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COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
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PAUL NEWMAN
BRENDA BURNS

OPEN MEETING ITEM



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Executive Director

ARIZONA CORPORATION COMMISSION

2012 JUL -3 P 3:46

AZ CORP COMMISSION
DOCKET CONTROL

DATE: JULY 3, 2012

DOCKET NO.: W-03443A-10-0143 and W-03443A-11-0040

TO ALL PARTIES:

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

APPALOOSA WATER COMPANY
(RATES/FINANCING)

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:

JULY 12, 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:

JULY 18, 2012 and JULY 19, 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

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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 APPALOOSA WATER COMPANY FOR
10 APPROVAL OF A FINANCING APPLICATION.

DOCKET NO. W-03443A-10-0143

11 IN THE MATTER OF THE APPLICATION OF
12 APPALOOSA WATER COMPANY FOR
13 APPROVAL OF A RATE INCREASE.

DOCKET NO. W-03443A-11-0040

DECISION NO. _____

OPINION AND ORDER

14 DATE OF HEARING: March 5, 2012 (Public Comments); March 9, 2012
15 (Procedural Conference); and May 3, 2012 (Hearing)

16 PLACE OF HEARING: Phoenix, Arizona

17 ADMINISTRATIVE LAW JUDGE: Yvette B. Kinsey

18 APPEARANCES: Mr. Joe Cordovana, President, on behalf of Appaloosa
19 Water Company;

Mr. John E. Blann, Jr., Intervenor, in *propria persona*;
and

Mr. Brian E. Smith and Ms. Robin Mitchell, Staff
Attorneys, Legal Division, on behalf of the Utilities
Division of the Arizona Corporation Commission.

20 **BY THE COMMISSION:**

21 On April 13, 2010, Appaloosa Water Company (“Appaloosa” or “Company”) filed with the
22 Arizona Corporation Commission (“Commission”) an application requesting approval to obtain
23 financing through the Water Infrastructure Financing Authority (“WIFA”) in the amount of \$855,193
24 to construct a 500,000 gallon storage tank, to purchase an emergency generator, and to extend the
25 Company’s main line (“Finance Docket”).

26 On January 26, 2011, Appaloosa filed with the Commission an application for a permanent
27 increase in its water rates and charges, using a test year ending December 31, 2009. Appaloosa’s
28 application requested an increase in rates to generate an additional \$131,153 over total test year

1 revenues ("Rate Docket").

2 On February 10, 2011, the Commission's Utilities Division ("Staff") filed a Request of
3 Suspension of Timeclock. Staff stated that after Staff reviewed Appaloosa's rate application with
4 Appaloosa, Appaloosa agreed to file an amended rate application using a 2010 test year. Staff
5 requested a suspension of the timeclock until Appaloosa had filed its amended application.

6 On February 17, 2011, Appaloosa filed an amended rate application using a test year ending
7 December 31, 2010.

8 On February 24, 2011, by Procedural Order, Staff's Request of Suspension of Timeclock was granted.

9 On March 21, 2011, Mr. John E. Blann, Jr. filed a Motion to Intervene stating that he is a
10 residential customer of Appaloosa and that he will be impacted if an increase in water rates is
11 granted.

12 On April 19, 2011, by Procedural Order, Mr. John E. Blann, Jr.'s Motion to Intervene was
13 granted.

14 On June 22, 2011, Appaloosa amended its rate application modifying its request for
15 authorization to increase its rates to generate an additional \$140,888 in annual revenues, a 100
16 percent increase over its reported test year revenues of \$140, 888.

17 On July 22, 2011, Staff docketed a Letter of Sufficiency in the Rate Docket stating that
18 Appaloosa's rate application had met the sufficiency requirements as outlined in A.A.C. R14-2-103
19 and classifying Appaloosa as a Class C utility.

20 On July 26, 2011, by Procedural Order, the hearing on Appaloosa's rate application was
21 scheduled to commence on January 17, 2012, and other procedural deadlines were established.

22 On August 2, 2011, Staff filed a Motion to Consolidate, requesting consolidation of the Rate
23 Docket (Docket No. W-03443A-11-0040) and Finance Dockets (Docket No. W-03443A-10-0143).
24 The Motion stated that issues involved in the applications are substantially related and consolidation
25 of the dockets would allow for the efficient use of Staff's resources in analyzing these matters.

26 On August 5, 2011, by Procedural Order, Staff's request for consolidation was granted, the
27 procedural schedule was revised, and the hearing date was rescheduled for March 5, 2012.

28 On October 31, 2011, Appaloosa filed an affidavit stating that notice of the Company's rate

1 and finance applications had been published in *The Daily Courier*, a daily newspaper published in the
2 City of Prescott in Yavapai County, Arizona.

3 On November 18, 2011, Staff filed a Request for Procedural Order. Staff requested that the
4 timeclock and filing deadlines associated with these consolidated matters be indefinitely suspended to
5 provide Staff with additional time to process the applications in this matter. Staff stated that it
6 needed additional information from Appaloosa related to the WIFA loan.

7 On December 2, 2011, by Procedural Order, the timeclock and filing deadlines associated
8 with these consolidated matters were indefinitely suspended. The Procedural Order further directed
9 Staff to file a notice in the consolidated dockets, once its analysis of the applications was complete.

10 On December 15, 2011, the Company filed its response to Staff's Third Set of Data Requests.

11 On February 17, 2012, Staff filed Notice of Filing Direct Testimony ("Notice"). The Notice
12 stated that Staff had completed its analysis of the applications and requested that the timeclock be
13 restarted.

14 On February 27, 2012, by Procedural Order, the hearing in this matter was reset to begin on
15 May 3, 2012, procedural deadlines were established, and the timeclock was reinstated.

16 On March 8, 2012, Mr. John E. Blann, Jr., intervenor, filed a Motion requesting an extension
17 of time, until March 23, 2012, to file direct testimony and associated exhibits in this matter.

18 On March 5, 2012, a hearing for the purpose of taking public comments on the applications
19 was held as scheduled before a duly authorized Administrative Law Judge ("ALJ") of the
20 Commission at its offices in Phoenix, Arizona. Staff appeared through counsel, Mr. John E. Blann Jr.
21 appeared on his own behalf, and no members of the public were present.

22 On March 9, 2012, a telephonic Procedural Conference was initiated by the ALJ to discuss
23 Mr. Blann's pending request for an extension of time to file direct testimony. Staff appeared through
24 counsel. Mr. Joe Cordovana appeared on behalf of Appaloosa and Mr. John E. Blann, Jr appeared on
25 his own behalf. During the Procedural Conference, Mr. Blann's request was granted and other filing
26 deadlines were revised.

27 On March 22, 2012, Mr. John E. Blann Jr. filed direct testimony and exhibits in this matter.

28 On March 26, 2012, Appaloosa filed its rebuttal testimony and exhibits in this matter.

1 On April 17, 2012, Staff filed a Notice of Filing Surrebuttal Testimony.

2 On May 3, 2012, a full public hearing was convened before a duly authorized ALJ of the
3 Commission at its offices in Phoenix, Arizona. Staff appeared through counsel, Mr. Joe Cordovana,
4 President of Appaloosa, appeared on behalf of the Company. Intervenor Mr. John Blann Jr. appeared
5 on his own behalf and one member of the public appeared to give public comment.

6 At the conclusion of the hearing, the matter was taken under advisement pending submission
7 of a Recommended Opinion and Order to the Commission.

8 * * * * *

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

11 **FINDINGS OF FACT**

12 1. Appaloosa is an Arizona public service corporation engaged in the business of
13 providing water service to a community known as Appaloosa Meadows, located in the Town of
14 Chino Valley in Yavapai County, Arizona.

15 2. Appaloosa was granted authority to provide water utility services in Arizona in
16 Commission Decision No. 60733 (March 23, 1998).

17 3. Appaloosa is currently providing services under rates and charges established in
18 Commission Decision No. 71236 (August 6, 2009).

19 4. Appaloosa currently serves 234 customers and its service area encompasses
20 approximately two-thirds of a square mile.

21 5. Artesian Holdings, LLC is the current owner of Appaloosa.

22 6. Staff classified Appaloosa as a Class C utility based on Appaloosa's proposed
23 revenue.

24 7. Appaloosa is currently in compliance with the Commission's Utilities Division and
25 Appaloosa is in good standing with the Corporations Division.

26 8. On April 13, 2010, Appaloosa filed an application with the Commission requesting
27 approval to obtain financing through WIFA in the amount of \$855,193 to construct a 500,000 gallon
28 storage tank, to purchase an emergency generator, and to extend the Company's main line to serve a

1 new development area.

2 9. On January 26, 2011, Appaloosa filed a rate application with Commission requesting
3 an increase in its water rates and charges, using a test year ending December 31, 2009. Appaloosa's
4 rate application requested an increase in rates to generate an additional \$131,153 over total test year
5 revenues.

