

OPEN MEETING ITEM



0000135439

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



ARIZONA CORPORATION COMMISSION

RECEIVED

2012 MAR 28 A 9:35

ORIGINAL

DATE: MARCH 28, 2012  
DOCKET NO.: W-01751A-11-0331  
TO ALL PARTIES:

CORP COMMISSION  
DOCKET CONTROL

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

KATHERINE RESORT 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:

APRIL 6, 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:

APRIL 24, 2012 and APRIL 25, 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

MAR 28 2012

DOCKETED BY

*mm*

*E. G. Johnson*  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

[www.azcc.gov](http://www.azcc.gov)

This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail [SBernal@azcc.gov](mailto:SBernal@azcc.gov)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF  
KATHERINE RESORT WATER COMPANY  
FOR A PERMANENT RATE INCREASE.

DOCKET NO. W-01751A-11-0331

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

**ORDER**

Open Meeting  
April 24 and 25, 2012  
Phoenix, Arizona

**BY THE COMMISSION:**

On August 30, 2011, Katherine Resort Water Company (“Applicant” or “Company”) filed with the Arizona Corporation Commission (“Commission”) an application for a permanent increase in its water rates and charges.

On September 29, 2011, the Commission’s Utilities Division (“Staff”) issued a notice of insufficiency pursuant to A.A.C. R14-2-103.

In October 3, 2011, Applicant filed a request for approval of its Curtailment Tariff filed with its rate request.

On November 9, 2011, the Company provided Staff with additional documentation in support of its application.

On December 27, 2011, Staff issued a Notice of Sufficiency with respect to the Company’s application.

On February 27, 2012, Staff filed a Staff Report recommending that the rates and charges proposed by Staff be approved.

\* \* \* \* \*

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

**FINDINGS OF FACT**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

1. Applicant is a wholly-owned subsidiary of a California corporation, C. Ed Schuetz Development Company, Inc. ("SDC"), and pursuant to authority granted by the Commission, is engaged in the business of providing public water service to a 50-lot residential subdivision approximately two miles north of Bullhead City, Mohave County, Arizona.

2. Applicant's present rates and charges for water were approved in Decision No. 67066 (June 25, 2004).

3. On August 26, 2011, the Company provided notice to its customers of its proposed rates and charges by first class U.S. mail and, in response thereto, ten customers have protested the proposed rate increase.

4. On August 30, 2011, the Company filed an application requesting authority to increase its rates and charges for water service.

5. On September 29, 2011, Staff issued a Notice of Insufficiency to the Company.

6. On December 27, 2011, Staff filed a Notice of Sufficiency concerning the Company's application pursuant to A.A.C. R14-2-103.

7. During the test year ended December 31, 2010 ("TY"), Applicant served 49 metered customers all of whom are residential users who are served by 5/8" x 3/4" meters.

8. Average and median water usage on the 5/8" x 3/4" meters during the TY were 3,331 and 1,894 gallons per month, respectively.

9. Staff conducted an investigation of Applicant's proposed rates and charges for water service and filed its Staff Report on the Company's rate application request on February 27, 2012, and recommended that the Commission issue a Decision approving Staff's proposed rates and charges.

10. The water rates and charges for Applicant at present, as proposed in the Application and as recommended by Staff are as follows:

...  
...  
...

MONTHLY USAGE CHARGES:

	Present Rates	Proposed Rates	
		Company	Staff
5/8" x 3/4" Meter	\$ 27.85	\$ 55.00	\$ 28.25
3/4" Meter	41.78	55.00	41.78
1" Meter	69.63	82.50	69.63
1-1/2" Meter	139.25	139.25	139.25
2" Meter	222.80	275.00	222.80
3" Meter	0.00	440.00	0.00
4" Meter	696.25	880.00	696.25
6" Meter	1,392.00	1,500.00	1,392.00

COMMODITY RATES (Per 1,000 Gallons):

Meter Size	Present Rates	Company	Staff
5/8" x 3/4" Meter			
0 - 4,000	\$ 3.00	\$ 8.25	N/A
4,001 - 30,000	4.25	13.90	N/A
Over 30,000	4.75	20.50	N/A
0 - 3,000	N/A	N/A	\$ 3.50
3,001 - 8,000	N/A	N/A	5.40
Over 8,000	N/A	N/A	7.55

Service Line and Meter Installation Charges:  
(Refundable Pursuant to A.A.C. R14-2-405)

