

OPEN MEETING ITEM



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

ORIGINAL



ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: DECEMBER 22, 2011

DOCKET NOS.: W-02121A-11-0213 and W-02121A-11-0257

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Order on:

LIVCO WATER COMPANY
(RATES/FINANCE)

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:

JANUARY 3, 2012

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:

JANUARY 10, 2012 and JANUARY 11, 2012

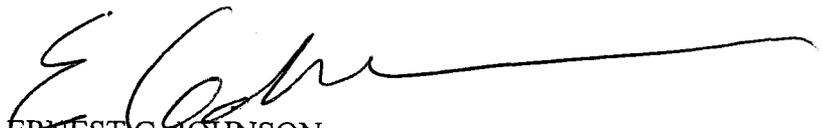
For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

DEC 22 2011

DOCKETED BY 


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE - Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

8 IN THE MATTER OF THE APPLICATION OF
9 LIVCO WATER COMPANY FOR APPROVAL OF
10 A RATE INCREASE.

DOCKET NO. W-02121A-11-0213

11 IN THE MATTER OF THE APPLICATION OF
12 LIVCO WATER COMPANY FOR AUTHORITY
13 TO INCUR LONG-TERM DEBT.

DOCKET NO. W-02121A-11-0257

DECISION NO. _____

ORDER

14 Open Meeting
15 January 10 and 11, 2012
16 Phoenix, Arizona

17 **BY THE COMMISSION:**

18 Having considered the entire record herein and being fully advised in the premises, the
19 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

20 **FINDINGS OF FACT**

21 **Procedural History**

- 22 1. On May 23, 2011, Livco Water Company ("Livco" or "Company") filed the above-
23 captioned application for an increase in rates.
- 24 2. On June 10, 2011, Livco filed an Affidavit of Mailing Customer Notice of the rate
25 application.
- 26 3. On June 23, 2011, Livco filed revisions to the rate application.
- 27 4. On June 28, 2011, the Commission's Utilities Division ("Staff") filed its Letter of
28 Sufficiency indicating that Livco satisfied the requirements of Arizona Administrative Code
("A.A.C.") R14-2-103 for the rate application, and classifying the Company as a Class D utility.
5. On June 28, 2011, Livco filed the above-captioned financing application. The
financing application requests approval of a Water Infrastructure Financing Authority ("WIFA") loan
in the amount of \$30,000 to fund the renovation of a 250,000 gallon storage tank.

1 6. On July 14, 2011, Livco filed an Affidavit of Publication of Notice of the financing
2 application.

3 7. On August 9, 2011, Staff filed a Motion to Consolidate the rate application and the
4 financing application.

5 8. By Procedural Order issued August 16, 2011, the Motion to Consolidate was granted.

6 9. On September 6, 2011, after conducting an investigation of Livco's proposed rates and
7 charges for water service and the financing request, Staff filed its Staff Report. The Staff Report
8 indicated that any party wishing to file comments to the Staff Report should file them with the
9 Commission's Docket Control by 4:00 p.m. on or before September 16, 2011.

10 10. On September 15, 2011, Staff filed a Notice of Filing Revised Schedule.

11 11. On September 16, 2011, Livco filed its Comments to the Staff Report.

12 12. On August 24, 2011, a Procedural Order was issued directing Staff to file a Response
13 to the Comments, and directing that the Response include any updated schedules, if applicable.

14 13. On October 14, 2011, Staff filed a Response to Livco's Comments and Revised
15 Schedules ("Response").

16 14. On October 26, 2011, Livco filed a Reply to the Response ("Reply").

17 15. On November 17, 2011, a Procedural Order was issued extending the time period
18 prescribed by A.A.C. R14-2-103(B)(11)(d) for 30 days in order to allow sufficient time for the
19 review of Livco's Reply.

20 **Background**

21 16. Pursuant to authority granted by the Commission, Livco is an Arizona public service
22 corporation providing water utility service in the communities of Concho Valley and Old Concho
23 Townsite, which are located approximately 15 miles west and 18 miles southwest, respectively, of St.
24 Johns, along Highway 61 in Apache County, Arizona.

25 17. Livco's present rates and charges for water service were set in Commission Decision
26 No. 70308 (April 24, 2008) and are based on a test year ended December 31, 2006.

27 18. Staff performed an on-site field inspection of the Company's water system on June 30,
28 2011. The system consists of two wells, two storage tanks, three booster systems and a distribution

1 system serving 373 customers as of December 2010. The system has an emergency intertie with the
 2 City of St. Johns and the ability to purchase water at 325 gallons per minute ("GPM"). The Company
 3 also provides water service via a 2 inch master meter to the Old Concho Townsite, which is operated
 4 as a separate, consecutive system serving 30 to 35 customers. The Old Concho Townsite is located
 5 approximately one mile north of the Concho Valley subdivisions.

6 **Rate Application**

7 19. During the test year ended December 31, 2010, the Company provided water service
 8 to an average of 378 customers. The majority of the customers are residential users served by 5/8" x
 9 3/4" meters.

10 20. Average and median water usage by residential users during the test year were 6,211
 11 gallons per month and 3,475 gallons per month, respectively.