6 10. Subsequently, on February 17, 2011, Appaloosa amended its rate application using a
7 test year ending 2010 instead of a 2009 and revising its request to increase rates to generate an
8 additional \$140,888 in revenues or 100 percent over its 2010 test year revenues of \$140,888.

9 11. The rate and finance dockets were consolidated for the purpose of hearing and for the
10 resolution of the issues discussed herein.

11 12. The Commission's Consumer Services reported that in 2011, nine complaints (related
12 to billing, deposits, rate case items, arsenic); eight inquiries (related to billing, rate case items,
13 arsenic, rates/tariffs); and 122 opinions filed in opposition to the rate case were filed against
14 Appaloosa.¹ Staff reported that in 2010, there were zero complaints and two inquiries (related to
15 quality of service, rates/tariffs).²

16 13. Staff reported that there are eight complaints filed in 2011 that remain open (three
17 billing, one deposit refund, and four rate case) and that Staff is continuing to process the open
18 complaints.³

19 **Rate Application**

20 14. Appaloosa's amended rate application states a rate increase is needed due to an
21 increase in postal rates and property taxes and the need for construction of a new storage tank,
22 electrical generator, new meters, arsenic media, and new computer software for customer billing.⁴

23 15. Appaloosa's current water rates and charges, as proposed in the amended rate
24 application, and as recommended by Staff are as follows:

25 . . .

26

27 ¹ Exhibit S-3 at 3.

² Id.

³ Id.

28 ⁴ Exhibit A-2 at 4.

1	<u>MONTHLY USAGE CHARGES:</u>	Present Rates	<u>Proposed Rates</u>	
			<u>Company</u>	<u>Staff</u>
2	5/8" x 3/4" Meter	\$ 25.00	\$ 50.00	\$ 25.00
	3/4" Meter	25.00	50.00	25.00
	1" Meter	41.67	83.34	41.67
3	1-1/2" Meter	83.33	166.66	83.33
	2" Meter	133.33	266.66	133.33
4	3" Meter	266.67	533.40	266.67
	4" Meter	416.67	833.34	416.67
5	6" Meter	833.33	1,666.66	833.33

6 COMMODITY RATES (Per 1,000 Gallons)

7	5/8" x 3/4" Meter and 3/4" Meter (Residential, Industrial & Commercial)			
8	1 - 3,000 gallons	\$ 1.50	\$ 3.00	1.9500
	3,001 - 7,000 gallons	2.00	4.00	3.2500
9	Over 7,000	2.90	5.80	4.4500
10	1" Meter (Residential, Industrial & Commercial)			
11	1 - 7,000 gallons	\$ 2.00	\$ 4.00	3.2500
	Over 7,000 gallons	2.90	5.80	4.4500
12	1-1/2" Meter (Residential, Industrial & Commercial)			
13	1 - 15,000 gallons	\$ 2.00	\$ 4.00	3.2500
14	Over 15,000 gallons	2.90	5.80	4.4500
15	2" Meter (Residential, Industrial & Commercial)			
16	0 - 24,000 gallons	\$ 2.00	\$ 4.00	3.2500
	Over 24,000 gallons	2.90	5.80	4.4500
17	3" Meter (Residential, Industrial & Commercial)			
18	0 - 48,000 gallons	\$ 2.00	\$ 4.00	3.2500
	Over 48,000 gallons	2.90	5.80	4.4500
19	4" Meter (Residential, Industrial & Commercial)			
20	0 - 75,000 gallons	\$ 2.00	\$ 4.00	3.2500
21	Over 75,000 gallons	2.90	5.80	4.4500
22	6" Meter (Residential, Industrial & Commercial)			
23	0 - 150,000 gallons	\$ 2.00	\$ 4.00	3.2500
	Over 150,000 gallons	2.90	5.80	4.4500

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

26	<u>Meter Size</u>	<u>Company's Rates</u>		<u>Staff's Recommended Rates</u>		
		<u>Current</u>	<u>Proposed</u>	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
27	5/8" x 3/4" Meter	\$ 600	\$ 1200	\$ 445	\$ 155	\$ 600
	3/4" Meter	700	1400	445	255	700
28	1" Meter	810	1620	495	315	810

1	1-1/2" Meter	1,075	2150	550	525	1,075
	2" Turbine Meter	1,875	3750	830	1,045	1,875
2	2" Combine Meter	2,720	5440	830	1,890	2,720
	3" Turbine Meter	2,715	5430	1,045	1,670	2,715
3	3" Combine Meter	3,710	7420	1,165	2,545	3,710
	4" Turbine Meter	4,160	8320	1,490	2,670	4,160
4	4" Combine Meter	5,315	10,630	1,570	3,645	5,315
	6" Turbine Meter	7,235	14,470	2,210	5,025	7,235
5	6" Combine Meter	9,250	18,500	2,330	6,920	9,250

		Present	Proposed Rates	
<u>SERVICE CHARGES:</u>		<u>Rates</u>	<u>Company</u>	<u>Staff</u>
7	Establishment	\$ 25.00	\$ 50.00	\$ 25.00
	Establishment (After Hours)	50.00	100.00	N/A
8	Reconnection (Delinquent)	30.00	60.00	30.00
	Reconnection (Delinquent) (After Hours)	50.00	100.00	N/A
9	Meter Test (If Correct)	15.00	30.00	15.00
	Deposit	*	*	*
10	Deposit Interest	N/A	*	*
	Re-establishment (Within 12 Months)	**	**	**
11	NSF Check	20.00	40.00	20.00
	Deferred Payment (Per Month)	1.5%	1.5%	1.5%
12	Meter Re-read (If Correct)	15.00	30.00	\$ 15.00
	Late Payment Penalty	1.5%	1.5%	1.5%
13	After Hours Service Charge	N/A	N/A	50.00
	Monthly Service Charge for Fire Sprinkler	***	***	***

- 14 * Per Commission Rule A.A.C. R14-2-403(B).
- 15 ** Number of months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
- 16 *** 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.

Rate Base

16. Appaloosa's amended rate application states that the Original Cost Rate Base ("OCRB") should be used to determine the Company's fair value rate base ("FVRB"), and that Appaloosa waives its right to use Reconstruction Cost New as a basis for determining FVRB.⁵ Appaloosa proposed an OCRB of negative \$52,705, which is its FVRB.⁶

17. Staff recommends an upward adjustment of \$78,280 to Appaloosa's proposed OCRB of negative \$52,705, for a recommended rate base of \$25,575.⁷

18. Staff's adjustments to Appaloosa's rate base reflect pro-forma arsenic treatment costs; reclassification of Appaloosa's arsenic treatment plant in accordance with the National Association of

⁵ Exhibit A-2.
⁶ Id.
⁷ Exhibit S-4 at JMM-3.

1 Regulatory Utility Commissioners (“NARUC”) Uniform System of Accounts (“USOA”); an increase
2 in accumulated depreciation expense; and the inclusion of cash working capital.⁸

3 Reclassification

4 19. Appaloosa proposed Plant-in-Service of \$1,459,170 for the test year ending December
5 31, 2010.⁹ Appaloosa’s Plant-In-Service less Accumulated Depreciation of \$231,234 resulted in net
6 Plant-In-Service of \$1,227,936; Contributions in Aid of Construction (“CIAC”) of \$759,327 less
7 Accumulated Amortization of \$49,004 resulted in Net CIAC of \$710,323; and Advances in Aid of
8 Construction (“AIAC”) of \$570,318, resulting in an OCRB of negative \$52,705.¹⁰

9 20. Staff recommends an upward adjustment of \$47,350 to \$1,506,520 for Plant-in-
10 Service for the test year.¹¹ Staff’s adjustment to Plant-In-Service less Accumulated Depreciation of
11 \$16,625 resulted in Net Plant-In-Service of \$30,725.¹² Staff made no adjustments to CIAC, but
12 recommended a downward adjustment of \$34,765 to AIAC from \$570,318 to \$535,553, and Staff
13 included \$12,791 in Working Cash Allowance.¹³ Staff also recommends removal of \$128,025 from
14 Other Plant and Miscellaneous Equipment and reclassifies it to Water Treatment Plant in the amount
15 of \$148,250 and Water Treatment Equipment in the amount of \$27,125 for arsenic treatment media.¹⁴

16 Arsenic Treatment Facility

17 21. Appaloosa provided documentation showing costs totaling \$200,521 for the
18 installation of its arsenic treat facility.¹⁵

19 22. In testimony, Intervenor John Blann asserted that only \$175,375 of Appaloosa’s
20 proposed arsenic treatment facility costs should be included in rate base.¹⁶ Mr. Blann noted that
21 Appaloosa’s arsenic treatment facility costs included \$6,996 for pre-construction cost for a new
22 storage tank and \$18,150 in late fee charges.¹⁷

23 23. Staff concurs with Mr. Blann’s assessment and recommends the disallowance of

24 ⁸ Exhibit S-3 at 8-10.

