

ORIGINAL

OPEN MEETING ITEM



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



ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission  
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JAN 25 2012

DATE: JANUARY 25, 2012

DOCKET NO.: W-02370A-10-0519

TO ALL PARTIES:

DOCKETED BY

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

CHINO MEADOWS II WATER COMPANY  
(RATES)

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 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:

FEBRUARY 14, 2012 and FEBRUARY 15, 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.

ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

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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 CHINO MEADOWS II WATER COMPANY FOR  
10 A RATE INCREASE.

DOCKET NO. W-02370A-10-0519

11 DECISION NO. \_\_\_\_\_

12 OPINION AND ORDER

13 DATE OF HEARING: October 3, 2011

14 PLACE OF HEARING: Phoenix, Arizona

15 ADMINISTRATIVE LAW JUDGE: Teena Jibilian

16 APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on  
17 behalf of Applicant; and  
18 Mr. Charles Hains, Staff Attorney, Legal Division, on  
19 behalf of the Utilities Division of the Arizona  
20 Corporation Commission.

21 **BY THE COMMISSION:**

22 \* \* \* \* \*

23 Having considered the entire record herein and being fully advised in the premises, the  
24 Commission finds, concludes, and orders that:

25 **FINDINGS OF FACT**

26 **Procedural History**

- 27 1. On December 30, 2010, Chino Meadows II Water Company ("Chino Meadows" or  
28 "Company") filed an application with the Arizona Corporation Commission ("Commission") for a  
rate increase.
2. On January 7, 2011, Chino Meadows filed an affidavit indicating that it mailed  
notice of the application to its customers on December 31, 2010.
3. On January 19, 2011, Chino Meadows filed revised pages to the application.

1           4.       On January 28, 2011, the Commission's Utilities Division ("Staff") filed a Letter of  
2 Deficiency, notifying the Company that its application was not sufficient under the guidelines  
3 outlined in Arizona Administrative Code ("A.A.C.") R14-2-103.

4           5.       On February 23, 2011, Chino Meadows filed its response to the Letter of Deficiency.

5           6.       On March 25, 2011, Staff filed a Letter of Sufficiency, notifying the Company that  
6 its application was deemed sufficient pursuant to A.A.C. R14-2-103, and classifying Chino  
7 Meadows as a Class C utility.

8           7.       On April 26, 2011, by Procedural Order, the matter was set for hearing and  
9 deadlines were established for providing public notice of the hearing on the application, and for  
10 prefiling testimony.

11          8.       On June 20, a public comment was filed opposing the requested rate increase.

12          9.       On July 5, 2011, the Company filed an affidavit indicating that it mailed public  
13 notice of the hearing on the application as required by the April 26, 2011 Procedural Order.

14          10.      On August 8, 2011, Staff filed the direct testimonies of Juan C. Manrique, Jian Liu  
15 and Crystal S. Brown.

16          11.      On September 7, 2011, the Company filed the rebuttal testimony of Ray L. Jones.

17          12.      On September 19, 2011, Staff filed the surrebuttal testimonies of Juan C. Manrique,  
18 Jian Liu and Crystal S. Brown.

19          13.      On September 23, 2011, Chino Meadows filed the Appearance of Counsel Craig A.  
20 Marks.

21          14.      Also on September 23, 2011, Chino Meadows filed a Motion to Extend Filing Date,  
22 requesting the extension of the filing date for rejoinder testimony in order to allow Chino Meadows  
23 sufficient time to review Staff's surrebuttal schedules.

24          15.      By Procedural Order issued September 27, 2011, the requested deadline extension  
25 was granted.

26          16.      On September 29, 2011, Staff filed the supplemental surrebuttal testimony of Crystal  
27 S. Brown.

28          17.      On September 29, 2011, the Company filed the rejoinder testimony of Ray L. Jones.

1           18.     On October 3, 2011, the hearing on the application convened as scheduled before a  
2 duly authorized Administrative Law Judge of the Commission. The Company and Staff entered  
3 appearances through counsel, and presented evidence for the record. No members of the public  
4 appeared to provide public comment. At the close of the hearing, the parties discussed a schedule  
5 for Staff to file a late-filed exhibit in response to the Company's proposal set forth in Exhibit A-5  
6 presented at the hearing, and for the filing of closing briefs by both parties. The Company agreed  
7 to a waiver of the Commission's timeclock rule, A.A.C. R14-2-103.B.11, as necessary to allow a  
8 Recommended Opinion and Order in this matter to be considered at the Commission's regularly  
9 scheduled Open Meeting of January 11 and 12, 2012.