12 21. The water rates and charges for Livco at present, as proposed by Livco, and as
 13 recommended by Staff, are as follows:

	<u>Present Rates</u>	<u>Proposed Company</u>	<u>Rates Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
15 5/8" x 3/4" Meter	\$15.50	\$20.62	\$18.50
16 3/4" Meter	17.75	23.61	23.84
17 1" Meter	27.00	35.91	36.26
18 1-1/2" Meter	50.00	66.50	67.15
19 2" Meter	68.00	117.04	118.18
20 3" Meter	248.00	329.84	332.12
21 4" Meter	387.75	515.71	520.84
22 6" Meter	775.00	1,030.75	1,041.00
23 Old Concho Townsite 2" Interconnect	124.00	164.92	166.53
<u>COMMODITY RATE CHARGE:</u>			
Charge per 1,000 gallons			
<u>Residential – 5/8" x 3/4" Meter</u>			
24 0 to 3,000 gallons	\$1.25	\$1.78	\$1.50
25 3,001 to 10,000 gallons	2.00	2.84	2.74
26 Gallons in excess of 10,000	2.40	3.41	4.52
<u>Commercial – 5/8" x 3/4" Meter</u>			
27 0 to 10,000 gallons	2.00	2.84	2.74
28 Gallons in excess of 10,000	2.40	3.41	4.52
<u>Commercial & Residential – 3/4" Meter</u>			
0 to 10,000 gallons	2.00	2.84	2.74
Gallons in excess of 10,000	2.40	3.41	4.52

1	<u>Commercial & Residential - 1" Meter</u>			
	0 to 24,000 gallons	2.00	2.84	2.74
2	Gallons in excess of 24,000	2.40	3.41	4.52
3	<u>Commercial & Residential - 1-1/2" Meter</u>			
	0 to 60,000 gallons	2.00	2.84	2.74
4	Gallons in excess of 60,000	2.40	3.41	4.52
5	<u>Commercial & Residential - 2" Meter</u>			
	0 to 150,000 gallons	2.00	2.84	2.74
6	Gallons in excess of 150,000	2.40	3.41	4.52
7	<u>Old Concho Townsite 2" Interconnect</u>			
	0 to 150,000 gallons	2.00	2.84	N/A
8	Gallons in excess of 150,000	2.40	3.41	N/A
	0 to 400,000 gallons	N/A	N/A	2.74
9	Gallons in excess of 400,000	N/A	N/A	4.52
10	<u>Commercial & Residential - 3" Meter</u>			
	0 to 500,000 gallons	2.00	2.84	2.74
11	Gallons in excess of 500,000	2.40	3.41	4.52
12	<u>Commercial & Residential - 4" Meter</u>			
	0 to 830,000 gallons	2.00	2.84	2.74
13	Gallons in excess of 830,000	2.40	3.41	4.52
14	<u>Commercial & Residential - 6" Meter</u>			
	0 to 1,750,000 gallons	2.00	2.84	2.74
15	Gallons in excess of 1,750,000	2.40	3.41	4.52
16	<u>Standpipe, Bulk Water</u>			
17	All gallons	5.00	5.00 ¹	9.42

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

		Company Proposed	Staff Recommended	Staff Recommended	Staff Recommended	
	Current Total Charges	Total Charges	Service Line	Meter	Total Charges	
20	5/8" x 3/4" Meter	\$500.00	\$600.00	\$445.00	\$155.00	\$600.00
21	3/4" Meter	575.00	700.00	445.00	255.00	700.00
22	1" Meter	660.00	810.00	495.00	315.00	810.00
	1-1/2" Meter	900.00	1,075.00	550.00	525.00	1,075.00
23	2" Turbine Meter	1,525.00	1,875.00	830.00	1,045.00	1,875.00
	2" Compound Meter	2,220.00	2,720.00	830.00	1,890.00	2,720.00
24	3" Turbine Meter	2,165.00	2,715.00	1,045.00	1,670.00	2,715.00
	3" Compound Meter	2,960.00	3,720.00	1,165.00	2,545.00	3,720.00
25	4" Turbine Meter	3,360.00	4,160.00	1,490.00	2,670.00	4,160.00
	4" Compound Meter	4,265.00	5,315.00	1,670.00	3,645.00	5,315.00
26	6" Turbine Meter	6,035.00	7,235.00	2,210.00	5,025.00	7,235.00

¹ In its application and in the application revisions filed on June 23, 2011, the Company requested a standpipe rate of \$7.10. However, in its Reply, the Company requested that the standpipe rate remain at \$5.00.

6" Compound Meter	7,750.00	9,250.00	2,330.00	6,920.00	9,250.00
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	Present Rates	Proposed Rates Company	Proposed Rates Staff
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	40.00	40.00	N/A
Reconnection (Delinquent)	40.00	40.00	40.00
Service Charge (After Hours) Cost	50.00	50.00	30.00
Meter Test (If Correct)	25.00	25.00	25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-establishment (Within 12 months)	**	**	**
Re-establishment (Within 12 months after hours)	**	**	N/A
NSF Check	\$25.00	\$25.00	\$25.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	\$20.00	\$20.00	\$20.00
Late Payment Penalty – per month	1.50%	1.50%	1.50%
Moving Customer Meter (Customer Request)	***	***	***

MONTHLY SERVICE CHARGE FOR FIRE SPRINKERS:

4" or Smaller	N/A	N/A	****
6"	N/A	N/A	****
8"	N/A	N/A	****
10"	N/A	N/A	****
Larger than 10"	N/A	N/A	****

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

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

*** Per Commission Rule A.A.C. R14-2-405.

**** 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 for service lines separate and distinct from the primary water service line.