25 ⁹ Exhibit A-2 at 14.

26 ¹⁰ Exhibit S-4, Surrebuttal Schedule JMM-3.

27 ¹¹ Id.

28 ¹² Id.

¹³ Id.

¹⁴ \$148,250-\$128,025+ \$27,125 = \$47,350.

¹⁵ Exhibit S-3 at 8.

¹⁶ Exhibit I-1 at 2.

¹⁷ Id.

1 \$18,150 related to late fee charges and \$6,996 for pre-construction costs related to a new storage
2 tank, for total Water Treatment Plant and Water Treatment Equipment in the amount of \$175,375.¹⁸

3 Accumulated Depreciation

4 24. Appaloosa proposed Accumulated Depreciation of \$231,234.¹⁹

5 25. Staff's recommends an upward adjustment of \$16,625 to Accumulated Depreciation.²⁰

6 Staff stated that it recalculated depreciation for the intervening years since the prior rate case using
7 the half-year convention and reflecting inclusion of Staff's adjustment for the arsenic treatment
8 facility.²¹

9 Cash Working Capital

10 26. Appaloosa's amended rate application did not include an allowance for cash working
11 capital; however, Staff recommends the inclusion of a cash working capital in the amount of \$12,791
12 for Appaloosa, using the formula method.²² Staff testified that it normally reserves the inclusion of a
13 cash working capital allowance for Class D and E utilities; however, because Appaloosa's test year
14 and Staff's recommended revenues fall within the range for a Class D utility, Staff concluded that a
15 formula-based cash working capital allowance is appropriate in this matter.²³

16 27. Staff's adjustments to rate base resulted in OCRB of \$25,575.²⁴ Appaloosa did not
17 submit testimony or evidence to rebut Staff's recommended adjustments to rate base. Therefore, we
18 find that Staff's recommended adjustments to Appaloosa's rate base are reasonable and will be
19 adopted.

20 28. The Company's FVRB is \$25,575.

21 Operating Expenses

22 29. Appaloosa proposed test year operating expenses totaling \$178,866.²⁵

23 30. Staff recommends downward adjustments of \$27,766 to test year operating expenses
24

25 ¹⁸ Exhibit S-4 at 3 and Surrebuttal Schedule JMM-6.

¹⁹ Exhibit A-2 at 15.

26 ²⁰ Exhibit S-4, Surrebuttal Schedule JMM-6.

²¹ Exhibit S3 at 9.

27 ²² According to Staff, the formula method is derived from taking 1/24 of purchased power plus 1/8 of other operating and
maintenance expenses.

²³ Exhibit S-3 at 10.

28 ²⁴ Exhibit S-4, Surrebuttal Schedule JMM-3.

²⁵ Exhibit A-2 at 19

1 for a total of \$151,100.²⁶

2 Water Testing Expense

3 31. According to Staff, Appaloosa proposed water testing expenses in the amount of
4 \$9,049, which includes \$4,200 for its water operator, \$993 for water testing, and \$3,856 in
5 undocumented charges.²⁷

6 32. Staff recommends a downward adjustment of \$7,239 to Appaloosa's proposed water
7 testing expense of \$9,049, for a total expense of \$1,810.²⁸ Staff recommends reclassifying \$4,200 for
8 operator fees from Water Operator Expense to Outside Services and removing an additional \$3,039,
9 for a total annual water test expense of \$1,810.²⁹ Staff stated that Appaloosa is required to participate
10 in the Monitoring Assistance Program ("MAP"), which is mandatory for water systems that serve less
11 than 10,000 persons.³⁰ Staff recommends annual water testing expenses of \$480 for Total Coliform;
12 \$360 for Arsenic Lab Fee; \$857 for MAP; and \$113 for the addition of Lead & Copper testing.³¹

13 Miscellaneous Expense

14 33. Appaloosa's amended rate application proposed Miscellaneous Expenses in the
15 amount of \$10,828 for the test year.³²

16 34. Staff recommends a downward adjustment of \$1,044 to Appaloosa's proposed
17 Miscellaneous Expenses.³³ Staff's witness stated that Appaloosa's proposed Miscellaneous Expenses
18 included costs for meals and entertainment in the amount of \$544 and charitable contributions in the
19 amount of \$500.³⁴ Staff's witness stated that the \$1,044 in miscellaneous expenses were related to a
20 diaper drive and meals and entertainment for charitable purposes, but that the expenses were not
21 necessary to the provision of water services and therefore ratepayers should not incur the costs.³⁵
22 Further, Staff stated that according to USOA, charitable contributions should be recorded in

23
24 _____
25 ²⁶ Exhibit S-4, Surrebuttal Schedule JMM-9.

²⁷ Exhibit S-1, Exhibit JWJ at 8.

²⁸ Exhibit S-1, Schedule JMM-10.

²⁹ Id.

³⁰ Exhibit S-1, Engineering Report at 8.

³¹ Id.

³² Exhibit A-2 at 19.

³³ S-3 at 12, Schedule JMM-11.

³⁴ Exhibit S-3 at 12.

³⁵ Tr. at 121.

1 Miscellaneous Nonutility Expenses and should not be included in rates.³⁶

2 35. We agree with Staff that the miscellaneous expenses described above are not
3 appropriately recovered from ratepayers. Staff's recommended adjustments to Miscellaneous
4 Expense are reasonable and will be adopted.

5 Depreciation Expense

6 36. Appaloosa proposed a test year depreciation expense of \$53,318.³⁷

7 37. Staff recommends a downward adjustment of \$18,771 in depreciation expense to
8 \$34,547 for the test year.³⁸

9 38. Staff recommends an upward adjustment of \$21,700 to annual depreciation expense
10 related to Staff's inclusion of total arsenic media costs of \$27,125, depreciated over fifteen months
11 for an annual depreciation expense of \$21,700.³⁹ Staff stated that because the expected useful life for
12 arsenic treatment media is fifteen months and exceeds one year, based on NARUC USOAs, Staff
13 believes that the arsenic media replacement costs should be capitalized instead of expensed.⁴⁰
14 Appaloosa included an annual depreciation expense of \$300 related to computer software equipment
15 purchased during the test year.⁴¹

16 39. Staff states that consistent with generally accepted accounting principles and NARUC
17 USOAs, assets with an expected life exceeding one year should be capitalized instead of expensed.⁴²
18 Therefore, based on a five year expected life for computers and software, Staff concurs with
19 Appaloosa that computer and software costs should be capitalized and that recovery of those costs
20 should be provided through an annual depreciation expense of \$300.⁴³

21 40. Staff stated its adjustments recalculated depreciation expense on a going forward basis by
22 applying Staff's recommended depreciation rates to Staff's recommended plant amounts and offsetting the
23 result by the amortization of contributions in aid of construction in accordance with the USOA.⁴⁴

24 _____
25 ³⁶ Exhibit S-3 at 12.

26 ³⁷ Exhibit A-2 at 20.

27 ³⁸ Exhibit S-4, Surrebuttal Schedule JMM-12.

28 ³⁹ Id.

⁴⁰ Exhibit S-4 at 3.

⁴¹ Exhibit A-2 at 13.

⁴² Exhibit S-4 at 3.

⁴³ Id.

⁴⁴ Exhibit S-1 at 12 and Surrebuttal Schedule JMM-12.

1 41. We find Staff's adjustments to depreciation expense appropriate and the adjustments
2 will be adopted.

3 Salary Expense

4 42. Appaloosa proposed an increase in test year salary expenses from \$43,654 to
5 \$50,769.⁴⁵

6 43. Intervenor, John E. Blann Jr., asserted that Appaloosa's proposed increase in salary
7 expenses amounts results in an increase of 400 percent from the year 2006 to 2010, with no
8 appreciable increase in the Company's customer base.⁴⁶

9 44. In Surrebuttal testimony, Staff stated that salary expenses vary among utilities
10 depending on many variables, which include the operational characteristics of the utility and the
11 degree of its reliance on outside services.⁴⁷ Staff stated it compared Appaloosa's salary expense to
12 other similarly situated utilities and Staff believes Appaloosa's proposed salary expense is not
13 unreasonable.⁴⁸ Staff reported that salary expenses for other similarly situated utilities' include:
14 Livco Water Company, salary expense of \$67,000 (Docket No. W-0212A-11-0213); Cedar Grove
15 Water, Inc., salary expense of \$91,455 (Docket No. W-20541A-11-0199); and Baca Float Water
16 Company, Inc., salary expense of \$94,000 (Docket No. WS-01678A-10-0504).⁴⁹

17 45. We find the Company's proposed and Staff's recommended salary expense of \$50,769
18 reasonable and it will be adopted.