Meter Size	Present Rates	<u>-Company Proposed-</u>			<u>-Staff Recommended-</u>		
		Service Line Charge	Meter Installation	TOTAL	Service Line Charge	Meter Installation	TOTAL
5/8" x 3/4" Meter	\$ 420.00	N/A	N/A	\$ 450.00	\$ 334.00	\$ 116.00	\$ 450.00
3/4" Meter	49.00	N/A	N/A	500.00	318.00	182.00	500.00
1" Meter	580.00	N/A	N/A	595.00	364.00	231.00	595.00
1-1/2" Meter	820.00	N/A	N/A	925.00	473.00	452.00	925.00
2" Meter Turbine	2,140.00	N/A	N/A	2,250.00	-	-	ICB
3" Meter	0.00	N/A	N/A	0.00	-	-	ICB
4" Meter Turbine	4,105.00	N/A	N/A	4,250.00	-	-	ICB
6" Meter Turbine	7,590.00	N/A	N/A	7,750.00	-	-	ICB

Note - Individual Case Basis ("ICB") is used to refer to Staff's proposal to apply charges based on customer's specific cost for meters 2" and larger.

SERVICE CHARGES:

	Present Rates	Proposed Rates	
		Company	Staff
Establishment	\$ 15.00	\$ 25.00	\$ 15.00
Establishment (After Hours)	22.50	0.00	0.00
Reconnection (Delinquent)	25.00	50.00	25.00
Meter Test (If Correct)	15.00	25.00	15.00
Deposit	Per Rule	50.00	*
Deposit Interest	Per Rule	6.0%	**
Re-establishment (Within 12 Months)	Per Rule	**	**
NSF Check	\$15.00	\$15.00	\$15.00
Deferred Payment (Per Month)	1.5%	1.5%	1.5%
Meter Re-read (If Correct)	\$5.00	\$15.00	\$5.00
Late Fee (Per Month)	1.5%	1.5%	1.5%
After Hours Service Charge	N/A	0.00	\$22.50
(added to service charge when work is performed after regular business hours)			

1 MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

2	4" or Smaller	\$ 0.00	\$ 0.00	***
	6"	0.00	0.00	***
3	8"	0.00	0.00	***
	10"	0.00	0.00	***
4	Larger than 10"	0.00	0.00	***

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

6 \*\* Number of months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

7 \*\*\* 2.0 percent of Monthly Minimum for a comparable sized meter connection, but no less than \$10 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

8 11. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined  
9 to be \$20,506 which is the same as its original cost rate base. The Company's FVRB reflects a  
10 \$69,284 reduction by Staff due in large part to a \$82,559 adjustment to Applicant's accumulated  
11 depreciation and deductions due to plant advances and contributions and the amortization of  
12 Contributions in Aid of Construction ("CIAC").

13 12. Staff decreased Applicant's operating expenses by \$2,729 primarily due to an  
14 adjustment which reduced Applicant's repairs and maintenance expense by \$6,873 as a result of the  
15 capitalization of the cost of meters and a pump that the Company had inappropriately expensed.

16 13. Applicant's present water rates and charges produced adjusted operating revenues of  
17 \$19,791 and adjusted operating expenses of \$17,470, which resulted in a TY operating income of  
18 \$2,321 for an 11.32 percent rate of return.

19 14. The water rates and charges Applicant proposed would produce operating revenues of  
20 \$44,492 and adjusted operating expenses of \$17,738, resulting net operating income of \$26,754, or a  
21 130.47 percent rate of return on FVRB.

22 15. The water rates and charges Staff recommended would produce adjusted operating  
23 revenues of \$22,175 and adjusted operating expenses of \$17,738, resulting in net operating income of  
24 \$4,437, or a 21.64 percent rate of return on FVRB.

25 16. Applicant's proposed rate schedule would increase the average monthly customer  
26 water bill by 118 percent, from \$37.84 to \$82.48, and the median monthly customer water bill by  
27 110.6 percent, from \$33.53 to \$70.63.

28 17. Staff's recommended rates would increase the average monthly customer water bill by

1 7.1 percent, from \$37.84 to \$40.54, and increase the median monthly customer water bill by 4.0  
2 percent, from \$33.53 to \$34.88.

3 18. According to the Staff Report, the Company is failing to maintain its accounting  
4 records in conformity with the National Association of Regulatory Utility Commissioners  
5 ("NARUC") Uniform System of Accounts ("USOA").

6 19. Although there have been no complaints filed against the Company from 2009 through  
7 the end of the TY since the filing of Applicant's request for rate relief, the Commission has received  
8 ten contacts from customers of the Company who oppose the requested rate relief.