10           19.     On October 4, 2011, a Procedural Order was issued extending the timeclock in this  
11 matter to January 12, 2012, based on the Company's waiver. Deadlines were set for Staff to file a  
12 late-filed exhibit responding to the Company's Exhibit A-5 on or before October 19, 2011; for  
13 Initial Closing Briefs to be filed by both parties on or before November 18, 2011; and for Reply  
14 Closing Briefs to be filed by both parties on or before December 2, 2011.

15           20.     On October 19, 2011, Staff filed its Response to the Company's Exhibit A-5  
16 ("Response").

17           21.     In the Response, Staff requested the issuance of a Procedural Order setting a  
18 deadline of November 9, 2011, to file Staff's post-hearing final schedules.

19           22.     On October 20, 2011, a Procedural Order was issued setting a deadline of November  
20 9, 2011, for Staff to file post-hearing final schedules.

21           23.     On November 10, 2011, the Company filed a Motion to Extend Filing Deadlines.  
22 The Company stated that Staff's post-hearing schedules were not filed by November 9, 2011, and  
23 that the Company therefore could not meet the established deadline to file its Initial Closing Brief.  
24 The Company requested that the deadline for filing briefs be extended, and agreed to further waive  
25 the Commission's timeclock rule as necessary to allow a Recommended Opinion and Order to be  
26 considered at the Commission's regularly scheduled Open Meeting of February 14 and 15, 2012.

27           24.     On November 10, 2011, Staff filed its post-hearing final schedules.

28           25.     On November 15, 2011, a Procedural Order was issued ordering Initial Closing

1 Briefs to be filed on or before December 9, 2011, and ordering Reply Closing Briefs to be filed on  
2 or before December 30, 2011. The Procedural Order also extended the timeclock in this matter to  
3 February 15, 2012.

4 26. On December 9, 2011, the Company and Staff filed their Initial Closing Briefs.

5 27. On December 30, 2011, the Company and Staff filed their Reply Closing Briefs, and  
6 the matter was taken under advisement.

7 **Background**

8 28. Chino Meadows is an Arizona public service corporation providing water utility  
9 service to the public pursuant to authority granted by the Commission in Decision No. 51291  
10 (August 21, 1980). Chino Meadows is organized as a for-profit corporation, and is in good  
11 standing with the Commission's Corporations Division.

12 29. Chino Meadows currently provides water utility service to approximately 889  
13 residential customers in a service area located approximately one-half mile east of Highway 89 in  
14 Chino Valley, Yavapai County, Arizona, in the Prescott Active Management Area ("AMA").  
15 Chino Meadows serves no commercial customers at this time.

16 30. Chino Meadows' current rates were approved in Decision No. 59078 (May 4, 1995),  
17 and are based on a 1993 test year.

18 31. Staff performed an on-site field inspection of the Company's water system on May  
19 5, 2011. The system consists of two active wells with total pumping capacity of over 475 gallons  
20 per minute ("GPM"), four storage tanks with total storage capacity of 107,100 gallons, two 5,000  
21 gallon pressure tanks, seven booster pumps, and a distribution system consisting of 33,461 feet of  
22 mains.

23 **Rate Application**

24 32. During the test year ended December 31, 2009, the Company provided water service  
25 to an average of 876 residential connections, all served by 5/8 x 3/4-inch meters.

26 33. Average and median water usage by residential customers during the test year were  
27 5,348 gallons per month and 4,280 gallons per month, respectively.

28 34. The Company proposes operating revenue of \$403,293, an increase of \$51,660, or

1 14.69 percent, over the Company's adjusted test year revenue of \$351,633.

2 35. Staff recommends operating revenue of \$353,761, an increase of \$2,128, or 0.61  
3 percent, over the Company's adjusted test year revenue of \$351,633.

4 **Rate Base**

5 36. The Company proposed an original cost rate base ("OCRB") in its final schedules  
6 of \$211,738.

7 37. Staff recommends an OCRB of \$212,349. The \$611 difference between the  
8 Company and Staff's recommendations is due to their proposed cash working capital, which,  
9 because they were calculated using the formula method, is affected by their differing levels of  
10 proposed Operating Expenses.

