

**ORIGINAL**

**NEW APPLICATION**



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Arizona Corporation Commission

**BEFORE THE ARIZONA CORPORATION**

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**DOCKETED**

AUG - 8 2011

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AZ CORP COMMISSION  
DOCKET CONTROL

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W-01049A-11-0311

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. W-01049A-11-\_\_\_\_\_  
MORENCI WATER & ELECTRIC COMPANY )  
FOR THE ESTABLISHMENT OF JUST AND )  
REASONABLE RATES FOR ITS WATER ) **APPLICATION**  
DEPARTMENT, IN THE STATE OF ARIZONA. )  
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)  
)

Morenci Water & Electric Company ("MWE" or "Company"), submits its separate application requesting the establishment of just and reasonable rates for its Water Department. MWE had filed its rate application for both its Electric Department and its Water Department, which is Docket No. E-01049A-11-0300. To be clear that MWE is also requesting establishment of rates for its Water Department, MWE is submitting this application under a separate docket and will seek to consolidate the two matters. In support of its Water Department application, the Company provides the following information (which was also provided in its application in Docket No. E-01049A-11-0300).

**A. Background.**

1. The Company is a corporation duly organized, existing and in good standing under the laws of the State of Arizona. Its principal place of business is 4521 U.S. Highway 191, in Morenci, Arizona 85540. Its mailing address is P.O. Box 68, Morenci, Arizona 85540. The Company is a public service corporation principally engaged in the provision of both electric and water service in Arizona pursuant to Certificates of Convenience and Necessity issued by the Commission.

2. MWE is a small utility with two departments that provides both electric and water service mostly in Greenlee County, Arizona. MWE's Water Department serves an average of

1 approximately 1,915 customers, most of whom are residential customers on 5/8-inch meters.  
2 Approximately 1,280 of water customers are served from the Morenci system, while  
3 approximately 635 customers are served by a separate Clifton system. MWE has not experienced  
4 significant growth in the number of water customers since it filed its last rate case in 1983.

5 3. MWE's last rate case, for both its Water and Electric Departments, was decided in  
6 Decision No. 54712 (October 10, 1985). There, the Commission approved the following water  
7 rates:

8 *Water (Morenci)*

9 \$10.00 monthly service charge (including the first 3,000 gallons)

10 \$1.94 per 1,000 gallons above 3,000 gallons

11 *Water (Clifton)*

12 \$10.00 monthly service charge (including the first 3,000 gallons)

13 \$1.63 per 1,000 gallons above 3,000 gallons

14 **B. Water Department Rates.**

15 4. MWE is currently experiencing large operating losses for both its Morenci and  
16 Clifton systems. For the Water Department, based on adjusted test-year levels, the Company  
17 earned an overall negative 14.57% return on total rate base of \$3,880,286, for an overall  
18 operating loss of approximately \$565,488. Breaking down revenues and return by system, the  
19 Morenci system incurred a negative 14.50% return on rate base of \$3,294,872, with an operating  
20 loss of \$477,845; the Clifton system incurred a negative 14.97% return on rate base of \$585,414,  
21 for an operating loss of \$87,643.

22 5. MWE is proposing an overall gross revenue increase of approximately \$258,418,  
23 equivalent to approximately 33.16%, to be phased-in over three years in three steps – while  
24 maintaining separate rate structures for Morenci and Clifton customers. This will result in an  
25 overall return of approximately negative 10.49% on fair value rate base equal to original cost rate  
26 base of \$3,880,286. For Morenci, MWE is proposing a gross revenue increase of \$193,069  
27 (approximately 33.16%) for a return of negative 10.90% on fair value rate base equal to original

1 cost rate base of \$3,294,872. For Clifton, MWE is proposing a gross revenue increase of  
2 \$65,049 (approximately 33.19%) for a return of negative 8.15% on fair value rate base equal to  
3 original cost rate base of \$585,414. MWE is using a calendar 2010 test year for purposes of  
4 establishing new water rates for customers on both the Morenci and Clifton systems.

5 6. MWE is proposing a phase-in the rate increase over three separate steps for  
6 Morenci and Clifton customers. To do this, MWE will phase out the gallons included in the  
7 monthly service charge over these steps, while implementing higher monthly service charges for  
8 larger-metered customers and a two-tier inverted bloc rate design. Each step increase would take  
9 place annually over a three-year period, and would result in an average annual revenue increase  
10 of between 9.0% and 10.5%.

11 7. The Company is proposing to maintain separate rate structures for its water  
12 customers in Morenci and Clifton. MWE proposes the following Step 1 rates, which are detailed  
13 in the Company's H-3 Schedules for Morenci and Clifton (which were provided in Docket No.  
14 E-01049A-11-0300). For 5/8-inch and 1-inch Morenci customers, MWE proposes the following  
15 structure:

16 *Water (Morenci)*

17	Monthly Service Charge (including 2,000 gallons)	\$10.00
18	Commodity Rate	
19	2,001 to 10,000 gallons (per 1,000 gallons)	\$1.95
20	Over 10,000 gallons (per 1,000 gallons)	\$2.17

21  
22 For 5/8-inch, 3/4-inch and 1-inch Clifton customers, MWE proposes the following  
23 structure:

24 *Water (Clifton)*

25	Monthly Service Charge (including 2,000 gallons)	\$10.00
26	Commodity Rate	
27	2,001 to 10,000 gallons (per 1,000 gallons)	\$1.65