9 20. According to Staff, a check of the Compliance Section database showed that there are  
10 no delinquent Commission compliance items for the Company.

11 21. The Company obtains its water by pumping water from the 900 feet deep Katherine  
12 mine shaft. During Staff's review of the Company's water rate request, Staff found that the  
13 Applicant "has major monitoring and reporting deficiencies" and the Arizona Department of  
14 Environmental Quality ("ADEQ") cannot determine if this system is currently delivering water which  
15 meets the water quality standards as required by the Safe Drinking Water Act ("SDWA").

16 22. Staff further points out that the Arizona Department of Water Resources ("ADWR")  
17 has found the Company is currently not in compliance with ADWR requirements due to its failure to  
18 file a 2009 Annual Water Use Report.

19 23. Staff recommends that the Commission order the following:

- 20
- 21 • that the permanent rates and charges as authorized hereinafter shall not become  
22 effective until the first day of the month after the Company files with the  
23 Commission's Docket Control, as a compliance item in this docket, a notice from  
24 ADEQ that the Company is delivering water which meets the water quality  
25 standards required by the SDWA;
  - 26 • that the Company file, within 90 days of the effective date of this Decision, with  
27 the Commission's Docket Control, as a compliance item in this docket, (1)  
28 documentation showing that the minor operational and maintenance corrections  
documentation showing that all ADEQ monitoring  
and reporting requirements have been met, and (3) ADEQ documentation showing  
that the Company's water system is delivering water that meets the water quality  
standards required by the SDWA;
  - that the Company file, within 90 days of the effective date of this Decision, with  
the Commission's Docket Control, as a compliance item in this docket, ADWR  
documentation showing compliance with ADWR requirements;

- 1 • that the Company file, within 45 days of the effective date of this Decision, with
- 2 the Commission's Docket Control, as a compliance item in this docket, a
- 3 Curtailment Tariff and a Cross Connection or Backflow Prevention Tariff;
- 4 • that the Company notify its customers of the approved water rates and charges and
- 5 of their effective date by means of an insert in the monthly billing which precedes
- 6 the month in which they become effective and file a copy of the notice sent to its
- 7 customers with the Commission's Docket Control, as a compliance item in this
- 8 docket;
- 9 • that the Company file, within 30 days of the effective date of this Decision, with
- 10 the Commission's Docket Control, a copy of the schedule of its approved rates and
- 11 charges;
- 12 • that the Company maintain its books and records in accordance with the NARUC
- 13 USOA;
- 14 • that the Company file, within 90 days of the effective date of this Decision, with
- 15 the Commission's Docket Control, as a compliance item in this docket, at least
- 16 three BMPs (they are available on the Commission's website) in the form of tariffs
- 17 that substantially conform to the templates created by Staff for the Commission's
- 18 review and consideration;
- 19 • that the Company post a sign at its well and tank site which complies with ADEQ
- 20 requirements and include the following information on the sign: system name;
- 21 system PWS identification number; and emergency contact phone number(s); and
- 22 • that the Company adopt Staff's recommended depreciation rates as shown on
- 23 Table B of the Engineering Report attached to the Staff Report.

24 24. Because an allowance for property tax expense of Applicant is included in the

25 Company's rates and will be collected from its customers, the Commission seeks assurances from the

26 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing

27 authority. It has come to the Commission's attention that a number of water companies have been

28 unwilling or unable to fulfill their obligations to pay the taxes that were collected from ratepayers,

some for as many as 20 years. It is reasonable, therefore, that as a preventive measure, the Company

shall 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.

24 25. Following a review of the application and the Staff Report, we believe that Staff's

25 proposed rates and charges are reasonable and should be adopted, together with Staff's additional

26 recommendations.

### CONCLUSIONS OF LAW

- 28 1. Applicant is a public service corporation within the meaning of Article XV of the

1 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2 2. The Commission has jurisdiction over Applicant and the subject matter of the  
3 application.

4 3. Notice of the application was provided in the manner prescribed by law.

5 4. Under the circumstances discussed herein, the rates and charges proposed by Staff and  
6 authorized hereinafter are just and reasonable.

7 5. Staff's recommendations, as set forth in Findings of Fact No. 23, are reasonable and  
8 should be adopted.

