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BEFORE THE ARIZONA CORPORATION

DOCKETED

AUG 07 1998

JIM IRVIN
COMMISSIONER - CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
CARL J. KUNASEK
CHAIRMAN

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION OF)
VERDE LAKES WATER CORPORATION)
FOR A PERMANENT RATE INCREASE.)

DOCKET NO. W-02372A-98-0152

DECISION NO. 61067

ORDER

Open Meeting
August 4 & 5, 1998
Phoenix Arizona

BY THE COMMISSION:

Verde Lakes Water Corporation ("Verde Lakes" or "Applicant" or "Company") is a non-profit Arizona corporation providing water utility service to the public in a portion of Yavapai County. On February 20, 1998, Verde Lakes submitted its application to the Arizona Corporation Commission ("Commission") requesting authority to increase its rates and charges. On March 24, 1998 the Commission's Utility Division Staff ("Staff") found that Verde Lakes' application had met the sufficiency requirements and the application was docketed on that date.

On June 22, 1998, Staff filed its Staff Report, recommending that an alternative rate schedule be approved without a hearing.

DISCUSSION

Applicant is an Arizona non-profit corporation providing water utility service to approximately 668 customers in an area approximately six miles east of Camp Verde on Highway 260, Yavapai County, Arizona. Applicant received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 51291 (August 20, 1980), and is currently charging rates approved by the Commission in Decision No. 58311 (June 9, 1993). The Arizona Department of Environmental Quality ("ADEQ") reports that Applicant is in compliance with ADEQ drinking water rules and is serving water which meets the Safe

1 Drinking Water Act ("SDWA") quality standards. Applicant is not located within any Active
2 Management Area designated by the Arizona Department of Water Resources and is therefore not subject
3 to groundwater conservation and monitoring requirements. Applicant is in good standing with the
4 Commission's Corporations Division

5 Verde Lakes has two separate water systems. The North system currently serves approximately
6 284 customers, and the South system serves approximately 384. The North system is comprised of two
7 sites. The Dinky Creek well site operates to serve the North system with two wells, two 49,000 gallon
8 storage tanks, one 5,000 gallon pressure tank, one chlorinator and two 7.5 HP booster pumps. The Maple
9 Drive site also serves the North system, with one 10,000 gallon storage tank, one 5,000 gallon pressure
10 tank and two 7.5 HP booster pumps. The South system is served by the Big Valley well site, on which
11 are located two wells, one 125,000 gallon storage tank, one 5,000 gallon pressure tank, one chlorinator
12 and three 7.5 HP booster pumps. The Company is also in the process of installing a new well known as
13 the Stillwater well on the South system. The Stillwater well is not yet operational.

14 Water Loss

15 Verde Lakes has historically experienced water system line losses. Staff Engineering reports that
16 in the Test Year ending December 31, 1997 ("TY"), the Company's North System sustained a 17.1
17 percent loss and its South system sustained a 33.3 percent loss, for a combined line loss for both systems
18 of 27.6 percent during the TY. This water loss exceeds the 10 percent level that Staff Engineering
19 considers acceptable. Decision No. 58311 ordered Verde Lakes to reduce its total line loss to 15 percent
20 or less by its next rate filing. The Company has attempted to comply with that order, but has been
21 unsuccessful, line losses in the current TY exceed those of the 1992 test year for the Company's last rate
22 case. According to the Company, much of the loss is due to improper adhesive welds in the original
23 distribution system construction, and the problem is compounded by the need to boost distribution
24 pressure to serve increased demand. The Company should continue to make water loss reduction a
25 priority. Staff has recommended that the Company submit to the Commission's Utilities Division
26 monthly water inventory reports for both systems. We agree with this recommendation and direct the
27 Company to utilize those reports in choosing the most appropriate and effective actions to take to
28 ameliorate its water loss problem.

