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MEMORANDUM

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TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

2011 SEP 12 P 2:53

AZ CORP COMMISSION
DOCKET CONTROL

DATE: September 12, 2011

RE: STAFF REPORT FOR MONTEZUMA RIMROCK WATER COMPANY, LLC'S APPLICATION FOR AN EMERGENCY RATE INCREASE (DOCKET NO. W-04254A-11-0296)

Attached is the Staff Report for Montezuma Rimrock Water Company, LLC's ("MRWC" or "Company") application for an emergency rate increase. Staff recommends denial of the Company's request for an emergency rate increase.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before September 22, 2011.

SMO:DRE:red

Originator: Darak R. Eaddy

Arizona Corporation Commission
DOCKETED

SEP 12 2011

DOCKETED BY 

Service List for: Montezuma Rimrock Water Company, LLC
Docket No. W-04254A-11-0296

Mr. John Dougherty
PO Box 501
Rimrock, Arizona 86335

Mr. Douglas Fitzpatrick
49 Bell Rock Plaza, Suite A
Sedona, Arizona 86351

Mrs. Patricia Olsen
Montezuma Rimrock Water Company, LLC
PO Box 10
4615 E. Goldmine Road
Rimrock, Arizona 86335

Ms. Janice M. Alward
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

MONTEZUMA RIMROCK WATER COMPANY, LLC

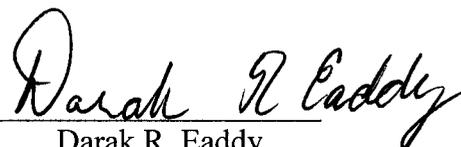
DOCKET NO. W-04254A-11-0296

**APPLICATION FOR AN
EMERGENCY RATE INCREASE**

SEPTEMBER 12, 2011

STAFF ACKNOWLEDGMENT

The Staff Report for Montezuma Rimrock Water Company, LLC Docket No. W-04254A-11-0296, was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application. Marlin Scott Jr. was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy
Public Utility Analyst IV



Marlin Scott, Jr.
Utilities Engineer



Carmen Madrid
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
MONTEZUMA RIMROCK WATER COMPANY, LLC
DOCKET NO. W-04254A-11-0296

Montezuma Rimrock Water Company ("MRWC" or "Company") is a Class D water utility engaged in the business of providing potable water service to customers near Rimrock in Yavapai County. The Company is located approximately 10 miles northeast of Camp Verde in Yavapai County, Arizona. As of the Company's last full rate case in 2008, the Company provided water services to approximately 208 customers.

Montezuma Rimrock filed a request for an emergency rate increase on July 25, 2011. The Company stated in its emergency rate application that the Company is currently providing water that does not meet the United States Environmental Protection Agency's ("EPA") arsenic standards. In order to meet the EPA drinking water standards, MRWC must construct and install an arsenic treatment system. By order of the Arizona Department of Environmental Quality ("ADEQ"), the arsenic treatment system must be installed and approved by April 2012.

The Company was approved for a \$165,000 loan from the Water Infrastructure Finance Authority ("WIFA") per Arizona Corporation Commission ("Commission") Decision No. 71317. The WIFA loan would have provided the Company the necessary funds to construct and install the arsenic treatment system to bring the Company in compliance with the EPA arsenic standards. WIFA is requiring the Company to provide an Environmental Impact Study before releasing the funds from the loan and this requirement would delay the Company from having the arsenic treatment system installed by the April 2012 date required by ADEQ.

The Company has requested an amendment to Decision No. 71317 that would allow MRWC to seek funding from private lending institutions. In seeking private institutional funding, MRWC has been informed that the Company's current financial operations did not produce sufficient debt service coverage. In order for the Company to possibly secure financing from one private lending institution, MRWC would need to increase its revenues by \$37,536. MRWC is requesting an emergency rate increase to increase Company revenues so that it may obtain funding from that private lending institution.

MRWC's application requested an emergency rate increase be added to the Company's existing minimum charge. The emergency surcharge requested is \$15.64 per customer per month, which would result in a monthly minimum charge of \$42.89 for the 5/8" x 3/4" meter customer, an increase of 57.4 percent over the current minimum charge of \$27.25 per month.

Staff recommends denial of the Company's emergency rate increase. Staff does not believe that any of the three general conditions necessary for the application of interim, emergency rates exist in the Company's current situation.