11 38. The OCRB for the Company in this proceeding is determined to be \$212,349.  
12 The Company did not propose a fair value rate base ("FVRB") that differs from OCRB, and  
13 therefore the Company's FVRB is \$212,349.

14 **Operating Expense**

15 39. At the hearing, the Company offered a proposal to resolve a number of Operating  
16 Expense issues related to cost allocations between Chino Meadows and its sister utility, Granite  
17 Mountain Water Company, Inc. ("Granite Mountain"). The Company offered to accept Staff's cost  
18 allocation adjustments in return for Staff's acceptance of the following: (1) an expense adjustment  
19 related to transportation, general insurance, and income tax associated with work performed for  
20 Granite Mountain; (2) a three year rate case expense amortization period; and (3) Staff's  
21 endorsement of an extension of the rate case filing for Granite Mountain so as to synchronize Chino  
22 Meadows' and Granite Mountain's next rate cases, to eliminate further disputes related to cost  
23 allocations. Staff stated in its Response filed after the hearing that it found the Company's proposal  
24 an acceptable solution to the allocation issue in this case, contingent upon Chino Meadows'  
25 commitment to file its next general rate case at the same time as the filing of the next rate case for  
26 Granite Mountain. The remaining Operating Expense issues in dispute are discussed below.

27 Salary and Wage Expense - Employee Bonuses

28 40. In its application, the Company proposed Salary and Wage Expense of \$126,312.

1 Staff made several adjustments, totaling \$25,535, to this account and recommends adjusted test  
2 year Salary and Wage Expense of \$100,777. The Company takes issue with one of these  
3 adjustments, the removal of \$1,600 in employee bonuses.

4 41. The Company asserts that without the employee bonuses, it would need to raise base  
5 salaries to be competitive in the market, retain employees, and incent good customer service. The  
6 Company proposes that 50 percent of the bonuses be allowed, stating that the Commission has  
7 allowed a percentage of incentive compensation in other cases. Staff contends that bonuses are an  
8 optional cost that is not necessary to maintain continuous and adequate service, and should  
9 therefore not be recognized in rates. Staff asserts that the Company provided no studies or other  
10 documentation showing that removal of \$1,600 in bonuses would cause a higher than normal  
11 employee turnover. In addition, Staff points out that its adjustments to Salary and Wage Expense  
12 also recognize multiple base salary increases for employees in this case.

13 42. The evidence in this case does not demonstrate that the \$1,600 in bonuses is  
14 necessary to maintain continuous and adequate service, or that its bonuses are structured in the  
15 same way as the incentive programs of other utilities to which the Company refers. We agree with  
16 Staff that the \$1,600 bonus expense is an optional cost that should not be borne by the ratepayers,  
17 and will adopt Staff's adjustment.

18 Officers, Directors and Stockholders Salary and Wage Expense

19 43. The Company proposes a \$35,498 Officers, Directors and Stockholders Salary and  
20 Wage Expense for the managerial work of its shareholder and President Paul Levie.

21 44. Staff recommends a downward adjustment of \$4,879 to this expense, for total  
22 Officers, Directors and Stockholders Salary and Wage Expense of \$30,619. Staff testified that it  
23 requested documentation to substantiate the amount of time Mr. Levie spent working on behalf of  
24 the Company, and that the Company provided no time records. Staff therefore estimated the  
25 number of hours per month required to perform various necessary supervisory and managerial  
26 duties. Staff's salary expense allowance recommendation for the Company's shareholder Mr.  
27 Levie is based on sixty-nine hours per month at \$36.98 per hour.

28 45. The Company argues that Staff lacks knowledge of the extent of a water utility

1 manager's duties or the time it takes to perform them; and that Staff failed to take into account that  
2 Mr. Levie, the owner and manager of Chino Meadows, might also provide legal services for the  
3 Company. The Company notes that Staff does not dispute that the salary amount was actually paid  
4 to Mr. Levie, and asserts that the proposed salary is reasonable and appropriate for a person with  
5 ultimate responsibility for the utility's operations.

6 46. Staff points out that the Company failed to substantiate its assertions in regard to the  
7 proposed salary expense. Staff states that its approximation of the number of hours per month Mr.  
8 Levie spent working on behalf of Chino Meadows is appropriate, in light of the fact that Mr. Levie  
9 operates a total of nine separate businesses from the same office he uses to manage the Company.