1 Rate Base

2 The Company proposed an original cost rate base (OCRB) of \$276,809. Staff made
3 adjustments to the Company's plant in service balance including reclassification of unused land to land
4 reserved for future use, reclassification of unused plant to inventory, and removal from rate base of
5 expenses associated with the uncompleted Stillwater well, which is not used and useful at this time. Staff
6 also adjusted the Company's accumulated depreciation account to accord with the plant adjustments,
7 reclassified an erroneously recorded advance as a contribution, and increased working capital as a result
8 of Staff adjustments to operating expenses. Staff's adjustments result in an OCRB of \$224,770.

9 Operating Revenues and Expenses

10 Staff's adjustments to expenses included an increase to annual water testing expense to comport
11 with Staff Engineering's estimates of future required water testing costs, an adjustment to water sales to
12 reflect going from a cash to an accrual basis, and the normalization of recording repairs and maintenance
13 expense and transportation expense. Staff increased insurance expense to reflect actual rates and
14 reclassified municipal tax expense erroneously recorded as other expense. Staff also increased
15 depreciation to correspond with Staff's adjustments to plant in service. The Company's proposed rates
16 would produce revenues of \$186,400, which would result in an operating income of \$31,348, for a 13.95
17 percent rate of return on adjusted OCRB. Staff's recommended rates would produce adjusted operating
18 revenues of \$183,589 and adjusted operating expenses of \$153,295 for an operating income of \$30,294
19 and a 13.48 percent rate of return on adjusted OCRB. According to the Staff Report, Staff's
20 recommended rates would produce adequate cash flow to fund development of the Stillwater well site
21 in addition to providing for normal contingencies. We agree with Staff that it is appropriate to provide
22 the Company with sufficient revenues to allow it to expand plant to serve increased system demand.

23 Rate Design

24 Applicant's current monthly rates include a 1,000 gallon minimum with a two-tiered rate design.
25 Applicant proposes an increase in minimum rates plus the institution of a three-tiered rate design. Staff
26 recommends adoption of three-tiered commodity rates, but without an increase in monthly minimum
27 rates for 3-4" meters. Additionally, Staff proposes that no minimum gallons be included in monthly
28 minimum rates. Staff recommends a first-tier monthly commodity rate of \$1.03 for the first 6,000

1 gallons, a second-tier commodity rate of \$2.50 per thousand gallons for 6,001-15,000 gallons, and an
2 increase in third tier rates (usage of over 15,000 gallons per month) from \$2.50 to \$3.50 per 1,000 gallons
3 in order to foster conservation. While proposing Service Charges identical to those proposed by
4 Applicant, Staff recommended Service Line and Meter Installation charges higher than Applicant's,
5 based on Staff Engineering's recommendations. We concur with Staff's rate design.

6 * * * * *

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

9 **FINDINGS OF FACT**

10 1 Applicant is an Arizona non-profit corporation engaged in the business of providing water
11 utility service to the public in a portion of Yavapai County, Arizona pursuant to authority granted by the
12 Commission in Decision No. 51291.

13 2 Applicant's present rates and charges for water service were approved in Decision No.
14 58311.

15 3 On February 20, 1998, the Commission received from Verde Lakes an application to
16 increase its rates and charges.

17 4 On March 24, 1998, Staff determined Verde Lakes' application to be sufficient and the
18 application was docketed on that date.

19 5 During the TY Applicant served 657 customers, 25 percent of whom were seasonal
20 customers. All but six of those customers were served with 3/4" meters.

21 6 Average and median usage on the 3/4" meters during the test year were 6,494 and 4,773
22 gallons per month respectively.

23 7 On February 20, 1998, Applicant notified its customers of the proposed rates and charges
24 by first class U.S. mail. No letter of protest have been received by the Commission in response thereto.

25 8 Staff conducted an investigation of Applicant's proposed rates and charges, and in the
26 Staff Report filed June 2, 1998, recommended that an alternative rate schedule be approved without a
27 hearing.

