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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

Arizona Corporation Commission
DOCKETED
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IN THE MATTER OF THE APPLICATION OF CHINO MEADOWS II WATER COMPANY FOR A RATE INCREASE.

DOCKET NO. W-02370A-10-0519

DECISION NO. 72896

OPINION AND ORDER

DATE OF HEARING: October 3, 2011

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Teena Jibilian

APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on behalf of Applicant; and

Mr. Charles Hains, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

* * * * * * * * * *

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

FINDINGS OF FACT

Procedural History

1. On December 30, 2010, Chino Meadows II Water Company ("Chino Meadows" or "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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Background

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

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

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

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

Rate Application

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

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

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

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

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

Rate Base

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

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

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

Operating Expense

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

<u>Salary and Wage Expense - Employee Bonuses</u>

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

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

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

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

Officers, Directors and Stockholders Salary and Wage Expense

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

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

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

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

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

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

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

Leak Detection Expense

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

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

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

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

Miscellaneous Expense

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

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

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[1] 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.

Revenue Requirement

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

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

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

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

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

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

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[2] The Company's proposed revenue increase of $51,660 would constitute an approximate 23.74 percent return on FVRB.

[3] The Company states in a footnote to the list that while it attempted to be comprehensive, it may have missed cases.

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

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

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

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

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

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

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

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

Rate Design

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

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

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

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

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

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

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

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

Other Issues

Depreciation Rates

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

BMP Tariffs

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

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

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

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

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

Compliance Issues

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

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

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

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

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

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

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

Conclusions

85. Chino Meadows should 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.

86. In the event Chino Meadows decides to go forward with its planned Leak Detection Program, Chino Meadows should be required to file a Leak Detection Program BMP Tariff for the program for the Commission's review and consideration that substantially conforms to the template for the Leak Detection Program Tariff - BMP 4.1 created by Staff, available at the Commission's website. The Company should be allowed to defer recovery of the actual expenses associated with implementation of the Leak Detection BMP Tariff for recovery in a subsequent rate filing.

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

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

89. In addition, because an allowance for the property tax expense of Chino Meadows is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers have been remitted to the

appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure Chino Meadows should annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

CONCLUSIONS OF LAW

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

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

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

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

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

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

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

8. It is reasonable and in the public interest to allow the Company to defer recovery of the actual expenses associated with implementation of an approved Leak Detection BMP Tariff for recovery in a subsequent rate filing.

ORDER

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

MONTHLY USAGE CHARGE:

All Classes

5/8" x 3/4" Meter	$17.75
3/4" Meter	26.63
1" Meter	44.38
1-1/2" Meter	88.75
2" Meter	142.00
3" Meter	266.25
4" Meter	443.75
6" Meter	887.50

Commodity Rates

Per 1,000 Gallons of Usage

0 to 3,000 gallons	$2.40
3,001 to 8,000 gallons	3.20
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	3,516.00
6"	2,160.00	4,756.00	6.916.00

*Note: Meter charge includes meter box or vault.

SERVICE CHARGES:

Establishment	$25.00
Reconnection (Delinquent)	30.00
After Hours Charge (Flat Rate)	25.00
Meter Test (If Correct)	20.00
Deposit	*
Deposit Interest (Per Year)	*
Re-Establishment (Within 12 Months)	**
NSF Check	$20.00
Deferred Payment (Per Month)	1.50%
Meter Re-Read (If Correct)	$15.00
Late Fee (Per Month)	1.50%

Monthly Service Charge for Fire Sprinkler:

4" or Smaller	***
6"	***
8"	***
10"	***
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 customers of the revised schedules of rates and charges authorized herein by means of an insert, in a form acceptable to Staff, included in its next regularly scheduled billing or as a separate mailing to be completed no later than 20 days after the effective date of this Decision.

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

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

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

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

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 21st day of February, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

SERVICE LIST FOR: CHINO MEADOWS II WATER COMPANY

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

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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.