10 47. The Company has the burden of proof on this issue, and yet provided no  
11 documentation to support hours of time Mr. Levie actually spent working on Chino Meadows'  
12 business. Mr. Levie is the only employee of Chino Meadows for whom there were no time cards or  
13 time sheets.

14 48. Because the Company proffered no evidence to support the level of its proposed  
15 Officers, Directors and Stockholders Salary and Wage Expense, we find that Staff's  
16 recommendation is the more reasonable and appropriate amount of salary allowance for Mr. Levie,  
17 and Staff's adjustment should be adopted.

18 Leak Detection Expense

19 49. Chino Meadows proposes a \$2,296 *pro forma* adjustment to expenses for a planned  
20 Leak Detection Program. The Company bases this amount on an estimate of the annual costs, and  
21 claims that without the *pro forma* adjustment, it cannot recover the costs of the planned program.

22 50. Staff takes the position that there is no expense to recover until there is a Leak  
23 Detection Program in place. Staff states that because the Company is not paying this expense,  
24 recovery should not be allowed in this case, but that when the Company implements the Leak  
25 Detection Program and actually incurs costs related to it, it can seek recovery of those costs in a  
26 future rate case.

27 51. Recovery of costs not yet incurred for a program not yet implemented would be  
28 inappropriate. Staff's adjustment removing Chino Meadows' proposed \$2,296 *pro forma*

1 adjustment to expenses should therefore be adopted. As discussed later in this Decision, when the  
 2 Company goes forward with the Leak Detection Program, it should submit a Best Management  
 3 Practices (“BMP”) Tariff for the program for the Commission’s review and consideration that  
 4 substantially conforms to the template for the Leak Detection Program Tariff - BMP 4.1 created by  
 5 Staff, available at the Commission’s website. The Company may request recovery of the actual  
 6 expenses associated with implementation of the Leak Detection BMP Tariff in a subsequent rate  
 7 filing.

8 Miscellaneous Expense

9 52. Chino Meadows proposes recovery of several miscellaneous expenses, including  
 10 employee gifts (\$30); office food and beverages (\$1,002); employee meals during main-break  
 11 repairs (\$141); and the annual employee holiday party (\$450). The Company asserts that these  
 12 expenses were related to utility operations and should be allowed. The Company claims that the  
 13 food and beverages promote efficient and consistent customer service and are necessary because  
 14 the nearest restaurant is a 20 minute drive from its offices. The Company contends that the  
 15 employee gifts and holiday party are normal business expenses and are intended to recognize  
 16 employees for their efforts and assist with employee retention. The Company further claims that  
 17 such expenses have been allowed by the Commission in other, unnamed, cases for larger utility  
 18 companies.

19 53. Staff states that these miscellaneous expenses are not necessary to provide service,  
 20 and that recovery of such expenses is routinely denied, referring to a recent Class B utility rate case  
 21 where such expenses were discussed.<sup>1</sup> Staff points out that the Company has offered no examples  
 22 where the Commission has allowed rate recovery of these types of expenses, and recommends an  
 23 adjustment disallowing rate recovery of these miscellaneous expenses. We agree with Staff that  
 24 these expenses are not appropriately recovered from ratepayers. Staff’s adjustment is reasonable  
 25 and should be adopted.

26 ...

27

28 <sup>1</sup> Staff referenced a recent rate proceeding in which Rio Rico Utilities, Inc. agreed that costs related to a “hootenanny” were not appropriately recovered from ratepayers. See Decision No. 72059 (January 6, 2011) at 17.

1 **Revenue Requirement**

2 54. Chino Meadows and Staff are in agreement on adjusted test year total revenue of  
3 \$351,633.

4 55. Chino Meadows has a capital structure of 100 percent equity. Staff performed a cost  
5 of equity analysis and determined a weighted average cost of capital for the Company of 9.6  
6 percent. The Company does not take issue with Staff's cost of capital analysis and determination.

7 56. Staff recommends an increase in revenues of \$2,128, based on a 9.60 percent return  
8 on the Company's FVRB.