9 **ORDER**

10 IT IS THEREFORE ORDERED that Katherine Resort Water Company is hereby directed to  
11 file, with Docket Control, as a compliance item in this docket, on or before on or before May 1, 2012,  
12 revised rates schedule setting forth the following rates and charges:

13 MONTHLY USAGE CHARGES:

14	5/8" x 3/4" Meter	\$ 28.25
	3/4" Meter	41.78
15	1" Meter	69.63
	1-1/2" Meter	139.25
16	2" Meter	222.80
	4" Meter	696.25
17	6" Meter	1,392.00

18 COMMODITY RATES (Per 1,000 Gallons):

19	5/8" x 3/4" Meter	
	0 - 3,000	\$ 3.50
	3,001 - 8,000	5.40
20	Over 8,000	7.55

21 Service Line and Meter Installation Charges:  
22 (Refundable Pursuant to A.A.C. R14-2-405)

	<u>Service</u>	<u>Meter</u>	<u>TOTAL</u>
	<u>Line Charge</u>	<u>Installation</u>	
23	5/8" x 3/4" Meter	\$ 334.00	\$ 450.00
	3/4" Meter	318.00	500.00
24	1" Meter	364.00	595.00
	1-1/2" Meter	473.00	925.00
25	2" Meter Turbine	-	ICB
	3" Meter	-	ICB
26	4" Meter Turbine	-	ICB
	6" Meter Turbine	-	ICB

27 Note - Individual Case Basis ("ICB") apply charges based on customer's specific cost for  
28 meters 2" and larger.

1 SERVICE CHARGES:

2	Establishment	\$ 15.00
	Reconnection (Delinquent)	25.00
3	Meter Test (If Correct)	15.00
	Deposit	*
4	Deposit Interest	**
	Re-establishment (Within 12 Months)	**
5	NSF Check	\$15.00
	Deferred Payment (Per Month)	1.5%
6	Meter Re-read (If Correct)	\$5.00
	Late Fee (Per Month)	1.5%
7	After Hours Service Charge	\$22.50
8	(added to service charge when work is performed after regular business hours)	

9 MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

10	4" or Smaller	***
	6"	***
	8"	***
11	10"	***
12	Larger than 10"	***

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

14 \*\* Number of months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

15 \*\*\* 2.0 percent of Monthly Minimum for a comparable sized meter connection, but no less than \$10 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

16 IT IS FURTHER ORDERED that the above rates and charges shall not become effective for  
 17 Katherine Resort Water Company until it has met all compliance requirements as set forth in  
 18 Findings of Fact No. 23.

19 IT IS FURTHER ORDERED that Katherine Resort Water Company shall notify its customers  
 20 of the rates and charges authorized hereinafter and the effective date of same by means of an insert, in  
 21 a form acceptable to Staff, in the regular monthly billing which precedes that month in which the  
 22 rates are to become effective and file copies of the notice when sent to its customers with the  
 23 Commission's Docket Control, as a compliance item in this docket.

24 IT IS FURTHER ORDERED that Katherine Resort Water Company shall comply with each  
 25 of the recommendations which appear in Findings of Fact No. 23.

26 IT IS FURTHER ORDERED that Katherine Resort Water Company shall maintain its books  
 27 and records in compliance with the NARUC USOA.

28 IT IS FURTHER ORDERED that Katherine Resort Water Company, in addition to the

1 collection of its regular rates and charges, shall collect from its customers their proportionate share of  
2 any privilege, sales or use tax as provided in A.A.C. R14-2-409(D).

3 IT IS FURTHER ORDERED that Katherine Resort Water Company shall annually file as part  
4 of its Annual Report, an affidavit with the Utilities Division attesting that the Company is current in  
5 paying its property taxes in Arizona.

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

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION  
8  
9

10 CHAIRMAN COMMISSIONER COMMISSIONER

11  
12 COMMISSIONER COMMISSIONER

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

19 \_\_\_\_\_  
20 ERNEST G. JOHNSON  
21 EXECUTIVE DIRECTOR

22  
23 DISSENT \_\_\_\_\_

24 DISSENT \_\_\_\_\_

25 MES:db

1 SERVICE LIST FOR: KATHERINE RESORT WATER COMPANY

2 DOCKET NO.: W-01751A-11-0331

3

4 C. Ed Schuetz  
KATHERINE RESORT WATER COMPANY  
6126 Chrismark Avenue  
5 San Diego, CA 92120

6 Janice Alward, Chief Counsel  
Legal Division  
7 ARIZONA CORPORATION COMMISSION  
1200 West Washington  
8 Phoenix, AZ 85007

9 Steven M. Olea, Director  
Utilities Division  
10 ARIZONA CORPORATION COMMISSION  
1200 West Washington  
11 Phoenix, AZ 85007

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28