28 9 The rates and charges for Applicant at present, as proposed in the application, and as

recommended by Staff are as follows:

	Present Rates	Proposed Rates	
		Company	Staff
<u>MONTHLY USAGE CHARGE:</u>			
5 8" x 3 4" Meter	\$0.00	\$0.00	\$8.75
3 4" Meter	8.75	9.25	8.75
1" Meter	15.00	16.00	15.00
1 1/2" Meter	30.00	32.00	30.00
2" Meter	45.00	49.00	49.00
3" Meter	0.00	0.00	125.00
4" Meter	175.00	187.00	175.00
6" Meter	0.00	0.00	440.00
Gallons Included in Minimum	1,000	1,000	0
<u>COMMODITY CHARGE:</u>			
Charge Per 1,000 Gallons in Excess of Gallons Included in Monthly Usage Charges			
0-6,000 Gallons	N/A	N/A	1.65
1,001 - 6,000 Gallons	1.80	1.90	N/A
6,001 - 15,000 Gallons	2.50	2.60	2.50
Over 15,000 Gallons	2.50	3.50	3.50
<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u> (refundable pursuant to A.A.C. R14-2-405)			
5 8" x 3 4" Meter	\$0.00	\$0.00	\$330.00
3 4" Meter	150.00	175.00	375.00
1" Meter	150.00	200.00	440.00
1 1/2" Meter	200.00	250.00	660.00
2" Meter	400.00	500.00	1,155.00
3" Meter	0.00	0.00	1,625.00
4" Meter	2,250.00	2,500.00	2,540.00
6" Meter	0.00	0.00	4,875.00
<u>SERVICE CHARGES:</u>			
Establishment	\$30.00	\$30.00	\$30.00
Establishment (After Hours)	45.00	45.00	45.00
Reconnection (Delinquent)	15.00	20.00	20.00
Meter Test (If Correct)	40.00	45.00	45.00
Deposit	0.00	0.00	*
Deposit Interest	0.00%	0.00%	*
Reestablishment (Within 12 months)	0.00	**	**
NSF Check	15.00	15.00	15.00
Deferred Payment	10.00%	12.00%	12.00%
Meter Reread (If Correct)	5.00	10.00	10.00
Late Payment Penalty	2.00	3.00	3.00

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

** Months off system fines the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** 1% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than

1 \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for
2 service lines separate and distinct from the primary water service line.

3 10 Pursuant to the Staff Report, Applicant's original cost rate base is determined to be
4 \$224,770 which is the same as its fair value rate base ("FVRB").

5 11 Applicant's present rates and charges produced adjusted operating revenues of
6 \$169,277 and adjusted operating expenses of \$153,295 which resulted in an operating income of
7 \$15,982 during the FY and a 7.11 percent rate of return on FVRB.

8 12 Applicant's proposed rates, as filed, would produce revenues of \$186,400, which
9 would result in an operating income of \$31,348 for a 13.95 percent rate of return on FVRB.

10 13 The rates and charges Staff recommended would produce operating revenues of
11 \$183,589 and operating expenses of \$153,295 resulting in an operating income of \$30,294 for a
12 13.48 percent rate of return on FVRB.

13 14 Applicant's proposed rate schedule would increase the average monthly residential
14 bill by 5.5 percent, from \$18.99 to \$20.03, and the median monthly customer bill by 5.7 percent,
15 from \$15.54 to \$16.42.

16 15 Staff's recommended rates would increase the average monthly residential bill by 4.7
17 percent, from \$18.99 to \$19.89, and the median monthly customer bill by 6.9 percent, from \$15.54
18 to \$16.63.

19 16 The rates and charges proposed by Staff are reasonable.

20 17 Staff has additionally recommended that:

- 21 (a) In addition to collection of its regular rates and charges, Verde Lakes Water
22 Corporation should collect from its customers their proportionate share of
23 any Privilege, Sale, or Use Tax as provided for in A.A.C. R14-2-409(D);
- 24 (b) Verde Lakes Water Corporation should reduce its water loss to a maximum
25 of 15 percent for the North System and 25 percent for the South system prior
26 to the filing of its next rate case; and
- 27 (c) Verde Lakes Water Corporation should submit separate water inventory
28 reports for the North and South systems on a monthly basis to the Utilities
Division. These monthly reports should include water pumped, water sold,
water lost through flushing, water lost through line breaks, water lost through
broken meters, and water lost through other specified means. The reports
should also include the number of meters replaced and the number of feet of
distribution main replaced.