22. The application proposed total operating revenue of \$194,636, an increase of \$49,910, or 34.49 percent, over the Company's adjusted test year revenue of \$144,726.

23. Staff recommends total revenue of \$193,997, an increase of \$49,271, or 34.04 percent, over the Company's adjusted test year revenue of \$144,726.

Rate Base

24. The Company proposed an original cost rate base ("OCRB") of \$201,529. The Company did not propose a fair value rate base ("FVRB") that differs from OCRB.

25. Staff determined Livco's original cost rate base ("OCRB") to be \$217,031. This is a \$15,502 increase to Livco's proposed OCRB of \$201,529. This difference is due to Staff's adjustments to working capital.

1 26. The Company's FVRB is determined to be \$217,031.

2 Operating Expense

3 27. The Company proposed test year operating expense of \$163,547. Based on its
4 analysis, Staff recommends total test year Operating Expense of \$166,966.

5 28. Staff made several adjustments to Livco's proposed test year operating expenses,
6 resulting in an increase of \$3,419, from \$163,547 to \$166,966. Staff's adjustments include a
7 reduction of \$304 in Purchased Power Expense, an increase of \$810 to Water Testing Expense, a
8 decrease of \$117 to Depreciation Expense, a decrease of \$2,000 to Rate Case Expense, and an
9 increase of \$5,030 to Income Tax Expense.

10 29. The Company proposed total Rate Case Expense of \$10,000, amortized over three
11 years, or \$3,333 annually. Staff recommends that the Company be authorized \$4,000 in Rate Case
12 Expense, normalized over three years, or \$1,333 annually. Staff based its recommendation on a study
13 of rate case expense for Class D water companies, on the fact that the Company's last rate case was
14 only three years ago, and on the fact that there are few contested issues.

15 30. The Company disagrees with Staff's analysis and Staff's adjustment to Rate Case
16 Expense. In its Reply, the Company argues that a utility should not be "penalized" for choosing to
17 use outside experts and legal counsel in rate case proceedings. The Company asserts that the Rate
18 Case Expense granted in Decision No. 70308 of \$13,500, normalized over three years, or \$3,375
19 annually, can be used to benchmark the reasonableness of its current request. The Company further
20 argues that Staff's study of Class D rate cases is flawed, and objects to inclusion in the study of some
21 rate cases for which no rate case expense was requested. Staff disagrees that companies with no rate
22 case expense claims should be excluded from the study, because the short form rate application used
23 by Class D and E water companies is designed to significantly reduce or eliminate rate case expense
24 by its simplified filing requirements and a "fill-in-the-blank" type format.

25 31. We agree with Staff and find that the Company's requested rate case expense of
26 \$10,000, normalized over three years, or \$3,333 annually, is outside the range of reasonableness for
27 this proceeding. As Staff points out, Class D and E rate applications are usually processed without a
28

1 hearing, thereby shortening the timeframe for a decision and reducing rate case expense, including
 2 the need to hire an attorney. Staff's recommended Rate Case Expense of \$4,000, normalized over
 3 three years, or \$1,333 annually, is the more reasonable of the two proposals, and will be adopted.

4 32. The Company's adjusted test year Operating Expense is \$166,966.

5 Revenue Requirement

6 33. The Company's present water rates and charges produced test year Operating Revenue
 7 of \$144,726. With Operating Expense of \$166,966, the Company had total adjusted test year
 8 Operating Income of (\$22,240).

9 34. The water rates and charges proposed by the Company would produce Operating
 10 Revenue of \$194,636 and adjusted Operating Expenses of \$174,423, resulting in an Operating
 11 Income of \$20,213 for a 10.03 percent rate of return on FVRB, or an operating margin of 10.39
 12 percent. The Company's proposal would constitute a \$49,910, or 34.49 percent, increase over test
 13 year revenues.

14 35. The water rates and charges as recommended by Staff would produce total Operating
 15 Revenue of \$193,997 and adjusted Operating Expenses of \$172,304, resulting in an Operating
 16 Income of \$21,693, for a 10.00 percent rate of return on FVRB, or an 11.18 percent operating margin.
 17 Staff's recommendation constitutes a \$49,271, or 34.04 percent, increase over adjusted test year
 18 revenues.

19 36. Staff's proposed revenue requirement of \$193,997 is reasonable and will be adopted.

20 Rate Design

21 37. Staff recommends that the current inverted residential 5/8 x 3/4-inch meter three tier
 22 rate design authorized in Decision No. 70308 remain in place, with a first tier cutoff of 3,000 gallons,
 23 and a second tier cutoff of 10,000 gallons. Staff's recommendation increases the commodity charge
 24 from \$1.25 to \$1.50 per thousand gallons for monthly usage of 3,000 gallons or less, and adds the
 25 additional revenue requirement primarily to the third tier of usage, in excess of 10,000 gallons.
 26 Staff's recommended Old Concho Townsite Interconnect commodity rates have been redesigned to
 27 reflect the residential nature of the 35 to 40 customers who ultimately receive service via the
 28

1 interconnect.