9 57. The Company proposes a revenue increase of \$51,660. The Company bases this  
10 proposal not on a return on its FVRB, but on an operating margin of 12.50 percent.<sup>2</sup> Chino  
11 Meadows asserts that using its FVRB to determine its revenue requirement would result in an  
12 unusually small operating income and operating margin, which it claims will not provide sufficient  
13 income to attract funds to complete needed system improvements, and will not cover fluctuating  
14 expenses such as system repairs. Chino Meadows argues that rates should not be set using return  
15 on rate base for water utilities with small rate bases per customer, when the return on rate base does  
16 not produce an operating margin comparable to that provided for companies with no rate base.  
17 Chino Meadows calculates that Staff's recommended revenue requirement would provide it with a  
18 5.76 percent operating margin. Chino Meadows then compares this operating margin with the  
19 operating margins it calculates for an assortment of thirteen other Class C water utilities,<sup>3</sup> stating  
20 that the Decisions on its list of thirteen utilities provided those utilities with an average operating  
21 margin of 14.15 percent.

22 58. Staff states that use of a rate of return methodology acknowledges the Company's  
23 FVRB; is lawful; produces a sufficient cash flow for the Company in this case, and recommends  
24 that the Company's proposal be rejected.

25 59. Staff states that the 14.15 percent average operating margin referred to by the  
26

27 <sup>2</sup> The Company's proposed revenue increase of \$51,660 would constitute an approximate 23.74 percent return on  
FVRB.

28 <sup>3</sup> The Company states in a footnote to the list that while it attempted to be comprehensive, it may have missed cases.

1 Company is not evidence of an objectively reasonable operating margin that is representative of all  
2 small utilities, pointing out that the list of utility rate Decisions the Company used was not  
3 comprehensive, as the Company acknowledged. Of the Decisions on the Company's list, Staff  
4 points out that four set rates using rate of return, consistent with Staff's recommendation in this  
5 case. Of the remaining nine Decisions on the Company's list, three involved non-profit utilities,  
6 and two more set rates for utilities with negative rate bases.

7         60. Staff states that an alternative to setting rates using a rate of return methodology may  
8 be appropriate in certain cases, such as for a nonprofit utility that is prohibited from seeking a  
9 return on investment; for a utility that could not otherwise recover its operating expenses or have  
10 any operating income; or for very small utilities with little rate base. Staff states that none of those  
11 circumstances are present in this case, as Chino Meadows has a positive rate base of \$212,349, and  
12 will therefore not be confronted with a possible negative rate of return scenario; Chino Meadows is  
13 not a nonprofit company; and Chino Meadows is not so small that it will not obtain sufficient cash  
14 flow to cover contingencies from operations. Staff argues that its recommended rate of return  
15 methodology is fair, consistent with regulatory practice for similarly situated utilities, and is  
16 appropriate under the circumstances specific to this case.

17         61. As Staff points out, in addition to the operating income received through a 9.60 rate  
18 of return on its FVRB, the revenue requirement proposed by Staff also provides Chino Meadows  
19 with the return of its investment through an allowance for depreciation expense. Under Staff's  
20 recommendation, Chino Meadows would receive operating income of \$20,385, and \$39,709 in  
21 depreciation expense.

22         62. Chino Meadows did not demonstrate that the operating income and depreciation  
23 expense provided by Staff's recommended revenue requirement would be insufficient to meet  
24 operating expenses and contingencies.

25         63. The revenue requirement produced by the 9.6 percent rate of return on FVRB  
26 recommended by Staff will provide Chino Meadows with sufficient cash flow to meet operating  
27 expenses and contingencies.

28         64. We agree with Staff that the rate of return on FVRB methodology is a fair means of

1 setting the revenue requirement, is appropriate for Chino Meadows in this case, and should  
2 therefore be adopted.

3 65. Chino Meadows' revenue requirement is determined to be \$353,761.

4 **Rate Design**

5 66. The Company's proposed rates would increase the average monthly usage (5,348  
6 gallons/month) residential customer water bill, on a 5/8 x 3/4-inch meter, by \$6.24, or 19.31  
7 percent, from \$32.32 to \$38.56, and increase the median monthly usage (4,280 gallons/month)  
8 residential customer water bill by \$5.82, or 20.08 percent, from \$28.98 to \$34.80.

9 67. Staff's proposed rates would increase the average monthly usage (5,348  
10 gallons/month) residential customer water bill, on a 5/8 x 3/4-inch meter, by \$0.14, or 0.43 percent,  
11 from \$32.32 to \$32.46, and increase the median monthly usage (4,280 gallons/month) residential  
12 customer water bill by \$0.06, or 0.21 percent, from \$28.98 to \$29.04.

13 68. Currently, Chino Meadows' fixed monthly minimum customer charge is \$18.75, and  
14 the commodity charge is \$3.12 per thousand gallons for all usage.