19 Property Tax Expense

20 46. Appaloosa's amended rate application showed property tax expenses in the amount of
21 \$5,724 for the test year.⁵⁰ In rebuttal testimony, Appaloosa proposed an increase of \$374 over test
22 year property tax expenses.⁵¹

23 47. Staff recommends a downward adjustment of \$2,210 to test year property tax expenses
24 of \$5,724 to \$3,514.⁵² Staff stated it calculated the property tax expense using the modified Arizona

25 ⁴⁵ Exhibit A-2 at 19.

26 ⁴⁶ Exhibit I-1 at 2.

27 ⁴⁷ Exhibit S-4 at 4.

28 ⁴⁸ Id.

⁴⁹ Exhibit S-4 at 4, n.2.

⁵⁰ Exhibit A-2 at 19.

⁵¹ Exhibit A-3 at 1.

⁵² Exhibit S-4, Surrebuttal Schedule JMM-9.

1 Department of Revenue (“ADOR”) methodology to calculate property taxes for the test year and
 2 Staff’s recommended revenues, resulting in \$2,702 property tax expense for Appaloosa on a going
 3 forward basis.⁵³ Staff testified that since the modified ADOR method is revenue dependent, the
 4 property tax is different for test year and recommended revenues and that Staff included a factor for
 5 property taxes in the gross revenue conversion factor which will automatically adjust the revenue
 6 requirement for changes in revenue.⁵⁴

7 48. Appaloosa proffered no explanation as to how it derived the Company’s requested
 8 \$374 increase in property tax expense. Therefore, we find that Staff’s use of the modified ADOR
 9 methodology is a fair means of assessing property tax expenses on a go-forward basis, and that the
 10 ADOR methodology is appropriate for Appaloosa in this case.

11 Income Tax Expense

12 49. Appaloosa did not propose any income tax expense in its amended rate application.⁵⁵

13 50. In pre-filed testimony, Staff stated that it applied the statutory state and federal income
 14 tax rates to Staff’s recommended taxable income.⁵⁶ Staff further stated that since it calculated a
 15 negative taxable income for the test year, the test year income tax is negative.⁵⁷ Using the
 16 methodology described above, Staff recommends an income tax expense of \$2,541.⁵⁸

17 51. Because Appaloosa proffered no evidence regarding income tax expenses, we will
 18 adopt Staff’s recommended adjustments to income tax expenses.

19 52. Based on the discussion above, we find that Appaloosa’s Operating Expenses for the
 20 test year are \$151,100.

21 Revenue Requirement

22 53. Appaloosa and Staff agree that the Company’s adjusted test year revenue is \$140,888.

23 54. Staff recommends revenues of \$166,261, an increase of \$25,373 or 18.01 percent over
 24 adjusted test year revenue of \$140,888. In its direct testimony, Staff stated it used a cash flow
 25

26 ⁵³ Exhibit S-3 at 13.

⁵⁴ Id.

27 ⁵⁵ Exhibit A-2 at 19.

⁵⁶ Exhibit S-3 at 14.

28 ⁵⁷ Exhibit S-4, Surrebuttal Schedule JMM-2.

⁵⁸ The income tax expense amount does not include *pro forma* WIFA loans and the surcharge related to the loan.

1 analysis to set revenues because Staff's adjustments resulted in a negative rate base. After Staff's
 2 rate base adjustments in rebuttal testimony, Staff proposed a FVRB that was no longer negative.
 3 Staff recommended revenues result in an operating income of \$9,602 or a 37.5 percent rate of return
 4 on a FVRB of \$25,575. Staff's recommended revenues result in an available cash flow for
 5 contingencies in the amount of \$20,186.⁵⁹

6 55. The Company proposes a revenue increase of \$140,888 or 100 percent, not based on a
 7 rate of return on rate base, operating margin or cash flow analysis, but by simply doubling all of its
 8 existing rates.⁶⁰ Appaloosa's witness testified that Staff's recommended increase in revenues is not
 9 enough to allow the Company to meet its existing obligations.⁶¹

10 56. Appaloosa did not demonstrate that Staff's recommended revenues would be
 11 insufficient for the Company to meet its operating expenses and contingencies.

12 57. Staff's revenue requirement will provide Appaloosa with sufficient cash flow to meet
 13 operating expenses and contingencies.

14 58. Appaloosa's revenue requirement is \$166,261.

15 **Other Issues**

16 Cost Allocation

17 59. In testimony, Staff noted that Appaloosa's owner, Joe Cordovana, owns several
 18 businesses and that all of the businesses are operated out of the same facility (Windmill Farms).⁶²
 19 Appaloosa's amended rate application indicates that Appaloosa's phone/fax line and field phone are
 20 all direct billed to Appaloosa, but Staff noted that no logs are maintained to track the purpose of
 21 phone calls coming in or going out or whether calls are being made to other states or countries.⁶³
 22 Staff also stated that Appaloosa's internet charges are being billed to Mr. Joe Cordovana's son, at an
 23 address for one of Mr. Cordovana's other businesses.⁶⁴

24 60. Staff states it did not recommend the removal of any common costs associated with
 25

26 ⁵⁹ Exhibit S-4, Surrebuttal Schedule JMM-15. The amount of the available cash flow does not include *pro forma* WIFA
 loans and the surcharge related to the loan.

27 ⁶⁰ Exhibit A-2.

⁶¹ Tr. at 59-60.

⁶² Exhibit S-3 at 15.

⁶³ Id.

⁶⁴ Id.

1 Appaloosa and Mr. Cordovana's other businesses in this case. However, Staff recommends that
2 Appaloosa file a cost allocation plan that demonstrates how Mr. Cordovana will fairly allocate
3 common costs among all of his business ventures, including Appaloosa.

4 61. Staff's recommendation is reasonable and will be adopted.

5 Office Location Signage

6 62. Appaloosa's office is located within Windmill Farms, which is owned by Appaloosa's
7 owner. Appaloosa pays rent to Windmill Farms in the amount of \$500 per month. Staff's witness
8 stated that, during his site inspection, he did not see a sign identifying the location of Appaloosa's
9 offices.⁶⁵ The witness stated that he did see signs for other businesses owned by Appaloosa's owner,
10 but not for the water company.⁶⁶

11 63. Staff recommends that Appaloosa, through a billing insert, inform customers of its
12 office address and the Company's hours of operation.

13 64. We find Staff's recommendation reasonable and it will be adopted. Further, we find
14 that Appaloosa should be required, on a going-forward basis, to include on all of its monthly
15 customer bills the Company's address and the Company's hours of operation. In addition, Appaloosa
16 should be required to obtain and place signage outside its office identifying it is the water company's
17 office location.

18 Informational Signage

19 65. Staff stated that during its site inspection of Appaloosa's facilities, Staff noted that a
20 sign listing the Company's identification and contact information was not visible at the Company's
21 Well No. 2 (ADWR ID# 55-0607273).⁶⁷ To comply with ADEQ requirements, Staff recommends
22 that Appaloosa install and/or update the informational sign at Well No. 2, and that the sign include
23 the system name, ADEQ Public Water System ID, ADWR ID number, and emergency contact phone
24 numbers. Staff further recommends that Appaloosa file documentation demonstrating compliance,
25 within 45 days of a Decision in this matter.⁶⁸

26
27 ⁶⁵ Tr. at 101.

⁶⁶ Id.

⁶⁷ Exhibit S-1, Engineering Report at 3.

⁶⁸ Id.

1 66. Staff's recommendations are reasonable and will be adopted.

2 **Rate Design**

3 67. The Company's proposed rates would increase the average residential customer bill
4 with a monthly usage of 8,353 gallons, on a 5/8 x 3/4-inch meter, by \$41.42 or 100 percent, from
5 \$41.42 to \$82.85, and increase the median residential customer bill with a monthly usage of 5,652
6 gallons, by \$34.80 or 100 percent, from \$34.80 to \$69.61.

7 68. Staff's proposed rates would increase the average residential customer bill with a
8 monthly usage of 8,353 gallons, on a 5/8 x 3/4-inch meter, by \$8.45 or 20.39 percent, from \$41.42 to
9 \$49.87, and increase the median residential customer bill with a monthly usage of 5,652 gallons by
10 \$4.67 or 13.40 percent, from \$34.80 to \$39.47.

11 69. Appaloosa currently has an inverted commodity rate structure, with a 3-tier inverted
12 rate design for 5/8 x 3/4-inch meters and a 2-tier inverted rate design for larger meter sizes.

13 70. Staff did not propose any changes to Appaloosa's current rate design.

14 71. We find that Appaloosa's current rate design is appropriate.

15 72. Appaloosa proposed a 100 percent increase in its Service Line and Meter Installation
16 Charges.⁶⁹

17 73. According to Staff, Appaloosa was asked to submit three independent quotes from
18 local contractors regarding Appaloosa's request to double its Service Line and Meter Installation
19 Charges.⁷⁰ Staff stated the Company responded that its request to double its Service Line and Meter
20 Installation Charges should be amended to the current rates.⁷¹ Therefore, Staff recommends no
21 increases in Appaloosa's Service Line and Meter Installation charges.