2 38. In its Comments and Reply, the Company disagrees with Staff's proposed rate design,
3 arguing that it dramatically shifts revenue recovery to the second and third tier residential commodity
4 rates and larger metered customers, does not balance the promotion of conservation with the need for
5 revenue stability, and will increase the likelihood the Company will not recover its authorized
6 revenues. In its Response, Staff states that it remains steadfast in its recommendation for a rate
7 design that provides affordable water service at non-discretionary levels and encourages efficient use
8 of water.

9 39. We find that Staff's rate design appropriately provides affordable water service at non-
10 discretionary levels and encourages efficient water use by adding the additional revenue requirement
11 primarily on usage in excess of 10,000 gallons. The Company will have an opportunity to
12 demonstrate any revenue impact of the rate design in a future rate case filing.

13 40. The current standpipe rate is \$5.00 per thousand gallons. In the application, the
14 Company requested that the standpipe rate be increased to \$7.10. Staff recommends that the
15 standpipe rate be set at \$9.42. In its Reply, the Company states a concern that Staff's proposed
16 standpipe rate would result in the Company having no standpipe customers, and requests that the
17 standpipe rate remain at \$5.00. The Company states that \$5.00 is competitive with other local
18 standpipe water providers. The Company's request for the standpipe rate to remain at \$5.00 per
19 thousand gallons is reasonable and will be granted.

20 41. Livco's proposed rates would increase the average monthly usage (6,211
21 gallons/month) residential customer water bill, on a 5/8 x 3/4-inch meter, by \$9.41, or 36.64 percent,
22 from \$25.67 to \$35.08, and increase the median monthly usage (3,475 gallons/month) residential
23 customer water bill by \$7.11, or 35.19 percent, from \$20.20 to \$27.31.

24 42. Staff's proposed rates would increase the average monthly usage (6,211
25 gallons/month) residential customer water bill, on a 5/8 x 3/4-inch meter, by \$6.13, or 23.86 percent,
26 from \$25.67 to \$31.80, and increase the median monthly usage (3,475 gallons/month) residential
27 customer water bill by \$4.10, or 20.30 percent, from \$20.20 to \$24.30.

28

1 43. We adopt the rates and charges and the rate design proposed by Staff, with the
2 modification of the Standpipe rate to \$5.00 per thousand gallons as requested by the Company.

3 **Financing Application**

4 44. Livco has applied to WIFA for a loan of \$30,000 to paint the exterior of its 250,000
5 gallon water storage tank. The financing application includes an assessment of the tank's condition
6 and an estimate for the renovation.

7 45. Staff states that the Company's proposed capital improvements are appropriate and the
8 Company's cost estimate of \$30,000 for the proposed capital improvements is reasonable. Staff
9 states that it makes no used and useful determination of the proposed plant and no particular future
10 treatment should be inferred for ratemaking or rate base purposes.

11 46. In order to examine the financial effects of the proposed financing, Staff performed
12 both a DSC² and a TIER³ analysis. Staff determined that for the year ending December 31, 2010,
13 Livco had a DSC and a TIER that are not meaningful. Staff repeated the DSC and TIER analyses
14 based instead on Staff's adjusted test year operating results, including the pro forma effect of a
15 \$30,000, 20-year amortizing loan at 4.50 percent per annum. Staff states that the pro forma TIER and
16 DSC analyses result in a pro forma 6.64 TIER and 4.87 DSC, showing that Staff's recommended
17 revenue requirement is sufficient to provide debt service on a fully drawn \$30,000, 20-year
18 amortizing loan at 4.50 percent per annum.

19 47. Livco's financing request should be approved.

20 **Staff Recommendations**

21 48. Staff recommends approval of its recommended rates and charges.

22 49. Staff also recommends the following:

- 23 • that the Commission authorize Livco to obtain an 18 to 20 year amortizing loan for
24 an amount not to exceed \$30,000 at a rate not to exceed 5.00 percent, to finance
25 the Staff-recommended capital improvements;

26 ² DSC represents the number of times internally generated cash (i.e., earnings before interest, income tax, depreciation
27 and amortization expenses) covers required principal and interest payments on short term and long term debt. A DSC
28 greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations.

³ TIER represents the number of times earnings before income tax expense covers 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 les than 1.0 is
not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

- 1 • that approval of the loan be rescinded if the Company has not drawn funds from the loan within two years of this Decision;
- 2 • that the Company be required to file with the Commission's Docket Control, within 30 days of this Decision, as a compliance item in this docket, a schedule of its approved rates and charges;
- 3
- 4 • that the Company be required to continue to monitor its water system for another full year and report the water loss monitoring results, and that the Company be required to file the resulting monitoring report with the Commission's Docket Control, within one year of this Decision, as a compliance item in this docket;
- 5
- 6 • that the five Best Management Practice ("BMP") tariffs attached as Exhibit BMP to Staff's Engineering Report be approved;⁴ and
- 7
- 8 • that the Company be required to continue to use Staff's typical and customary depreciation rates as delineated in Table H-1 of the Engineering Report.⁵
- 9

10 Compliance Issues

11 50. The Arizona Department of Environmental Quality ("ADEQ") has reported no
12 deficiencies for Livco and has determined that Livco's water system is currently delivering water that
13 meets the water quality standards required by A.A.C. Title 18, Chapter 4.

