

ORIGINAL



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MEMORANDUM

TO: Docket Control  
FROM: Steven M. Olea  
Director  
Utilities Division

*EA for SMD*

DATE: October 11, 2012

RE: **SUPPLEMENTAL STAFF REPORT IN RESPONSE TO EDEN WATER COMPANY, INC.'S FILING REGARDING ITS APPLICATION FOR A RATE INCREASE (DOCKET NO. W-02068A-11-0471)**

On September 28, 2012, the Administrative Law Judge issued a Procedural Order granting Eden Water Company ("Eden") an extension to respond to the Staff Report, and directing Eden to file any comments to the Staff Report and its responses to questions set forth therein by October 11, 2012. The Order further directed Staff to respond to questions set forth therein by October 11, 2012. Pursuant to that Order, Staff hereby submits the attached Supplemental Staff Report in response to Eden's filing regarding its application for a rate increase. Staff continues to recommend approval of the rate application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Supplemental Staff Report with the Commission's Docket Control by 4:00 p.m. on or before October 22, 2012.

SMO:JAC:red/BH

Originator: John A. Cassidy

Arizona Corporation Commission  
**DOCKETED**

OCT 11 2012

DOCKETED BY *JM*

RECEIVED  
2012 OCT 11 P 4: 20  
AZ CORP COMMISSION  
DOCKET CONTROL

Service List for: Eden Water Company  
Docket No. W-02068A-11-0471

Mr. Jay D. Colvin  
Ms. Sebrina Davis  
Eden Water Company  
9488 N. Hot Springs Road  
Eden, Arizona 85535

**SUPPLEMENTAL STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**EDEN WATER COMPANY, INC.**

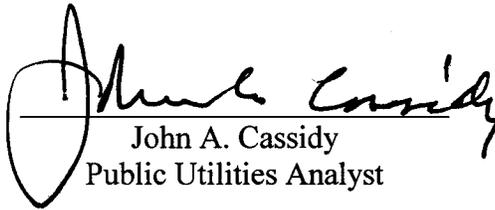
**DOCKET NO. W-02068A-11-0471**

**APPLICATION FOR A  
PERMANENT RATE INCREASE**

**OCTOBER 11, 2012**

## STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for Eden Water Company, Docket No. W-02068A-11-0471 is the responsibility of the Staff members listed below. John A. Cassidy is responsible for the review and analysis of the Cooperative's application. Dorothy Hains is responsible for the engineering and technical analysis.



John A. Cassidy  
Public Utilities Analyst



Dorothy Hains  
Utilities Engineer

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Engineering Staff Memo .....	Attachment A
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## INTRODUCTION

Eden Water Company (“Eden” or “Cooperative” or “Company”) is a non-profit, member-owned corporation and a Class D public service corporation providing potable water to approximately 127 customers in Graham County, Arizona near the City of Safford.

On December 27, 2011, Eden filed an application for a permanent rate increase. On September 10, 2012, Staff filed a report recommending approval of the rate application using Staff’s recommended rates and charges.

## PROCEDURAL ORDER

On September 27, 2012, the Administrative Law Judge issued a Procedural Order directing the Company to file a response, by October 11, 2012, to the following:

1. The Staff Report references that in the test year ended December 31, 2010, the water loss on the system was 28 percent, and that in 2011, the annual report indicates that water loss was 43 percent. Does the Cooperative know, or have a theory why the water loss was so high? Please review Staff’s recommendations concerning correcting the water loss situation, and if the Cooperative is able, indicate what measures will be needed to bring the water loss to no more than 10 percent by December 31, 2013.
2. Staff recommends rates that would decrease the typical residential bill for a 5/8 x 3/4 inch meter with a median usage of 5,234 gallons by \$3.73, or 10.88 percent, from \$34.27 to \$30.54 (including the emergency surcharge)<sup>1</sup> and would increase the typical bill for a 2 inch meter customer with a median usage of 3,000 gallons by \$105.70, or 216.56 percent, from \$48.90 to \$154.80 (including the emergency surcharge).<sup>2</sup> The Staff Report also indicates that there are only two 2 inch meter customers. What type of customers are the 2 inch meter customers (i.e. are they residential or commercial)? If they are commercial customers, what type of businesses are they? Explain the circumstances such that the median usage of these customers is only 3,000 gallons?

Additionally, the Procedural Order directed Staff to file a response, by October 11, 2012, to the following:

1. Does Staff believe that the revised notice that the Cooperative states was sent to its customers on or about August 7, 2012, to be sufficient? Did Staff review the revised notice before it was sent?

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<sup>1</sup> If the emergency surcharge is not included, the median 5/8 x 3/4 inch meter bill would increase by \$0.66, or 2.71 percent.

<sup>2</sup> Considering only base rates, Staff’s rates would increase the median 2 inch meter bill by \$111.70, or 259.16 percent, from \$43.10 to \$154.80.

2. Please provide additional comment about Staff's recommended rate design, and in particular the disparate affect on the 2 inch meter customers. Did Staff consider the principle of gradualism in its recommendation? Does Staff have any comments about how it came to its recommendations for rates and why it's recommended rates are fair and reasonable and in the public interest?
3. If Staff has background on the cause of the water loss problem, please provide additional information.<sup>3</sup>
4. Please explain the reasoning behind Staff's adjustment to purchased water expense? Does Staff's adjustment assume that the Cooperative will be able to reduce water loss to no more than 10 percent by December 31, 2013? Did Staff consider the reasons for the extraordinarily high water loss and/or Eden's status as a cooperative, in making its recommended adjustment? Why or why not?