22 74. Based on the information from the Company and Staff, Appaloosa's Service Line and
23 Meter Installation charges shall remain unchanged in this case.

24 75. Appaloosa proposes a 100 percent increase in Establishment; Establishment (after
25 hours); Reconnection (delinquent); Reconnection (delinquent after hours); Meter Test (if correct);
26 NSF Check; and Meter Re-Read (if correct).

27 ⁶⁹ Exhibit A-2 at 11.

28 ⁷⁰ Exhibit S-1 at 11.

⁷¹ Id.

1 76. Staff recommends Appaloosa implement an after-hours service charge of \$50 to
 2 compensate the utility for additional expenses incurred when providing after-hours services at the
 3 customer's request and/or convenience.⁷² Staff concluded that establishing a separate after-hours
 4 tariff that is applicable for any utility service provided outside of regular business hours at the
 5 customer's request or for the customer's convenience is preferable to having after-hours tariffs for
 6 each specific activity.⁷³ Staff states the after-hours fee would apply in addition to the applicable
 7 regular-hours charge for the specific service if the customer requests that the service be performed
 8 outside of normal working hours.⁷⁴

9 77. Appaloosa did not proffer an explanation for its requested increase for all other
 10 services and Appaloosa did not object to Staff's recommendation to implement an after hours tariff.

11 78. We find Staff's recommendation for the implementation of an after hours tariff is
 12 reasonable and it should be adopted. Appaloosa failed to provide evidence in support of its request
 13 to increase its current Establishment; Establishment (after hours); Reconnection (delinquent);
 14 Reconnection (delinquent after hours); Meter Test (if correct); NSF Check; and Meter Re-Read (if
 15 correct) charges by 100 percent. Therefore, Appaloosa's current charges will remain the same.

16 79. Because an allowance for the property tax expense of Appaloosa is included in
 17 Appaloosa's rates and will be collected from its customers, the Commission seeks assurances from
 18 Appaloosa that any taxes collected from rate payers are remitted to the appropriate taxing authority.
 19 It has come to the Commission's attention that a number of water companies have been unwilling or
 20 unable to fulfill their obligation to pay the taxes that were collected from rate payers, some for as
 21 many as 20 years. It is reasonable, therefore, that as a preventive measure, Appaloosa be required
 22 annually to file, as part of its Annual Report to Staff, an affidavit attesting that Appaloosa is current
 23 in paying its property taxes in Arizona.

24 **Finance Application**

25 80. Appaloosa's finance application requests authority to obtain a WIFA loan in the
 26 amount of \$855,193 to construct a 522,000 gallon water storage tank, install an emergency generator,

27 ⁷² Exhibit S-3 at 17.

28 ⁷³ Id.

⁷⁴ Id.

1 and extend its main line from the existing wells and storage tank site to a new development area.⁷⁵

2 81. In rebuttal testimony, Appaloosa requested approval to obtain financing for new
3 meters and the labor costs related to the installation of the new meters.⁷⁶

4 Plant for New Development

5 82. Appaloosa's finance application states the Company requires financing to extend its
6 main line from Appaloosa's existing wells and storage tank to a new development area north of
7 Appaloosa's service area.⁷⁷

8 83. Staff believes that any plant needed to serve the new development area proposed in
9 Appaloosa's finance application should be financed by the developer through a main extension
10 agreement and that Appaloosa's customers should not be required to fund construction of the plant
11 for the new development proposed by the Company.⁷⁸

12 84. In direct testimony, Intervenor John E. Blann, Jr., objected to the Company's proposal
13 for rate payers to fund facilities for the new development area.⁷⁹

14 85. In rebuttal testimony, Appaloosa stated that it no longer has plans to move forward on
15 the new development area and that the property is currently up for sale.⁸⁰

16 86. Therefore, Appaloosa's request for financing to extend its main line from its existing
17 wells and storage tank sites to a new development area will not be considered in this Decision.

18 New Meters

19 87. Staff conducted a field inspection of Appaloosa's facilities on August 31, 2011, as part
20 of its review of Appaloosa's finance application.

21 88. According to Staff, Appaloosa's existing water system consists of two wells; one
22 storage tank; a booster pump station equipped with two pumps; a pressure tank and fire pump; and a
23 distribution system serving 229 customers as of December 31, 2010.⁸¹

24 89. According to Staff, Appaloosa has an average annual water consumption of 251
25

26 ⁷⁵ Exhibit A-1 at 1.

⁷⁶ Exhibit A-3 at 2.

⁷⁷ Exhibit A-1 at 1.

⁷⁸ Exhibit S-1, Direct of Liu at 12.

⁷⁹ Exhibit I-2 at 2.

⁸⁰ Exhibit A-3, Rebuttal Testimony of Company at 2.

⁸¹ Exhibit S-1 at 1.

1 gallons per day (“GPD”), per connection.⁸² Appaloosa reported that it had 30,316,389 gallons
 2 pumped and 21,680,896 gallons sold during the test year, resulting in a non-account water loss of
 3 28.48 percent.⁸³

4 90. In Decision No. 71236 Appaloosa was ordered, among other things, to file a Water
 5 Loss Prevention Plan (“Plan”), listing ways that it could reduce its non-account water loss.⁸⁴ Staff
 6 reported that Appaloosa filed on September 30, 2011, in compliance with Decision No. 71236, its
 7 Plan, listing 11 ways the Company can minimize its non-account water loss.

8 91. At hearing, Intervenor John E. Blann, asserted that although Appaloosa filed its Plan,
 9 the Company has failed to implement the items listed in the Plan.⁸⁵

10 92. Appaloosa’s witness stated that the Company’s water loss is related to a broken pipe
 11 that caused a leak during construction of a main line extension and that some of the Company’s
 12 meters need to be replaced because they are not correctly recording the amount of water that flows
 13 through them.⁸⁶ In rebuttal testimony, Appaloosa stated the Company’s meters are encased in a
 14 wooden box and are subject to freezing; that many of the meters have sand in them; the meters do not
 15 accurately record water usage; and that these things contribute to the Company’s non-account water
 16 loss.⁸⁷ Appaloosa’s witness further stated that in accordance with the Company’s Plan, meters are
 17 now being read within a one-to-two day period, but that other items listed in the Plan cannot be
 18 implemented due to the Company’s lack of funds.⁸⁸ In rebuttal testimony, the Company requested
 19 approval to obtain financing to replace the problem meters and for labor costs.⁸⁹

20 93. Staff’s witness stated that Appaloosa’s request for approval to finance the replacement
 21 the Company’s meters was first raised in the Company’s rebuttal testimony and therefore the issue
 22 was not considered in Staff’s analysis.⁹⁰

23 94. Appaloosa’s attempt to amend its financing request in rebuttal testimony did not allow
 24

25 ⁸² Exhibit S-1 at 6.

⁸³ Id.

⁸⁴ Decision No. 71236 (August 6, 2009).

⁸⁵ Tr. at 22.

⁸⁶ Tr. at 23.

⁸⁷ Exhibit A-3 at 2.

⁸⁸ Tr. at 25.

⁸⁹ Exhibit A-3 at 2.

⁹⁰ Tr. at 117.

1 Staff and the intervenor sufficient time to analyze the need for financing and therefore we do not have
 2 sufficient evidence upon which to base a decision. If Appaloosa wishes to seek financing for the
 3 replacement of its meters, it may file an application requesting approval.

4 95. Staff states that non-account water loss should be less than ten percent, but under no
 5 circumstances should it be more than ten percent. Due to Appaloosa's reported 28.48 percent non-
 6 account water loss, Staff recommends that Appaloosa file each January and July a report covering the
 7 previous six months that contain all work and/or activities undertaken in accordance with Decision
 8 No. 71236, related to its Plan.⁹¹ Further, Staff recommends that the written report continue until Staff
 9 receives a report that the non-account water loss for the Appaloosa water system is 10 percent or less
 10 for one full year.⁹²

11 96. Because Appaloosa's non-account water loss exceeded 28 percent during the test year,
 12 Staff recommends that the Company implement Best Management Practices ("BMPs") in an effort to
 13 conserve water.⁹³ Staff recommends that Appaloosa file at least five BMPs in the form of tariffs for
 14 the Commission's review and consideration. Staff further recommends that a maximum of two
 15 BMPs come from Public Awareness/Public Relations or Education and Training categories. Staff
 16 states that the Company may request cost recovery of actual costs associated with the BMPs
 17 implemented in its next general rate case.

18 97. We find Staff's recommendations related to non-account water loss and the
 19 implementation of BMP tariffs for Appaloosa reasonable and they will be adopted.