15 69. Staff proposed a new inverted block three tier rate design, with the first tier cutoff at  
16 3,000 gallons and the second tier cutoff at 8,000 gallons. The Company states that it supports  
17 Staff's water-conservation oriented rate design.

18 70. The parties differ on the issue of an appropriate Monthly Customer Charge. At  
19 Staff's proposed revenue requirement, Staff recommends lowering the fixed monthly minimum  
20 customer charge from \$18.75 to \$17.75, reducing the commodity charge for first tier usage to \$2.40  
21 per thousand gallons, and increasing the commodity charges for second and third tier usage. The  
22 Company disagrees with Staff's recommendation to lower the fixed monthly minimum customer  
23 charge. The Company proposes to instead increase the fixed monthly minimum customer charge  
24 by the same percentage as the overall revenue increase. At the Company's proposed revenue  
25 requirement, the Company proposes to increase the fixed monthly minimum customer charge from  
26 \$18.75 to \$21.50, and proposes a slightly lower commodity charge for the third tier of usage than  
27 does Staff.

28 71. The Company asserts that adoption of Staff's recommended reduced fixed monthly

1 minimum customer charge, in tandem with the conservation-oriented rate design, will affect its  
2 ability to earn the authorized revenues, because more of its fixed costs would need to be recovered  
3 through commodity rates.

4 72. It is difficult to forecast how customers will change their consumption patterns in  
5 response to changes in rate design. The Company's and Staff's proposed rate designs would both  
6 promote conservation, and both purport to generate the same revenue. Of the two proposals, we  
7 find that Staff's rate design appropriately provides more affordable water service at non-  
8 discretionary levels. We therefore find Staff's proposed rate design is reasonable and should be  
9 adopted. Chino Meadows will have an opportunity to demonstrate any revenue impact of the rate  
10 design in a future rate filing.

#### 11 **Other Issues**

##### 12 Depreciation Rates

13 73. Staff recommends that Chino Meadows be required to use the depreciation rates by  
14 individual National Association of Regulatory Utility Commissioners ("NARUC") category  
15 delineated in Table B of Exhibit JWL to Exhibit S-1, a copy of which has been reproduced and  
16 attached hereto as Exhibit A. The Company does not object to using those depreciation rates. The  
17 Company should be required to use the depreciation rates depicted in Exhibit A.

##### 18 BMP Tariffs

19 74. Staff recommends that Chino Meadows be required to file with Docket Control, as a  
20 compliance item in this docket, within 90 days of this Decision, at least five BMPs in the form of  
21 tariffs that substantially conform to the templates created by Staff, available at the Commission's  
22 website, for the Commission's review and consideration. Staff recommends that a maximum of  
23 two of the BMPs come from the "Public Awareness/Public Relations" or "Education and Training"  
24 categories of the BMPs. Staff points out that the Company may request cost recovery of actual  
25 costs associated with the BMPs implemented in its next general rate application.

26 75. Chino Meadows is opposed to a requirement that it implement five BMPs. The  
27 Company states that while it supports groundwater management, it is concerned that the costs and  
28 effort required to implement five BMPs will be beyond its financial, technical and staffing

1 capabilities, and will not prove cost effective for its customers. The Company states that it is  
2 classified as a small provider by the Arizona Department of Water Resources (“ADWR”) under  
3 ADWR’s Modified Non Per Capita Water Conservation Program, and that due to this classification,  
4 ADWR does not require Chino Meadows to implement any BMPs.

5 76. Staff asserts that its recommendation is reasonable, and notes that the Company is  
6 already proposing the institution of a Leak Detection Program. Staff states that it does not oppose  
7 the Company’s implementation of a Leak Detection Program BMP Tariff.

8 77. Chino Meadows is located in the Prescott AMA and is subject to the ADWR  
9 reporting and conservation requirements. Chino Meadows has not voluntarily agreed to implement  
10 BMP Tariffs in addition to ADWR requirements. We will therefore not require the Company to  
11 implement any BMPs at this time. However, the Company’s application indicates that the  
12 Company has plans to implement a Leak Detection Program. We therefore find it reasonable and  
13 appropriate to require Chino Meadows to submit a Leak Detection Program BMP Tariff if it  
14 decides to go forward with its Leak Detection Program. In that event, Chino Meadows should file a  
15 BMP Tariff for the Commission’s review and consideration that substantially conforms with the  
16 template for the Leak Detection Program Tariff - BMP 4.1 created by Staff, available at the  
17 Commission’s website. The Company may request recovery of the expenses associated with  
18 implementation of the Leak Detection BMP Tariff in a subsequent rate filing.