14 51. Livco is not within an Arizona Department of Environmental Quality ("ADWR")
15 active management area ("AMA"), and is currently in compliance with ADWR requirements
16 governing water providers and/or community water systems.

17 52. No opinions have been filed either for or against the proposed rate increase or for the
18 requested authority to incur long-term debt.

19 53. According to Staff, Livco has no outstanding compliance issues.

20 54. Staff's review of the Commission's Consumer Services records showed that no
21 complaints were filed with the Commission between January 1, 2008 and August 31, 2011.

22 55. Livco has a Commission-approved curtailment and backflow prevention tariffs.

23 56. Livco is current on its property and sales tax payments.

24 57. Livco is in good standing with the Corporations Division.

25 58. In Decision No. 68751 (June 5, 2006), Livco was ordered to monitor its system and

26 ⁴ A copy of Engineering Report Exhibit BMP attached to the Staff Report is attached hereto and incorporated herein as
27 Exhibit A. Livco states in its Comments and Reply that while it voluntarily agrees with the Staff recommendation to
implement five BMPs, it believes that a rulemaking is required to require companies to adopt BMPs.

28 ⁵ A copy of Engineering Report Table H-1 attached to the Staff Report is attached hereto and incorporated herein as
Exhibit B.

1 submit a water loss reduction report or detailed analysis and plan to reduce its water loss to 10
2 percent or less. Livco submitted monitoring results in its 2006 Annual Report indicating 21.1 percent
3 water loss, and explaining that the water losses were caused by 20-year old customer meters and a
4 30-year old well meter not registering accurately. In Decision No. 70308, the Commission approved
5 financing for Livco to fund a Water Meter Replacement Program.

6 59. Decision No. 70308 ordered Livco to monitor its gallons of water pumped and sold
7 each month for a year following completion of its Water Meter Replacement Program and to report
8 the monitoring results. The Decision further ordered Livco to prepare a report containing a detailed
9 analysis and plan to reduce water loss to 10 percent or less before filing its next rate increase
10 application, if the reported water loss was greater than 10 percent.

11 60. The Staff Engineering Report states that on November 24, 2009, Livco filed a Water
12 Loss Report showing a water loss of 14.6 percent from November 2008 through October 2009.
13 Because the water loss was greater than 10 percent, Livco also submitted an analysis and plan to
14 further reduce water loss.

15 61. Engineering Staff reported that, during the test year, Livco had a 20.1 percent water
16 loss. Staff therefore requested additional data during its field inspection. Staff states that the
17 Company provided data from November 2010 to June 2011 showing water loss of 8.6 percent. Staff
18 states that the Company is taking corrective action to address its water loss issue by (1) completion of
19 the Water Meter Replacement Program; (2) implementation of a leak identification program; (3)
20 monitoring its system; (4) repairing leaks when found; and (5) providing its best estimate for gallons
21 of unmetered water. Staff states that at times, the Company failed to provide adjustments for the
22 unmetered water, which has resulted in indications of high water loss. Staff states that due to the
23 Company's historic water loss issues, the Company agreed to implement, in addition to its three
24 chosen BMPs, two additional BMP tariffs related to addressing water loss. Staff states that the five
25 BMP tariffs the Company selected promote efficient use of water, and that water use efficiency is in
26 the public interest. Staff states that water use efficiency results in a reduced need to build water
27 utility infrastructure in the future, such as wells, pumps, and storage tanks, and that the reduced need
28 to build water utility infrastructure results in lower water rates in the future for the Company's

1 customers.

2 62. Staff states that it is appropriate for Livco to demonstrate that it is properly
3 monitoring, recording and calculating its water loss. Staff recommends that Livco continue to
4 monitor its water system for another full year and file its water loss monitoring results with Docket
5 Control as a compliance item in this matter within one year of this Decision.

6 **Conclusions**

7 63. Livco should be authorized to obtain an 18 to 20 year amortizing loan from WIFA for
8 an amount not to exceed \$30,000 at a rate not to exceed 5.00 percent, to finance the Staff-
9 recommended capital improvements.

10 64. Approval of the WIFA loan should be rescinded if the Company has not drawn funds
11 from the loan within two years of this Decision

12 65. Livco should be required to file with the Commission's Docket Control, within 30
13 days of this Decision, as a compliance item in this docket, a schedule of its approved rates and
14 charges.

15 66. Livco should be required to continue to monitor its water system for another full year
16 and report the water loss monitoring results, and to file the resulting monitoring report with the
17 Commission's Docket Control, within one year of this Decision, as a compliance item in this docket.

18 67. The five BMP tariffs chosen by the Company, as set forth in Exhibit A, should be
19 approved.

20 68. Livco should be required to continue to use Staff's typical and customary depreciation
21 rates as delineated in Exhibit B.