1 Over 10,000 gallons (per 1,000 gallons) \$1.90

2

3 MWE also proposes the following Step 2 rates, for 5/8-inch, 3/4-inch and 1-inch Morenci  
4 and Clifton customers:

5 *Water (Morenci)*

6 Monthly Service Charge (including 1,000 gallons) \$10.00

7 Commodity Rate

8 1,001 to 10,000 gallons (per 1,000 gallons) \$2.00

9 Over 10,000 gallons (per 1,000 gallons) \$2.38

10 *Water (Clifton)*

11 Monthly Service Charge (including 1,000 gallons) \$10.00

12 Commodity Rate

13 1,001 to 10,000 gallons (per 1,000 gallons) \$1.70

14 Over 10,000 gallons (per 1,000 gallons) \$2.10

15

16 Finally, MWE proposes the following Step 3 rates, for 5/8-inch, 3/4-inch and 1-inch  
17 Morenci and Clifton customers:

18 *Water (Morenci)*

19 Monthly Service Charge \$10.00

20 Commodity Rate

21 First 10,000 gallons (per 1,000 gallons) \$2.05

22 Over 10,000 gallons (per 1,000 gallons) \$2.55

23 *Water (Clifton)*

24 Monthly Service Charge \$10.00

25 Commodity Rate

26 First 10,000 gallons (per 1,000 gallons) \$1.75

27 Over 10,000 gallons (per 1,000 gallons) \$2.25

1  
2 8. Given its unique circumstances and load profile, MWE is able to propose water  
3 rates that will still result in a negative return on rate base.

4 **C. Application Items.**

5 9. All communications and correspondence concerning this Application, as well as  
6 communications and pleadings with respect thereto filed by other parties, should be served upon  
7 the following:

8 Michael W. Patten, Esq.  
9 Jason D. Gellman, Esq.  
10 Roshka, DeWulf & Patten, PLC  
11 One Arizona Center  
12 400 East Van Buren Street, Suite 800  
13 Phoenix, Arizona 85004

14 10. This Commission has jurisdiction to conduct public hearings to determine the fair  
15 value of the property of a public service corporation, to fix a just and reasonable rate of return  
16 thereon, and thereafter, to approve rate schedules designed to develop such return. Further, the  
17 Commission has jurisdiction to establish the practices and procedures to govern the conduct of  
18 such hearing, including, but not limited to, such matters as notice, intervention, filing, service,  
19 exhibits, discovery, and other prehearing and hearing matters.

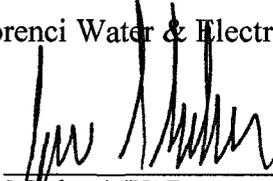
20 11. Applicant previously submitted supporting testimony and schedules for its rate  
21 request regarding the Water Department in Docket No. E-01049A-11-0300. MWE will move to  
22 consolidate this docket with that docket. MWE is essentially a combination utility with two  
23 departments (electric and water). MWE was required to file a rate application for its Electric  
24 Department, but also included its Water Department given the large losses that department was  
25 experiencing. Many of the adjustments and allocations made relate to both departments. The  
26 information contained in Docket No. E-01049A-11-0300 includes the standard filing  
27 requirements and rate design schedules described in A.A.C. R14-2-103 for both departments.  
Thus, the rate requests for the Electric Department and the Water Department are inextricably  
linked.

WHEREFORE, MWE respectfully requests that the Commission:

- 1 (1) issue a procedural order establishing a date for hearing evidence concerning the
- 2 Application, prescribing the time and form of notice to MWE customers and
- 3 establishing procedures for intervention and discovery as described above;
- 4 (2) issue a final order finding and concluding that the Company's rate application is
- 5 just and reasonable and granting the Company its proposed requests;
- 6 (3) issue a final order approving the new or modified rate and service schedules
- 7 included with the Company's Application;
- 8 (4) issue a final order approving MWE's proposed phase-in of water rates over three
- 9 steps;
- 10 (5) grant the Company such additional relief as the Commission deems just and
- 11 proper.

12 RESPECTFULLY SUBMITTED this 8<sup>th</sup> day of August 2011.

13 Morenci Water & Electric Company

14  
15 By 

16 Michael W. Patten  
17 Jason D. Gellman  
18 ROSHKA DEWULF & PATTEN, PLC.  
19 One Arizona Center  
20 400 East Van Buren Street, Suite 800  
21 Phoenix, Arizona 85004

19 Original and 13 copies of the foregoing  
20 filed this 8<sup>th</sup> day of August, 2011, with:

21 Docket Control  
22 Arizona Corporation Commission  
23 1200 West Washington Street  
24 Phoenix, Arizona 85007

23 Copy of the foregoing hand-delivered  
24 this 8<sup>th</sup> day of August, 2011, to:

25 Lyn A. Farmer, Esq.  
26 Chief Administrative Law Judge  
27 Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

1 Janice M. Alward, Esq.  
2 Chief Counsel, Legal Division  
3 Arizona Corporation Commission  
4 1200 West Washington Street  
5 Phoenix, Arizona 85007

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7 Director, Utilities Division  
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# **Pre-Filed Direct Testimony**

**Please see**

**Pre-Filed Direct Testimony in  
Docket No. E-01049A-11-0300**

**Supporting Schedules  
per A.A.C. R14-2-103**

**Please see  
Supporting Schedules in  
Docket No. E-01049A-11-0300**