20 Storage Tank

21 98. In rebuttal testimony, Appaloosa revised its request to install a 522,000 storage tank
 22 and now requests funding for a 200,000 gallon storage tank for its water system.⁹⁴ The Company
 23 stated its revised request is based on the Chino Valley Fire Department's ("Fire Department") fire
 24 flow requirement of 1,000 GPM for two hours, with 20 pounds per square inch ("PSI") residual.⁹⁵
 25 According to the Fire Department, Appaloosa needs 120,000 gallons of reserve storage to satisfy fire

26 _____
 27 ⁹¹ Exhibit S-1, Engineering Report at 7.

⁹² Id.

⁹³ Exhibit S-1, Engineering Report at 11.

⁹⁴ Exhibit A-3, at 2.

28 ⁹⁵ Exhibit A-3, attachment Exhibit D.

1 flow requirements and Appaloosa's current 65,000 gallon storage tank is 55,000 under the minimum
2 fire flow requirements.⁹⁶

3 99. Staff states that water consumption data provided by the Company for the test year
4 shows that the demand on peak day is 121,083 gallons; that Appaloosa's water system has two wells
5 producing a total of 300 GPM; and that the total daily source production is 432,000 gallons.⁹⁷ Staff
6 states that based on the Fire Department's fire flow requirement of 120,000 gallons reserve storage,
7 the Company's existing 65,000 gallon storage tank, and two wells producing 36,000 gallons in two
8 hours, by Staff's calculations, Appaloosa only needs an additional 19,000 gallons of storage capacity
9 to meet the Fire Department's fire flow requirements.⁹⁸

10 100. Staff recommends that the Company install a 50,000 gallon storage tank to satisfy fire
11 flow requirements.⁹⁹

12 101. Staff calculated its recommended fire flow requirement as follows:

- 13 • Total Demand (2 hours) = 120,000 gallon (fire flow) + 31,000 gallon peak
14 water demand = 151,000 gallons.
- 15 • Total Capacity (2 hours) = 65,000 gallon (existing storage) + 36,000
16 (production from two wells) + 50,000 gallon (new storage tank) = 151,000.¹⁰⁰

17 102. Staff submitted into evidence a quote from Superior Tank Company ("Superior"),
18 showing the cost for a new 55,000¹⁰¹ gallon bolted steel storage tank is \$56,254, which includes
19 materials, equipment, labor, and insurance to fabricate, coat, deliver, and install the storage tank.¹⁰²
20 Staff estimates other costs related to the storage tank (including site preparation, engineering, and
21 electric, etc) to be \$43,746. Therefore, Staff believes the total approximate cost to purchase and
22 install a new 50,000 gallon storage tank is \$100,000.¹⁰³

23 103. Appaloosa did not provide evidence to rebut Staff's estimated cost for the purchase
24 and installation of a new 50,000 gallon storage tank.

25 ⁹⁶ Exhibit A-3, attachment Exhibit D.

26 ⁹⁷ Exhibit S-2, Surrebuttal Testimony of Liu at 1.

27 ⁹⁸ Exhibit S-2, Surrebuttal Testimony of Liu at 2.

28 ⁹⁹ Id.

¹⁰⁰ Id.

¹⁰¹ Although the quote from Superior was for a 55,000 gallon tank, Staff recommends inclusion of only a 50,000 gallon tank.

¹⁰² Exhibit S-2, Surrebuttal Testimony of Liu at 2.

¹⁰³ Id.

1 Emergency Generators

2 104. Appaloosa initially requested approval to obtain financing in the amount of \$50,000 to
3 purchase two new emergency generators with propane tanks.¹⁰⁴ In its rebuttal testimony, Appaloosa
4 revised its requested amount to \$120,000 to purchase two new emergency generators.¹⁰⁵

5 105. Staff recommends that the Commission approve financing for the installation of two
6 emergency generators with significant capacity to run Appaloosa's high yield well.¹⁰⁶ Staff states that
7 the emergency generators will provide system reliability by ensuring that the wells always are
8 available to meet peak demand even during times when commercial power is lost.¹⁰⁷ Staff
9 recommends that the Commission approve financing in the amount of \$60,000 for two emergency
10 generators with propane tanks.¹⁰⁸ Staff believes that \$30,000 per emergency generator with propane
11 tanks is sufficient funding.¹⁰⁹

12 106. Although Appaloosa estimated the cost for the two emergency generators, Appaloosa
13 provided no quotes from vendors showing actual costs. Appaloosa did not proffer sufficient evidence
14 in support of its proposed costs related to the purchase of two emergency generators with propane
15 tanks.

16 WIFA Loan

17 107. Staff recommends that the Commission authorize Appaloosa to obtain an 18-22-year
18 amortizing WIFA loan, in an amount not to exceed \$160,000, at a rate 3.65 percent per annum, to
19 acquire and install a 50,000 gallon storage tank and two emergency generators with propane tanks.
20 Staff further recommends allowing the Company to recover debt service and incremental taxes
21 thereon through a surcharge.

22 108. In support of its recommendation, Staff performed a cash flow and debt service
23
24

25 _____
¹⁰⁴ Exhibit A-1 at Attachment A.

26 ¹⁰⁵ Exhibit A-3, attachment Exhibit E. Staff also pointed out that Appaloosa's request for approval to obtain financing for
the two emergency generators in rebuttal testimony increased by 100 percent from its original requested cost of \$50,000
in its finance application. Exhibit S-2, Surrebuttal Testimony of Liu at 3.

27 ¹⁰⁶ Exhibit S-2, Surrebuttal Testimony of Liu at 3.

28 ¹⁰⁷ Id.

¹⁰⁸ Id.

¹⁰⁹ Id.

1 coverage (“DSC”)¹¹⁰ analysis to examine the financial effects of Staff’s proposed financing. Staff
 2 states its cash flow analysis reflects the issuance of \$160,000 and shows that Staff’s recommended
 3 revenues would provide a positive, uncommitted cash flow available for contingencies of \$17,924.¹¹¹

4 109. Staff states its pro forma DSC analysis results in a pro forma 2.30 DSC, which Staff
 5 states shows that its recommended revenue requirement is sufficient to provide debt service on a fully
 6 drawn \$160,000, 20-year amortizing loan at 3.675 percent per annum.¹¹² Staff estimates required
 7 annual surcharge revenues of \$11,870.

8 110. Staff recommends that the surcharge include principal, interest on the WIFA loan, and
 9 incremental income and property taxes due to the surcharge revenue. Staff estimates that the WIFA
 10 surcharge for a customer using a 5/8” x 3/4” meter would be \$2.47 per month.¹¹³

11 111. Staff concluded that the issuance of debt financing not to exceed \$160,000 in the form
 12 of an amortizing loan of approximately 20 years for a 50,000 gallon storage tank and two emergency
 13 generators is within the Company’s corporate powers, is compatible with the public interest, will not
 14 impair Appaloosa’s ability to provide services and is consistent with sound financial practices,
 15 provided the rates authorized in this Decision provide a 1.25 or greater DSC. Staff recommends that
 16 the remainder of the Company’s financing request be denied.

17 112. Staff’s recommendation for approval of financing in an amount not to exceed
 18 \$160,000 is reasonable. Appaloosa has demonstrated that in order to comply with the Chino Valley
 19 Fire Department’s fire flow requirement, it is necessary to add additional storage and add emergency
 20 generators. Because this is a public safety issue, we believe that Staff’s recommendation to
 21 implement a WIFA surcharge is reasonable and will be adopted. However, we will require
 22 Appaloosa to file a rate case within three years of the effective date of this Decision.

23 **Compliance Issues**

24 113. Effective January 2006, the U.S. Environmental Protection Agency (“EPA”) reduced
 25

26 ¹¹⁰ DSC represents the number of times internally generated cash (i.e., earnings before interest, income tax, depreciation
 27 and amortization expenses) covers required principal and interest payments on short-term and long-term debt. A DSC
 greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

¹¹¹ Exhibit S-4, Surrebuttal Schedule JMM-15.

¹¹² Exhibit S-4, Surrebuttal Schedule JMM-16.

¹¹³ Exhibit S-4, Surrebuttal Schedule JMM-17.

1 the arsenic maximum contaminant level (“MCL”) in drinking water from 50 parts per billion (“ppb”)
2 to 10 ppb.

3 114. In Decision No. 71236 (August 6, 2010) the Commission approved the
4 implementation of an arsenic cost recovery mechanism (“ACRM”) to permit recovery of the capital
5 and operating costs related to construction of Appaloosa’s arsenic treatment facility.¹¹⁴ The
6 Commission also approved authority for Appaloosa to obtain a 20-year amortizing loan through
7 WIFA in an amount not to exceed \$200,000.¹¹⁵ The Decision ordered Appaloosa, among other
8 things, to deposit all ACRM surcharge revenues into a separate interest-bearing account and that
9 funds were only to be expended from said account for debt service on the WIFA loan.¹¹⁶
10 Subsequently, in Decision No. 71692 (May 3, 2010) the Commission approved an arsenic surcharge
11 to cover debt service on the WIFA loan Appaloosa obtained to pay for costs related to its arsenic
12 treatment facility.