22 69. Because an allowance for the property tax expense is included in Livco's rates and
23 will be collected from its customers, the Commission seeks assurances from Livco that any taxes
24 collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the
25 Commission's attention that a number of water companies have been unwilling or unable to fulfill
26 their obligation to pay the taxes that were collected from its ratepayers, some for as many as twenty
27 years. It is reasonable, therefore, that as a preventive measure Livco shall annually file, as part of its
28 annual report, an affidavit with the Commission's Utilities Division attesting that the company is

1 current in paying its property taxes in Arizona.

2 **CONCLUSIONS OF LAW**

3 1. Livco is a public service corporation within the meaning of Article XV of the Arizona
4 Constitution and A.R.S. §§ 40-250, 40-251, 40-301, 40-302, and 40-303.

5 2. The Commission has jurisdiction over Livco and the subject matter of the rate
6 application and the financing application.

7 3. Notice of the financing application and the rate application were provided in the
8 manner prescribed by law.

9 4. The rates and charges authorized herein are just and reasonable and should be
10 approved without a hearing.

11 5. Staff's recommendations as set forth in Findings of Fact No. 49 are reasonable and
12 should be adopted.

13 6. The financing approved herein is for lawful purposes within Livco's corporate powers,
14 is compatible with the public interest, with sound financial practices, and with the proper
15 performance by Livco of service as a public service corporation, and will not impair Livco's ability to
16 perform the service.

17 7. The financing approved herein is for the purposes stated in the application and is
18 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
19 chargeable to operating expenses or to income.

20 8. Approval of the financing does not guarantee or imply any specific treatment of any
21 capital additions for rate base or ratemaking purposes.

22 9. It is reasonable and in the public interest to rescind the financing authority granted
23 herein if the Company has not drawn funds from the loan within two years of the date of this
24 Decision.

25 10. It is reasonable and in the public interest to approve the BMP tariffs set forth in
26 Exhibit A.

27 11. It is reasonable and in the public interest to require Livco to continue to use Staff's
28 typical and customary depreciation rates as delineated in Exhibit B.

ORDER

IT IS THEREFORE ORDERED that Livco Water Company is hereby directed to file with Docket Control, as a compliance item in this docket, by January 30, 2012, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$18.50
3/4" Meter	23.64
1" Meter	36.26
1-1/2" Meter	67.15
2" Meter	118.18
3" Meter	332.12
4" Meter	520.84
6" Meter	1,041.00

Old Concho Townsite 2" Interconnect	166.53
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COMMODITY RATE CHARGE:

Charge per 1,000 gallons

Residential – 5/8" x 3/4" Meter

0 to 3,000 gallons	\$1.50
3,001 to 10,000 gallons	2.74
Gallons in excess of 10,000	4.52

Commercial – 5/8" x 3/4" Meter

0 to 10,000 gallons	2.74
Gallons for gallons in excess of 10,000	4.52

Commercial & Residential – 3/4" Meter

0 to 10,000 gallons	2.74
Gallons in excess of 10,000	4.52

Commercial & Residential – 1" Meter

0 to 24,000 gallons	2.74
Gallons in excess of 24,000	4.52

Commercial & Residential - 1-1/2" Meter

0 to 60,000 gallons	2.74
Gallons in excess of 60,000	4.52

Commercial & Residential - 2" Meter

0 to 150,000 gallons	2.74
Gallons in excess of 150,000	4.52

Old Concho Townsite 2" Interconnect

0 to 400,000 gallons	2.74
Gallons in excess of 400,000	4.52

Commercial & Residential - 3" Meter

1 0 to 500,000 gallons 2.74
 2 Gallons in excess of 500,000 4.52

Commercial & Residential - 4" Meter

3 0 to 830,000 gallons 2.74
 4 Gallons in excess of 830,000 4.52

Commercial & Residential - 6" Meter

5 0 to 1,750,000 gallons 2.74
 6 Gallons in excess of 1,750,000 4.52

Standpipe, Bulk Water

7 All gallons 5.00

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

	<u>Service Line</u>	<u>Meter</u>	<u>Total Charges</u>	
10	5/8" x 3/4" Meter	\$445.00	\$155.00	\$600.00
	3/4" Meter	445.00	255.00	700.00
11	1" Meter	495.00	315.00	810.00
	1-1/2" Meter	550.00	525.00	1,075.00
12	2" Turbine Meter	830.00	1,045.00	1,875.00
	2" Compound Meter	830.00	1,890.00	2,720.00
13	3" Turbine Meter	1,045.00	1,670.00	2,715.00
	3" Compound Meter	1,165.00	2,545.00	3,720.00
14	4" Turbine Meter	1,490.00	2,670.00	4,160.00
	4" Compound Meter	1,670.00	3,645.00	5,315.00
15	6" Turbine Meter	2,210.00	5,025.00	7,235.00
16	6" Compound Meter	2,330.00	6,920.00	9,250.00

SERVICE CHARGES:

17	Establishment	\$25.00
18	Reconnection (Delinquent)	40.00
	Service Charge (After Hours)	30.00
19	Meter Test (If Correct)	25.00
	Deposit	*
20	Deposit Interest	*
	Re-establishment (Within 12 months)	**
21	NSF Check	\$25.00
	Deferred Payment	1.50%
22	Meter Re-Read (If Correct)	\$20.00
	Late Payment Penalty - per month	1.50%
23	Moving Customer Meter (Customer Request)	***

24	4" or Smaller	****
	6"	****
25	8"	****
	10"	****
26	Larger than 10"	****

27 * Per Commission Rule A.A.C. R-14-2-403(B).