19 Compliance Issues

20 78. Staff states that a check with the Commission’s Utilities Division Compliance  
21 System database indicated no delinquent compliance items for Chino Meadows as of June 20, 2011.

22 79. Staff states that for the year 2007, there were six complaints regarding billing,  
23 quality of service, disconnects and/or terminations, and repair issues; for the year 2008, there were  
24 two complaints regarding billing and quality of service; and for the years 2009 to 2011, there were  
25 no complaints. All complaints have been resolved and closed. In 2011, there was one opinion  
26 opposing the instant rate case.

27 80. Staff found that the Chino Meadows water system has adequate production capacity  
28 and storage capacity to serve the existing customer base and reasonable growth.

1           81.     According to an Arizona Department of Environmental Quality (“ADEQ”) report  
2 dated February 18, 2011, Chino Meadows’ water system is delivering water that meets water  
3 quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

4           82.     Staff received an ADWR compliance status report dated February 14, 2011,  
5 indicating that Chino Meadows was in compliance with ADWR requirements governing water  
6 providers and community water systems.

7           83.     Staff determined that the Company’s non-account water during the 2009 test year  
8 was 8.88 percent, which is within the acceptable limit of 10 percent.

9           84.     Chino Meadows has approved Curtailment Plan and Backflow Prevention Tariffs on  
10 file with the Commission.

11 **Conclusions**

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

15           86.     In the event Chino Meadows decides to go forward with its planned Leak Detection  
16 Program, Chino Meadows should be required to file a Leak Detection Program BMP Tariff for the  
17 program for the Commission’s review and consideration that substantially conforms to the template  
18 for the Leak Detection Program Tariff - BMP 4.1 created by Staff, available at the Commission’s  
19 website.

20           87.     Chino Meadows should be required to use the depreciation rates as delineated in  
21 Exhibit A.

22           88.     In order to eliminate further disputes related to cost allocations, Chino Meadows  
23 should be required to file its next general rate case using the same test year as is used in the next  
24 rate case filing for its sister utility, Granite Mountain.

25           89.     In addition, because an allowance for the property tax expense of Chino Meadows is  
26 included in the Company’s rates and will be collected from its customers, the Commission seeks  
27 assurances from the Company that any taxes collected from ratepayers have been remitted to the  
28 appropriate taxing authority. It has come to the Commission’s attention that a number of water

1 companies have been unwilling or unable to fulfill their obligation to pay the taxes that were  
2 collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a  
3 preventive measure Chino Meadows should annually file, as part of its annual report, an affidavit  
4 with the Utilities Division attesting that the Company is current in paying its property taxes in  
5 Arizona.

6 **CONCLUSIONS OF LAW**

7 1. Chino Meadows is a public service corporation pursuant to Article XV of the Arizona  
8 Constitution and A.R.S. §§ 40-250 and 40-251.

9 2. The Commission has jurisdiction over Chino Meadows and the subject matter of the  
10 application.

11 3. Notice of the proceeding was provided in conformance with law.

12 4. Chino Meadows' FVRB is \$212,349, and applying a 9.60 percent rate of return on that  
13 FVRB produces rates and charges that are just and reasonable.

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

16 6. It is reasonable and in the public interest to require Chino Meadows to use the  
17 depreciation rates as delineated in Exhibit A.

18 7. In order to eliminate further disputes related to cost allocations, it is reasonable and in  
19 the public interest to require Chino Meadows to file its next general rate case using the same test year  
20 as is used in the next rate case filing for its sister utility, Granite Mountain.