13 115. In the current proceeding, Staff noted that Appaloosa failed to comply with Decision
14 No. 71236 because it did not place the arsenic surcharge revenues into a separate interest bearing
15 account.¹¹⁷ Staff states that in this proceeding it is recommending elimination of the arsenic
16 surcharge (approved in Decision No. 71692) because Staff recommends that arsenic costs be rolled
17 into base rates and therefore a separate account is no longer needed.¹¹⁸ Further, Staff noted that the
18 benefits of having a separate account for arsenic surcharge revenues have been lost because the
19 amounts collected and the interest earned cannot be compared with the loan payments and the desired
20 security that can be obtained by setting dedicated funds aside for their intended purpose have been
21 overridden.¹¹⁹

22 116. Appaloosa’s witness testified that the separate interest bearing account was established
23 for the arsenic surcharge revenues in compliance with Decision No. 71236, but that there was not
24 enough money collected to put in the account.¹²⁰ Further, the Company’s witness stated that
25

26 ¹¹⁴ Decision No. 71236 at 6.

¹¹⁵ Decision No. 71236 at 20.

¹¹⁶ Id.

¹¹⁷ Exhibit S-3 at 4.

¹¹⁸ Id.

¹¹⁹ Id.

¹²⁰ Tr. at 68.

1 compliance with Staff's recommendation to have all surcharge funds collected in this case placed into
2 a separate interest bearing account will be adhered to.¹²¹

3 117. Staff testified that it understood that Appaloosa's owner believed he did not have any
4 arsenic surcharge monies to put into the separate interest bearing account.¹²² Further, Staff stated that
5 Appaloosa has hired an accountant and that the accountant was very helpful to Staff in reconciling
6 invoices related to the arsenic treatment plant; the monies that were drawn down on the WIFA loan;
7 and that advances had been repaid to customers.¹²³

8 118. However, Staff recommends that the Company be placed on notice that further
9 violation of Commission orders may result in fines and/or sanctions.¹²⁴

10 119. On June 30, 2011, ADEQ issued a Notice of Violation ("NOV") which stated that
11 Appaloosa's water system exceeded the MCL for arsenic for four quarters, resulting in an average of
12 12.95 ppb.¹²⁵

13 120. Appaloosa's witness stated that the Company believes the arsenic MCL was high
14 because the Company's arsenic media needed to be changed.¹²⁶ According to Appaloosa's witness,
15 the arsenic media for the new arsenic plant was used up faster than expected and that Appaloosa's
16 owner had to borrow funds to replace the arsenic media.¹²⁷ The witness stated that once the media
17 was changed, ADEQ inspected the arsenic levels and the MCL was fine.¹²⁸

18 121. Staff's witness stated that Appaloosa's water loss may be a major reason that the
19 Company's arsenic media was used up so quickly.¹²⁹ The witness stated he contacted the
20 manufacturer for the arsenic treatment plant and was told that the arsenic treatment system is
21 designed so that the arsenic media has an expected life of 17 months and Appaloosa exhausted its
22 media in less than 12 months.¹³⁰ According to the witness, given the fact that Appaloosa reported
23 that 21 million gallons of water were pumped for the test year and 8 million gallons of treated water

24 _____
121 Tr. at 85.

122 Tr. at 120.

123 Id.

124 Exhibit S-3 at 4.

125 Exhibit S-1, Direct Testimony of Liu at 7.

126 Tr. at 83.

127 Tr. at 76, 83.

128 Tr. at 76.

129 Tr. at 100.

130 Id.

1 was lost, it is possible that much more water went through the media and therefore it was exhausted
2 quicker.¹³¹

3 122. Staff recommends that any increase in rates and charges approved for Appaloosa in
4 this case become effective when the Company provides notice that its water system is in total
5 compliance with ADEQ regulations.

6 123. Staff's recommendation is reasonable and it will be adopted.

7 124. In Decision No. 71326, Appaloosa was required to obtain board approval for a loan to
8 Appaloosa's owner in the amount of \$141,187; to substantiate the loan with a written note; and to
9 establish a repayment schedule. Appaloosa filed, in compliance with the Decision, documentation
10 showing that Appaloosa's board had approved the loan on September 1, 2009; that Appaloosa's
11 owner was to make payments of \$300 per year beginning on January 1, 2010; and that Appaloosa's
12 owner was to make future payments each January 1 thereafter for 30 years, with the \$132,186
13 balance due at the end of the 30 year term.

14 125. Intervenor John E. Blann asserted in direct testimony that Appaloosa's owner has
15 failed to make the payments on the loan and therefore is not in compliance with Decision No.
16 71326.¹³² Further, Mr. Blann asserted that if Appaloosa's owner had not taken out the loan, the
17 money could have been used for capital improvements.¹³³

18 126. Staff stated that Appaloosa should take the appropriate action to collect the delinquent
19 payments from Appaloosa's owner to preserve the Company's assets.¹³⁴ However, Staff notes that the
20 collection of the loan repayments would not necessarily result in additional funds available for utility
21 operations, because with board approval the Company could distribute the amount of the loan
22 repayments as dividends to shareholders, which could include Appaloosa's owner.¹³⁵

23 127. Staff stated that a review of Appaloosa's ledger in this case, showed a loan for \$648
24 made to Artesian Holdings, LLC, of which Appaloosa's owner is a member/manager.¹³⁶ Staff stated
25

26 ¹³¹ Tr. at 100.

27 ¹³² Exhibit I-2 at 2.

28 ¹³³ Id.

¹³⁴ Exhibit S-4 at 6.

¹³⁵ Id.

¹³⁶ Id.

1 that issuing loans reduces the internally-generated cash available for operating expenses, capital
 2 improvements and debt services.¹³⁷ Further, Staff agrees that with Mr. Blann that if Appaloosa's
 3 owner had not withdrawn money from the Company, those amounts would be available for capital
 4 improvements.¹³⁸

5 128. Staff recommends that the Commission require Appaloosa to obtain prior Commission
 6 approval before making cash advances or loans to any parties.

7 129. Staff's recommendation is reasonable and should be adopted.

8 130. Appaloosa's water system is located with the Prescott Active Management Area
 9 ("AMA"). According to Staff, Appaloosa is in compliance with Prescott AMA reporting
 10 requirements and ADWR's requirements governing water providers and/or community water
 11 systems.

12 131. As of September 30, 2011, Appaloosa had no delinquent Commission compliance
 13 issues.

14 132. Appaloosa has an approved curtailment tariff on file with the Commission.

15 133. Appaloosa has an approved backflow prevention tariff on file with the Commission.

16 **CONCLUSIONS OF LAW**

17 1. Appaloosa is a public service corporation within the meaning of Article XV of the
 18 Arizona Constitution and A.R.S. §§40-250 and 40-252.

19 2. The Commission has jurisdiction over Appaloosa and the subject matter of the
 20 applications.

21 3. Notice of the applications was provided in the manner prescribed by law.

22 4. The rates and charges established herein are just and reasonable and in the public
 23 interest.

24 5. The financing approved herein is for lawful purposes, is compatible with the public
 25 inters, with sound financial practices, and with proper performance by Appaloosa as a public service
 26 corporation, and will not impair Appaloosa' ability to perform that service.

27 _____
 28 ¹³⁷ Id.

¹³⁸ Id.