## **STAFF ANALYSIS, CONCLUSIONS AND RECOMMENDATIONS**

Staff's response is as follows:

### *Customer Notice*

Staff assisted Eden in the preparation of its revised customer notice to ensure that it was in a form acceptable to Staff. Staff forwarded a copy of the pre-approved revised notice, via e-mail, to Eden on September 5, 2012, directing the Cooperative to make public notice to each metered customer as quickly as possible to allow for customer comment. On September 21, 2012, Eden filed with Docket Control a copy of the notice sent to customers, along with a notarized Affidavit affirming that customer notice had been made on August 7, 2012. Upon review of the Cooperative's filing, Staff determined that while the notice included in the filing was the same pre-approved notice sent to Eden on September 5, 2012, the August 7, 2012, date attested to in the Affidavit preceded that date by almost one month.<sup>4</sup> On September 27, 2012, Staff notified Eden of this discrepancy. In response, Ms. Sebrina Davis acknowledged that the August 7, 2012, date appearing on the Affidavit was erroneous, and that customer notice had, in fact, been made on September 7, 2012. She further indicated that Eden would amend the filing with a corrected Affidavit to affirm the public notice date to be September 7, 2012.

On October 10, 2012, the Company filed its comments to the Staff Report. A review of that filing shows that the final page contains a "Correction of Affidavit of Eden Water Company" rather than an actual notarized affidavit. The Correction of Affidavit is dated October 8, 2012, signed by Mr. Jay D. Colvin, President of Eden Water, and in it he certifies that public notice was made on September 7, 2012.

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<sup>3</sup> If Staff does not have additional information that is not already contained in the Staff Report, a short sentence to that effect is sufficient.

<sup>4</sup> The Affidavit was signed, and notarized, on September 7, 2012.

### *Rate Design*

In designing rates, Staff takes into consideration various elements such as revenue stability, conservation, cost structure/causation, fairness, uniformity, simplicity, customer alternatives and others. Gradualism is one of the components of the rate design process used by Staff in this case. Staff's recommended monthly minimum charge for 2-inch meter customers is based upon the American Water Works Association multiplier demand capacity provided by a 2-inch meter relative to that of a 5/8 x 3/4-inch meter. Use of these multipliers to establish monthly minimum charges for the various meter sizes provides a sense of fairness and equity among customers with different meter sizes and among customers of low and high usage by charging low use customers for the fixed costs placed on the system to the demand a meter places on the system regardless of the level of usage.

During the test year Eden had 125 residential customers and 2 commercial customers. All residential customers were served by a 5/8 x 3/4-inch meter, while commercial customers were served by a 2-inch meter. One commercial customer, Gladtime Dairy, obtains water from a well on its property and maintains a 2-inch meter account with Eden only as a back-up to its primary source of water. During the test year, Gladtime had total usage of only 13,000 gallons. In contrast, Eden's other 2-inch meter customer, GlenBar Gin, Inc., had average monthly usage of 101,000 gallons during the test year, with monthly consumption ranging from a low of 4,000 gallons to a high of 543,000 gallons.<sup>5</sup> Staff recommended increases for 2-inch customers are not likely to place an undue burden on commercial customers. Staff considers its rate design to be appropriate and in the public interest to properly distribute the cost among meter sizes.

### *Water Loss*

The Company's application refers to several reasons for its water loss experience, and Staff has no additional information to explain the high level of water loss.

### *Purchased Water Expense*

Staff's adjustment to purchased water expense was made to provide an incentive for Eden to address the issue of water loss by providing for only a 10 percent loss allowance in rates. A cash flow analysis shows that Staff's recommended revenues provide the Cooperative with sufficient cash to make payment on its water purchases even if water loss remains at the year test level. Eden purchases all potable water sold to its metered customers, yet has experienced water losses in excess of 10 percent in each of the last three years.<sup>6</sup> Accordingly, Staff does not

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<sup>5</sup> The median usage of 3,000 gallons per month for 2-inch meter customers is explained by the lack of consumption by Gladtime Dairy on the one hand, and the highly divergent consumption behavior of GlenBar Gin on the other. In the first 10 months of the test year (January-October), GlenBar Gin consumption averaged 18,800 gallons per month, but in the final 2 months (November-December) consumption averaged 510,000 gallons per month.

<sup>6</sup> Eden experienced water losses of 28 percent in the 2010 test year, 43 percent in 2011, and 33 percent through the first seven months (January-July) of 2012.

consider recovery of purchased water expenses in excess of a 10 percent loss allowance to be appropriate.

Staff has not assumed that Eden will achieve the goal of reducing water loss to less than 10 percent by December 31, 2013. Reduction of water loss to an acceptable level of 10 percent or less will, in all probability, not be achieved in such a short time, and may ultimately require additional capital expenditures to address the issue.

**MEMORANDUM**

DATE: October 9, 2012

TO: Bridget Humphrey, Staff Attorney  
Legal Division

FROM: Dorothy Hains, P. E.,  
Utility Engineering

RE: Application of Eden Water Company, Inc. for a Rate Increase - Supplemental  
Report  
(Docket Nos. W- 02068A-11-0471)

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**Background**

On September 27, 2012, the Administrative Law Judge (“ALJ”) issued a Procedural Order in which Staff was asked to provide any additional information (not already contained in the Staff Report) regarding the cause of the water loss issue.

**Staff Response**

Staff does not have any new information on the cause of the water loss issue that isn’t already contained in its Staff Report and/or the docketed records in this case and related matters. On July 26, 2012, the Company docketed a Compliance Notice in Docket No. W-02068A-10-0376. In its filing the Company addressed several compliance items including water loss. In its filing the Company blames substandard pipeline and service connection installation, illegal water taps and broken pipes caused by heavy truck traffic as reasons for the high system water loss.