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

*** Per Commission Rule A.A.C. R14-2-405.

1 **** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per
2 month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct
3 from the primary water service line.

4 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
5 provided on and after February 1, 2012.

6 IT IS FURTHER ORDERED that Livco Water Company shall notify its customers of the
7 rates and charges authorized herein and their effective date, in a form acceptable to the Commission's
8 Utilities Division Staff, by means of an insert in its next regularly scheduled billing.

9 IT IS FURTHER ORDERED that, in addition to collection of its regular rates and charges,
10 Livco Water Company shall collect from its customers a proportionate share of any privilege, sales or
11 use tax per A.A.C. R14-2-409(D).

12 IT IS FURTHER ORDERED that Livco Water Company is hereby authorized to obtain from
13 WIFA an 18 to 20 year amortizing loan for an amount not to exceed \$30,000 at a rate not to exceed
14 5.00 percent, to finance the capital improvements recommended by Staff.

15 IT IS FURTHER ORDERED that Livco Water Company is hereby authorized to engage in
16 any transaction and to execute any documents necessary to effectuate the WIFA debt authorization
17 granted herein.

18 IT IS FURTHER ORDERED that Livco Water Company shall, within 60 days after the date
19 of execution, file with Docket Control, as a compliance item in this docket, copies of all executed
20 financing documents related to the WIFA debt authorization granted herein.

21 IT IS FURTHER ORDERED that any unused debt authorization granted in this proceeding
22 shall terminate on January 31, 2014.

23 IT IS FURTHER ORDERED that Livco Water Company shall continue to monitor its water
24 system for a full year and shall file the water loss monitoring results with the Commission's Docket
25 Control, within one year of this Decision, as a compliance item in this docket.

26 IT IS FURTHER ORDERED that the five BMP tariffs chosen by the Company, as set forth in
27 Exhibit A, are hereby approved.

28 IT IS FURTHER ORDERED that Livco Water Company shall continue to use Staff's typical
and customary depreciation rates as delineated in Exhibit B.

1 IT IS FURTHER ORDERED that Livco Water Company shall file annually, as part of its
2 annual report, an affidavit with the Commission's Utilities Division attesting that it is current in
3 paying its property taxes in Arizona.

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 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
12 Executive Director of the Arizona Corporation Commission,
13 have hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this _____ day of _____, 2012.

16 _____
17 ERNEST G. JOHNSON
18 EXECUTIVE DIRECTOR

19 DISSENT _____

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21 DISSENT _____
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SERVICE LIST FOR:

LIVCO WATER COMPANY

DOCKET NOS.:

W-02121A-11-0213 and W-02121A-11-0257

Jenni Wicks
LIVCO WATER COMPANY
P.O. Box 659
Concho, AZ 85924-0659

Steve Wene
MOYES SELLERS & HENDRICKS LTD.
1850 North Central Avenue, Suite 1100
Phoenix, AZ 85004
Attorneys for Livco Water Company

Janice Alward, Chief Counsel, Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007-2927

Steve Olea, Director, Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007-2927

EXHIBIT A

Exhibit - BMPs

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Local and/or Regional Messaging Program Tariff – BMP 1.1

PURPOSE

A program for the Company to actively participate in a water conservation campaign with local or regional advertising (Modified Non-Per Capita Conservation Program BMP Category 1: Public Awareness/Public Relations 1.1: Local and/or Regional Messaging Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company or designated representative shall actively participate in water conservation campaign with local and/or regional advertising.
2. The campaign shall promote ways for customers to save water.
3. The Company shall facilitate the campaign through one or more of the following avenues (not an all inclusive list):
 - a. Television commercials
 - b. Radio commercials
 - c. Websites
 - d. Promotional materials
 - e. Vehicle signs
 - f. Bookmarks
 - g. Magnets
4. The Company shall keep a record of the following information and make it available to the Commission upon request.
 - a. A description of the messaging program implemented and program dates.
 - b. The number of customers reached (or an estimate).
 - c. Costs of Program implementation.

DECISION NO. _____

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Customer High Water Use Inquiry Resolution Tariff – BMP 3.6

PURPOSE

A program for the Company to assist its customers with their high water-use inquiries and complaints (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.6: Customer High Water Use Inquiry Resolution).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle high water use inquiries as calls are received.
2. Calls shall be taken by a customer service representative who has been trained on typical causes of high water consumption as well as leak detection procedures that customers can perform themselves.
3. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to the customer's residence to conduct a leak detection inspection and further assist the customer with water conservation measures.
4. The Company shall follow up in some way on every customer inquiry or complaint and keep a record of inquiries and follow-up activities.