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INTRODUCTION

On July 25, 2011, Montezuma Rimrock Water Company, LLC ("MRWC" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission"). On August 12, 2011, a Procedural Order was issued setting September 22, 2011, as the date for the hearing on the application.

MRWC stated that the Company is currently providing water that does not meet the United States Environmental Protection Agency's ("EPA") arsenic standards. In order to meet the EPA drinking water standards, MRWC must construct and install an arsenic treatment system. By order of the Arizona Department of Environmental Quality ("ADEQ"), the arsenic treatment system must be installed and approved by April 2012.

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BACKGROUND

MRWC is an Arizona class D limited liability company engaged in the business of providing water services in an area located approximately 10 miles northeast of the town of Camp Verde in Yavapai County, Arizona. The Company's service territory encompasses approximately 3/8 of a square-mile.

The Company received its Certificate of Convenience and Necessity ("CC&N") through a transfer authorized in Decision No. 67583, dated February 15, 2005. The Company was acquired by its current owners in a sale of assets and transfer of the CC&N from Montezuma

Estates Property Owners' Association to MRWC in Commission Decision No. 67583, dated February 15, 2005.

The current rates have been in effect since November 1, 2009, per Decision No. 71317.

COMPLIANCE

The Utilities Division Compliance Section shows no outstanding compliance issues.

The Company is in good standing with the Corporations Division of the Commission.

CONSUMER SERVICES

A review of the Consumer Services Section database from January 1, 2008 to August 23, 2011, revealed that there have been three complaints and ten opinions filed on MRWC. There were two opinions¹ against rate case items and eight in favor of the emergency rate case. All complaints have been resolved and closed.

STAFF'S CONCLUSION

There are three general conditions necessary for application of interim, emergency rates. The conditions are:

1. Situation of sudden change which brings hardship to a Company.
2. Situation where Company is insolvent.
3. Situation where ability of Company to maintain service (pending a formal rate determination) is in serious doubt.

One of these conditions must exist to apply emergency rates. Staff's analysis of MRWC's current situation is that none of the general conditions exist at this time. In the Company's application, it states that the emergency rates are to secure additional revenues in an attempt to secure a loan from a private lending institution. The potential emergency funds would not address a sudden change that brought hardship to the Company, Company insolvency, or the ability of the Company to maintain service. The emergency funds would only increase the Company's revenues in order to gain approval of a loan from a private lending institution.

Staff also notes that any potential emergency funds would not definitively address the Company's current situation. The correspondence from Sunwest Bank included in the Company's emergency rate application never explicitly states that an increase in Company revenues would result in a loan approval for the Company. The emergency rate increase funds would enable MRWC to meet the bank's minimum cash flow requirements, but it does not

¹ Based on the timing of these opinions against the rate case items, these were against the Company's last full rate case and not the emergency rate case.

guarantee a loan approval for the Company or even provide MRWC with any assurance of a loan approval. Further, MRWC currently only has Commission approval for a loan from WIFA and providing emergency rates in order for the Company to attempt to secure debt financing from a private institution when the Commission has yet to address the issue would be inappropriate. Granting an emergency rate increase could result in the Company receiving additional revenues that would serve no purpose beyond enriching the Company's owner at the expense of Company's customers.

CONCLUSIONS

Staff concludes that the Company's situation does not meet the general conditions necessary for the application of interim, emergency rates.

STAFF RECOMMENDATIONS

Staff recommends denial of the emergency rate increase sought by MRWC.

MEMORANDUM

DATE: September 12, 2011

TO: Darak Eaddy
Public Utilities Analyst II
Utilities Division

FROM: Marlin Scott, Jr. 
Utilities Engineer
Utilities Division

RE: Montezuma Rimrock Water Company
Docket No. W-04254A-11-0296

**ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ")
COMPLIANCE**

According to an ADEQ Compliance Status Report, dated August 17, 2011, ADEQ reported major deficiencies regarding unresolved arsenic maximum contaminant level ("MCL") issues. As a result, ADEQ cannot determine if this system, PWS #13-071, is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4 and this system is not in compliance.

However, on June 7, 2010, ADEQ issued a Consent Order ("CO"), Docket No. 36-10, to the Company for distribution of water in excess of the MCL for arsenic. The CO ordered the Company, among other issues, to within one year from the effective date of the CO, the Company shall complete construction of the arsenic treatment system. On June 2, 2011, ADEQ issued an Amendment #1 to CO, Docket No. 36-10, for the Company to complete construction of the arsenic treatment system no later than April 7, 2012.