ORDER

IT IS THEREFORE ORDERED that Verde Lakes Water Corporation is hereby directed to file on or before August 31, 1998 revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5.8" x 3.4" Meter	\$8.75
3.4" Meter	8.75
1" Meter	15.00
1.1/2" Meter	30.00
2" Meter	49.00
3" Meter	125.00
4" Meter	175.00
6" Meter	440.00

COMMODITY CHARGE:

Charge Per 1,000 Gallons:

0-6,000 Gallons	1.65
6,001 - 15,000 Gallons	2.50
Over 15,000 Gallons	3.50

SERVICE LINE AND METER INSTALLATION CHARGES:

(refundable pursuant to A.A.C. R14-2-405)

5.8" x 3.4" Meter	\$330.00
3.4" Meter	375.00
1" Meter	440.00
1.1/2" Meter	660.00
2" Meter	1,155.00
3" Meter	1,625.00
4" Meter	2,540.00
6" Meter	4,875.00

SERVICE CHARGES:

Establishment	\$30.00
Establishment (After Hours)	45.00
Reconnection (Delinquent)	20.00
Meter Test (If Correct)	45.00
Deposit	*
Deposit Interest	*
Reestablishment (Within 12 months)	**
NSF Check	15.00
Deferred Payment (Per Annum)	12.00%
Meter Reread (If Correct)	10.00
Late Payment Penalty	3.00

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

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

*** 1% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

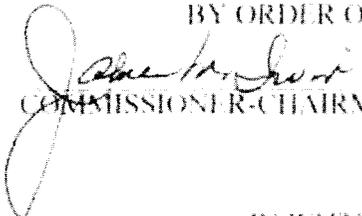
1 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall provide notice to
2 its customers of the above rates and charges in its next regularly scheduled billing and the above
3 rates and charges shall be effective for all service provided on and after September 1, 1998.

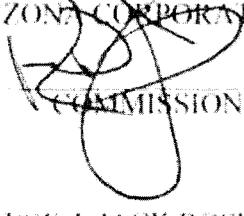
4 IT IS FURTHER ORDERED that Verde Lakes Water Corporation is hereby directed to
5 comply with the Staff recommendations set forth in Finding of Fact No. 17, with the first monthly
6 water inventory reports due on or before September 15, 1998, and subsequent reports due on or
7 before the fifteenth of each subsequent month.

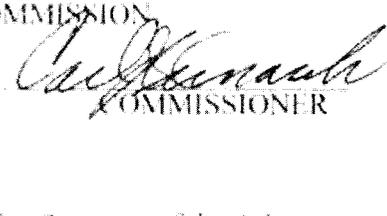
8 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall take appropriate
9 steps, based on the information it compiles for the ordered monthly water inventory reports, to
10 reduce its water system line losses to 15 percent or less for the North system and 25 percent or less
11 for the South system by its next rate filing; and if water losses continue to exceed those levels at the
12 time of its next rate filing, Verde Lakes Water Corporation shall submit evidence with that rate filing
13 explaining why water losses persist and specifying what steps it has taken to reduce water losses to
14 the above-specified levels.

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

16 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

17 
18 COMMISSIONER-CHAIRMAN

19 
20 COMMISSIONER

21 
22 COMMISSIONER

23 IN WITNESS WHEREOF, I, JACK ROSE, Executive Secretary of the Arizona
24 Corporation Commission, have hereunto set my hand and caused the official seal
25 of the Commission to be affixed at the Capitol, in the City of Phoenix, this
26 7th day of August, 1998

27 
28 JACK ROSE
EXECUTIVE SECRETARY

29 DISSENT
30 LW:bbs

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SERVICE LIST FOR: VERDE LAKES WATER CORPORATION

DOCKET NO: W-02372A-98-0152

Mr. Robert W. Davis, President
Verde Lakes Water Corporation
2867 South Verde Lakes Drive
Camp Verde, Arizona 86322

Paul A. Bullis, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Utilities Division Director
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007