,225.62 in
11 funds provided to it by Mark Grapp as "Other Paid-In Capital" instead of debt, for ratemaking
12 purposes, in accordance with the NARUC Uniform System of Accounts.

13 IT IS FURTHER ORDERED that A. Petersen Water Company shall coordinate the reading of
14 its well meter with the reading of its customer meters each month and shall report its monthly water
15 pumped and sold data in future Commission Annual Reports, starting with its 2011 Commission
16 Annual Report, so that non-account water can be calculated accurately on a monthly basis.

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1 IT IS FURTHER ORDERED that A. Petersen Water Company shall continue to use the four-
2 factor allocation methodology previously mandated by the Commission for allocation of those costs
3 shared amongst the five companies owned by Mark Grapp.

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 _____, 2011.

17 _____
18 ERNEST G. JOHNSON
19 EXECUTIVE DIRECTOR

20 DISSENT _____
21

22
23 DISSENT _____
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1 SERVICE LIST FOR:

A. PETERSEN WATER COMPANY

2 DOCKET NO.:

W-02678A-10-0303 and W-02678A-10-0304

3

4 Thomas Grapp
SILVERWELL SERVICE CORPORATION
5 P.O. Box 1270
Show Low, AZ 85902

6 Janice Alward, Chief Counsel
Legal Division
7 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
8 Phoenix, AZ 85007

9 Steven Olea, Director
Utilities Division
10 ARIZONA CORPORATION COMMISSION
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11 Phoenix, AZ 85007

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