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

7. Staff recommendations are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Appaloosa Water Company shall file by August 1, 2012, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGES:

5/8" x 3/4" Meter	\$ 25.00
3/4" Meter	25.00
1" Meter	41.67
1-1/2" Meter	83.33
2" Meter	133.33
3" Meter	266.67
4" Meter	416.67
6" Meter	833.33

COMMODITY RATES (Per 1,000 Gallons)

5/8" x 3/4" Meter and 3/4" Meter (Residential, Industrial & Commercial)	
1 - 3,000 gallons	1.95
3,001 - 7,000 gallons	3.25
Over 7,000	4.45
1" Meter (Residential, Industrial & Commercial)	
First 7,000 gallons	3.25
Over 7,000 gallons	4.45
1-1/2" Meter (Residential, Industrial & Commercial)	
First 15,000 gallons	3.25
Over 15,000 gallons	4.45
2" Meter (Residential, Industrial & Commercial)	
First 24,000 gallons	3.25
Over 24,000 gallons	4.45
3" Meter (Residential, Industrial & Commercial)	
First 48,000 gallons	3.25
Over 48,000 gallons	4.45
4" Meter (Residential, Industrial & Commercial)	
First 75,000 gallons	3.25
Over 75,000 gallons	4.45

1	6" Meter	
	(Residential, Industrial & Commercial)	
2	First 150,000 gallons	3.25
	Over 150,000 gallons	4.45

3
4 Service Line and Meter Installation Charges:
(Refundable Pursuant to A.A.C. R14-2-405)

5	<u>Meter Size</u>	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
6	5/8" x 3/4" Meter	\$ 445	\$ 155	\$ 600
	3/4" Meter	445	255	700
7	1" Meter	495	315	810
	1-1/2" Meter	550	525	1,075
8	2" Turbine Meter	830	1,045	1,875
	2" Combine Meter	830	1,890	2,720
9	3" Turbine Meter	1,045	1,670	2,715
	3" Combine Meter	1,165	2,545	3,710
10	4" Turbine Meter	1,490	2,670	4,160
	4" Combine Meter	1,570	3,645	5,315
11	6" Turbine Meter	2,210	5,025	7,235
	6" Combine Meter	2,330	6,920	9,250

12 SERVICE CHARGES:

13	Establishment	\$ 25.00
	Reconnection (Delinquent)	30.00
14	Meter Test (If Correct)	15.00
	Deposit	*
15	Deposit Interest	*
	Re-establishment (Within 12 Months)	**
16	NSF Check	20.00
	Deferred Payment (Per Month)	1.5%
17	Meter Re-read (If Correct)	\$ 15.00
	Late Payment Penalty	1.5%
18	After Hours Service Charge	50.00
	Monthly Service Charge for Fire Sprinkler	***

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

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

21 **** 2.0 percent of Monthly Minimum for a comparable sized meter connection, but no less than \$10 per
22 month. The service charge for fire sprinklers is only applicable for service lines separate and distinct
from the primary water service line.

23 IT IS FURTHER ORDERED that the above rates and charges approved herein shall become
24 effective for all services on the first day of the month after Appaloosa Water Company files with
25 Docket Control, as a compliance item in this docket, documentation that the Company's water system
26 is in total compliance with Arizona Department of Water Quality regulations.

27 IT IS FURTHER ORDERED that Appaloosa Water Company shall notify its customers of
28 the revised tariffs, rates, and charges authorized herein, and their effective date, in a form acceptable

1 to the Commission's Utilities Division Staff, by means of an insert in its regularly scheduled billing.

2 IT IS FURTHER ORDERED that upon the effective date of the rates established herein, the
3 Arsenic Cost Recovery Mechanism surcharge approved in Decision No. 71692 (May 3, 2010) shall
4 immediately terminate and Appaloosa Water Company shall cease to collect the surcharge upon that
5 date.

6 IT IS FURTHER ORDERED that in addition to the collection of its regular rates and charges
7 Appaloosa Water Company shall collect from its customers a proportionate share of any privilege,
8 sales, or use tax per Commission Rule A.A.C. R14-2-409.D.

9 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, with Docket Control,
10 as a compliance item in this Docket, within 90 days of the effective date of this Decision, a cost
11 allocation plan demonstrating how its owner will fairly allocate common costs among all of his
12 various business ventures.

13 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, with Docket Control,
14 as a compliance item in this Docket, a report each January and July covering the previous six months
15 that contains all activities regarding its Water Loss Prevention Plan, until such time as Appaloosa
16 Water Company has a water loss of 10 percent or less, for a period of 12 consecutive months.

17 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, with Docket Control,
18 as a compliance item in this Docket, no later than 45 days as of the effective date of this Decision,
19 documentation demonstrating it has met Arizona Department of Environmental Quality requirements
20 that the Company install and/or update the information sign at the Company's Well No. 2, to include
21 the water system name, Public Water System ID, well number, and emergency contact phone
22 numbers.

23 IT IS FURTHER ORDERED that Appaloosa Water Company shall on a going forward basis
24 clearly display, on its regularly scheduled monthly billing to customers, the Company's office
25 address and hours of operation.

26 IT IS FURTHER ORDERED that Appaloosa Water Company shall file with Docket Control, as
27 a compliance item in this docket, within 60 days of the effective date of this Decision, documentation
28 demonstrating that it has placed outside signage identifying the Company's office location.

1 IT IS FURTHER ORDERED that Appaloosa Water Company shall on a going forward basis,
2 use the depreciation rates delineated in Table B of the Engineering Report filed in this case.

3 IT IS FURTHER ORDERED that Appaloosa Water Company shall on a going forward basis,
4 maintain all invoices for both operating expenses and capital improvements.

5 IT IS FURTHER ORDERED that Appaloosa Water Company is hereby authorized to obtain a
6 20 year amortizing loan through the Water Infrastructure Finance Authority of Arizona for an amount
7 not to exceed \$160,000, to finance the cost of a new 50,000 gallon storage tank and two emergency
8 generators, as set forth herein.

9 IT IS FURTHER ORDERED that the financing authority granted herein is expressly
10 contingent on Appaloosa Water Company's use of the proceeds to finance a new 50,000 gallon
11 storage tank and two emergency generators, as set forth herein.

12 IT IS FURTHER ORDERED that Appaloosa Water Company is authorized to engage in any
13 transactions and execute any documents necessary to effectuate the financing authorizations granted
14 herein.

15 IT IS FURTHER ORDERED that approval of the financing set forth herein does not
16 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
17 proceeds derived thereby for purposes of establishing just and reasonable rates.

18 IT IS FURTHER ORDERED that Appaloosa Water Company is authorized, pursuant to
19 A.R.S. § 40-285 and A.A.C. R18-15-104, to pledge its assets in the State of Arizona in connection
20 with the Water Infrastructure Finance Authority loan.

21 IT IS FURTHER ORDERED that authorization approved herein for Appaloosa Water
22 Company to incur debt, shall terminate twenty-four months from the effective date of this Decision.

23 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, with Docket Control,
24 as a compliance item in this docket, within 60 days of obtaining the financing described herein,
25 copies of all executed documents setting forth the terms of the financing.

26 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, with Docket Control,
27 as a compliance item in this docket, within 12 months from the effective date of this Decision,
28 documentation demonstrating that the emergency generators has been placed into service.

1 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, with Docket Control
2 as a compliance item in this docket, within 12 months from the effective date of this Decision,
3 documentation demonstrating that a 50,000 gallon storage has been placed into service.

4 IT IS FURTHER ORDERED that Appaloosa Water Company is hereby authorized to
5 implement a surcharge, as set forth below.

6 IT IS FURTHER ORDERED that upon approval by the Water Infrastructure Financing
7 Authority for long-term financing as described herein and Appaloosa's filing of the appropriate
8 Water Infrastructure Financing Authority loan documentation, Staff shall calculate the actual
9 surcharge and file a Recommended Order with Commission including the appropriate surcharge
10 amount to be collected from Appaloosa's customers, within 60 days of Appaloosa's filing.

11 IT IS FURTHER ORDERED that Appaloosa Water Company shall deposit all surcharge
12 revenues into a separate interest-bearing account and the funds expended from said account shall only
13 be expended for debt service on the Water Infrastructure Financing Authority loan.

14 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, with Docket Control,
15 as a compliance item in this docket, a report on January 30th for each year as long as it has a Water
16 Infrastructure Finance Authority loan, showing the monthly bank statements for the interest bearing
17 account and the monthly Water Infrastructure Finance Authority loan billing statements, along with
18 the cancelled checks or electronic fund transfers from the Company showing that the monthly Water
19 Infrastructure Finance Authority loan payments from the previous twelve (12) months have been
20 paid.

21 IT IS FURTHER ORDERED that Appaloosa Water Company shall obtain prior Commission
22 approval before making cash advances or loans to any parties.

23 IT IS FURTHER ORDERED that Appaloosa Water Company is hereby on notice that the failure
24 to comply with this Decision including the failure to place all surcharge revenues into a separate interest
25 bearing account may result in the Commission imposing sanctions or fines on Appaloosa Water Company.

26 IT IS FURTHER ORDERED that Appaloosa Water Company shall file a general rate case
27 within three years of the effective date of this Decision.

28 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, with Docket Control,

1 as a compliance item in this docket, within 90 days of the effective date of this Decision, for the
2 Commission's review and approval, at least five Best Management Practices in the form of tariffs
3 that substantially conform to the templates located on the Commission's website. Appaloosa Water
4 Company's Best Management Practice tariffs shall consist of no more than two from the Public
5 Awareness/Public Relations or Education and Training categories.

6 IT IS FURTHER ORDERED that Appaloosa Water Company may, in its next general rate
7 application, request cost recovery of the actual cost associated with the implementation of its Best
8 Management Practices.

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IT IS FURTHER ORDERED that Appaloosa Water Company shall annually file, as part of its Annual Report to the Commission, an affidavit attesting that the company 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	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 _____ day of _____ 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: APPALOOSA WATER COMPANY
2 DOCKET NOS.: W-03443A-10-0143 and W-03443A-11-0040

3
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