21 **ORDER**

22 IT IS THEREFORE ORDERED that Chino Meadows II Water Company is hereby authorized  
23 and directed to file with the Commission, as a compliance item in this Docket, on or before February  
24 29, 2012, a revised tariff setting forth the following rates and charges:

25 **MONTHLY USAGE CHARGE:**

26 **All Classes**

26	5/8" x 3/4" Meter	\$17.75
27	3/4" Meter	26.63
27	1" Meter	44.38
28	1-1/2" Meter	88.75

1	2" Meter	142.00
2	3" Meter	266.25
3	4" Meter	443.75
4	6" Meter	887.50

**Commodity Rates**

**Per 1,000 Gallons of Usage**

5	0 to 3,000 gallons	\$2.40
6	3,001 to 8,000 gallons	3.20
7	All gallons in excess of 8,000	4.20

**SERVICE LINE AND METER INSTALLATION CHARGES:**

**(Refundable Pursuant to A.A.C. R14-2-205)**

Meter Sizes	Service Line	Meter *	Total
5/8" x 3/4"	\$406.00	\$ 95.00	\$501.00
3/4"	413.00	162.00	575.00
1"	441.00	209.00	650.00
1-1/2"	395.00	321.00	716.00
2"	727.00	845.00	1,572.00
3"	952.00	1,448.00	2,400.00
4"	1,310.00	2,206.00	3,316.00
6"	2,160.00	4,756.00	6,916.00

\*Note: Meter charge includes meter box or vault.

**SERVICE CHARGES:**

12	Establishment	\$25.00
13	Reconnection (Delinquent)	30.00
14	After Hours Charge (Flat Rate)	25.00
15	Meter Test (If Correct)	20.00
16	Deposit	*
17	Deposit Interest	*
18	Re-Establishment (Within 12 Months)	**
19	NSF Check	\$20.00
20	Deferred Payment (Per Month)	1.50%
21	Meter Re-Read (If Correct)	\$15.00
22	Late Fee (Per Month)	1.50%

**Monthly Service Charge for Fire Sprinkler:**

23	4" or Smaller	***
24	6"	***
25	8"	***
26	10"	***
27	Larger than 10"	***

\* Per A.A.C. R14-2-403.B.

\*\* Months off system times the Monthly Usage Charge, per A.A.C. R14-2-403.D.

\*\*\* 2.00 percent of Monthly Usage Charge 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.

IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for all usage on and after March 1, 2012.

IT IS FURTHER ORDERED that Chino Meadows II Water Company shall notify its

1 customers of the revised schedules of rates and charges authorized herein by means of an insert, in a  
2 form acceptable to Staff, included in its next regularly scheduled billing or as a separate mailing to be  
3 completed no later than 20 days after the effective date of this Decision.

4 IT IS FURTHER ORDERED that Chino Meadows II Water Company shall use the  
5 depreciation rates depicted in Exhibit A.

6 IT IS FURTHER ORDERED that in the event Chino Meadows II Water Company decides to  
7 go forward with its planned Leak Detection Program, it shall file a BMP Tariff for the program for  
8 the Commission's review and consideration that substantially conforms to the template for the Leak  
9 Detection Program Tariff - BMP 4.1 created by Staff, available at the Commission's website, and  
10 may request recovery of the actual expenses associated with the implementation of the Leak  
11 Detection BMP Tariff in a rate filing subsequent to those expenditures.

12 IT IS FURTHER ORDERED that in order to eliminate further disputes related to cost  
13 allocations, Chino Meadows II Water Company shall file its next general rate case using the same test  
14 year as is used in the next rate case for its sister utility, Granite Mountain Water Company, Inc.

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1 IT IS FURTHER ORDERED that Chino Meadows II Water Company shall file, as part of its  
2 annual report, an affidavit with the Utilities Division attesting that it is current in paying its property  
3 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  
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 \_\_\_\_\_, 2012.

17 \_\_\_\_\_  
18 ERNEST G. JOHNSON  
19 EXECUTIVE DIRECTOR

20 DISSENT \_\_\_\_\_

21 DISSENT \_\_\_\_\_  
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23  
24  
25  
26  
27  
28

1 SERVICE LIST FOR: CHINO MEADOWS II WATER COMPANY

2 DOCKET NO.: W-02370A-10-0519

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8 Attorney for Chino Meadows II Water Co.

9  
10 Paul D. Levie, President  
11 Matthew Lauterbach, Water Administrator  
12 CHINO MEADOWS II WATER CO.  
13 2465 Shane Drive  
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16 Janice Alward, Chief Counsel  
17 Charles Hains, Staff Attorney  
18 Legal Division  
19 ARIZONA CORPORATION COMMISSION  
20 1200 W. Washington Street  
21 Phoenix, AZ 85007

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23 Steven Olea, Director  
24 Utilities Division  
25 ARIZONA CORPORATION COMMISSION  
26 1200 W. Washington Street  
27 Phoenix, AZ 85007

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## EXHIBIT A

Table B. 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	----	----

## NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.