DECISION NO. _____

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Leak Detection Program Tariff – BMP 4.1

PURPOSE

A program for the Company to systematically evaluate its water distribution system to identify and repair leaks (Modified Non-Per Capita Conservation Program Best Management Practice Category 4: Physical System Evaluation and Improvement 4.1 Leak Detection Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall implement a comprehensive leak detection and repair program to attain and maintain a less than 10 percent unaccounted for water loss in its system(s). The program must include auditing procedures, in-field leak detection and repair efforts. The Company shall take whatever steps are necessary to ensure that its water system is operating at optimal efficiency.
2. On a systematic basis, at least every two years (annually for smaller systems), the Company shall inspect its water distribution system (to include hydrants, valves, tanks, pumps, etc. in the distribution system) to identify and repair leaks. Detection shall be followed by repair or in some cases replacement. Repair vs. replacement will depend upon site-specific leakage rates and costs.
3. Leak Detection efforts should focus on the portion of the distribution system with the greatest expected problems, including:
 - a. areas with a history of excessive leak and break rates;
 - b. areas where leaks and breaks can result in the heaviest property damage;
 - c. areas where system pressure is high;
 - d. areas exposed to stray current and traffic vibration;
 - e. areas near stream crossings; and,
 - f. areas where loads on pipe may exceed design loads.
4. The Company shall keep accurate and detailed records concerning its leak detection and repair/rehabilitation program and the associated costs. Records of repairs shall include: possible causes of the leak; estimated amount of water lost; and date of repair. These records shall be made available to the Commission upon request.

DECISION NO. _____

5. The Company shall maintain a complete set of updated distribution system maps.
6. The Company shall conduct a water audit annually which includes the following steps to determine how efficient each water system is operating and where the losses might be.
 - a. Use coordinated monthly source and service meter readings to calculate how much water enters and leaves the system during the 12 month review period.
 - b. Track and estimate any unmetered authorized uses.
 - c. Calculate the total amount of leakage using the following formula:

$$\text{Unaccounted for water (\%)} = [(\text{Production and/or purchased water minus metered use \& estimated authorized un-metered use}) / (\text{Production and/or purchased water})] \times 100$$
 - d. Authorized un-metered uses may include firefighting, main flushing, process water for water treatment plants, etc. Water losses include all water that is not identified as authorized metered water use or authorized un-metered use.
 - e. Determine possible reasons for leakage, including physical leaks and unauthorized uses.
 - f. Analyze results to determine the improvements needed, such as, better accounting practices, leak survey or replacing old distribution pipes.
7. The Company shall keep accurate and detailed records concerning its annual water audit results. These records shall be made available to the Commission upon request.

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Meter Repair and/or Replacement Tariff – BMP 4.2

PURPOSE

A program for the Company to systematically assess all in-service water meters (including Company production meters) in its water service area to identify under-registering meters for repair or replacement (Modified Non-Per Capita Conservation Program Best Management Practice Category 4: Physical System Evaluation and Improvement 4.2 Meter Repair and/or Replacement Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. On a systematic basis, the Company will inspect 100 percent of its 1-inch and smaller in-service water meters at least once every ten years for one of the following reasons (whichever occurs first):
 - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
 - b. A meter has registered 1,000,000 gallons of usage,
 - c. A meter has been in service for ten years.

2. Meters larger than 1-inch shall be inspected for one of the following reasons:
 - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
 - b. A meter has been in service for five years.

3. The inspection will be accomplished by having the meter pulled and having a Company Technician physically inspect each meter and its fittings for leaks, registers which may have become loose or are not properly attached to the meter and could be under-registering or other broken parts which need repair. In addition, meters shall be randomly selected for flow testing to identify potentially under-registering meters.

4. The Company shall also replace or reprogram any water meters that do not register in gallons. Within 5 years of the initial effective date of this tariff, the Company shall install all replacement meters with new:
 - a. 1-inch and smaller meters that register in 1 gallon increments,
 - b. 1-1/2-inch through 4-inch meters that register in 10 gallon increments, and

DECISION NO. _____

- c. 6-inch and larger meters that register in 100 gallon increments.
5. The Company shall keep records of all inspected and replacement meters and make this information available to the Commission upon request.

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

WATER SYSTEM TAMPERING TARIFF – BMP 5.2**PURPOSE**

The purpose of this tariff is to promote the conservation of groundwater by enabling the Company to bring an action for damages or to enjoin any activity against a person who tampers with the water system.

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission, specifically Arizona Administrative Code ("AAC") R14-2-410 and the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. In support of the Company's water conservation goals, the Company may bring an action for damages or to enjoin any activity against a person who: (1) makes a connection or reconnection with property owned or used by the Company to provide utility service without the Company's authorization or consent; (2) prevents a Company meter or other device used to determine the charge for utility services from accurately performing its measuring function; (3) tampers with property owned or used by the Company; or (4) uses or receives the Company's services without the authorization or consent of the Company and knows or has reason to know of the unlawful diversion, tampering or connection. If the Company's action is successful, the Company may recover as damages three times the amount of actual damages.
2. Compliance with the provisions of this tariff will be a condition of service.
3. The Company shall provide to all its customers, upon request, a complete copy of this tariff and AAC R14-2-410. The customers shall follow and abide by this tariff.
4. If a customer is connected to the Company water system and the Company discovers that the customer has taken any of the actions listed in No. 1 above, the Company may terminate service per AAC R14-2-410.
5. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

DECISION NO. _____

EXHIBIT B

Table H-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	20	5.00