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Docket #(s): W-01344A-13-0032

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Exhibit #: 51

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Arizona Corporation Commission  
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APR 30 2013

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ORIGINAL

MEMORANDUM

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TO: Docket Control Center

FROM: Steven M. Olea  
Director  
Utilities Division

*EA for SMD*

2013 APR 5 AM 9 13

DATE: April 5, 2013

RE: **STAFF REPORT FOR TACNA WATER MANAGEMENT COMPANY'S  
EMERGENCY RATE APPLICATION (DOCKET NO. W-01344A-13-0032)**

Attached is the Staff Report for Tacna Water Management Company's application for an emergency rate increase. Staff recommends approval of the requested rates and charges, as altered by Staff.

Any interested party wishing to file comments regarding the attached Staff Report may file those comments with the Arizona Corporation Commission's Docket Control. It should be noted that a hearing has been scheduled for April 11, 2013. Any comments should be filed no later than April 15, 2013.

SMO:DWC:red/SH

Originator: Darron W. Carlson

Attachment: Original and Thirteen copies

Arizona Corporation Commission  
**DOCKETED**  
APR - 5 2013

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Service List for: Tacna Water Management Company  
Docket No. W-01344A-13-0032

Ms. Nancy Miller  
Manager  
Tacna Water Management Company  
c/o Sunstate Environmental Services  
4743 East 30<sup>th</sup> Place  
Yuma, Arizona 85365

Mr. Don Kelland  
Owner  
Tacna Water Management Company  
2993 South Arizona Avenue  
Yuma, Arizona 85365

Mr. Steven M. Olea  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Janice M. Alward  
Chief, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**TACNA WATER MANAGEMENT COMPANY**

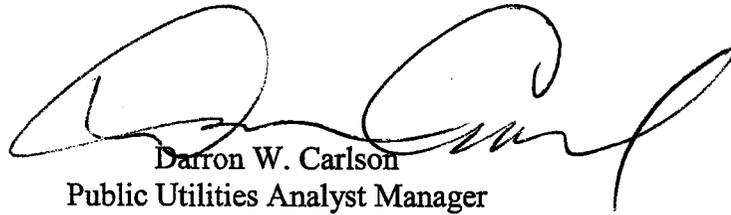
**DOCKET NO. W-01344-13-0032**

**APPLICATION FOR AN  
EMERGENCY RATE INCREASE**

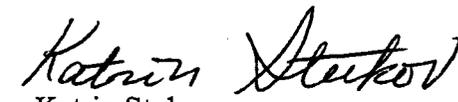
**APRIL 5, 2013**

## STAFF ACKNOWLEDGMENT

The Staff Report for Tacna Water Management Company ("Company"), Docket No. W-01344A-13-0032 was the responsibility of the Staff members listed below. Darron W. Carlson was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Jenny Gomez was responsible for reviewing the Commission's records on the Company and reviewing customer complaints filed with the Commission.



Darron W. Carlson  
Public Utilities Analyst Manager



Katrin Stukov  
Katrin Stukov  
Utilities Engineer



Jenny Gomez  
Public Utilities Consumer Analyst

**EXECUTIVE SUMMARY  
TACNA WATER MANAGEMENT COMPANY  
DOCKET NO. W-01344A-13-0032**

Tacna Water Management Company ("Company") is a Class D water utility providing service to 138 customers in an area north and south of Interstate Highway 8, approximately 40 miles east of Yuma, in Yuma County.

The Company is requesting substantial increases to its minimum monthly charges and more moderate increases to its commodity rates. The Company currently serves 130 5/8 inch meter residential customers and 8 5/8 inch meter business/commercial customers. Tacna is requesting a 300 percent increase from \$7.00 to \$28.00 for residential customers and a 1,329 percent increase from \$7.00 to \$100.00 for commercial customers. The increase in commodity rates represent a 33 percent increase for the first tier from \$0.75 to \$1.00 per 1,000 gallons, a 58 percent increase for the second tier from \$0.95 to \$1.50 per 1,000 gallons, and a 67 percent increase for the third tier from \$1.05 to \$1.75 per 1,000 gallons. The Company believes that these requested increases will increase its current revenues from \$3,328 per month to between \$5,000 and \$6,000 per month, which would be an increase of approximately 50 to 80 percent. Staff supports the requested rate increases with a slight alteration regarding the Water Infrastructure Finance Authority ("WIFA") loan.

The Company is in default of its WIFA loan and a re-amortization and payment plan are discussed. A new interim manager has been hired pursuant to Decision No. 73357. This emergency rate case filing is in conjunction with a pending OSC filing under Docket No. W-01344A-12-0336. The Company has numerous operational problems that require this funding to help the new manager rehabilitate this utility.

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**ATTACHMENT**

ENGINEERING MEMORANDUM.....	ATTACHMENT A
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## **INTRODUCTION**

On February 21, 2013, Tacna Water Management Company ("Tacna" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission"). On March 20, 2013, a Procedural Order was issued setting April 11, 2013, as the date for the hearing on this application.

Tacna stated in its application that it is insolvent in its debts to various creditors including the Water Infrastructure Finance Authority of Arizona ("WIFA"). Tacna's meters and lines are in serious disrepair and there are not sufficient funds to repair or replace plant.

This emergency rate application has been submitted by Tacna's new interim manager, who was hired directly by the owner of Tacna. Unfortunately, the new manager was not provided reliable bookkeeping records by Tacna (apparently none exists). Therefore, this emergency rate application reflects virtually no historical data and very limited current revenue information.

The hiring of a new interim manager was completed pursuant to Decision No. 73357 dated August 21, 2012. The filing of this emergency rate case was completed pursuant to discussions with Tacna, Staff and the Administrative Law Judge in the Order to Show Cause proceedings under Docket No. W-01344A-12-0336.

Staff believes that emergency conditions exist such that this filing meets the requirements necessary to file this emergency rate request and for the Commission to act on the request.

## **BACKGROUND**

Tacna is an Arizona class D water utility engaged in the business of providing potable water service. The Company's current rates were approved in Decision No. 68658 dated April 12, 2006. The Company's current WIFA loan surcharge was approved in Decision No. 69215 dated December 21, 2006.

Tacna filed a rate application on February 8, 2011, under Docket No. W-01344A-11-0077. The filing was insufficient and despite repeated attempts to help the Company correct errors or provide additional information, the filing was never made sufficient. This filing was finally withdrawn and administratively closed using Closure No. 73764 dated March 8, 2013.

Additionally, there is a current Order to Show Cause ("OSC") pending that led to the hiring of the interim manager and the filing of this emergency rate application. That case is under Docket No. W-01344A-12-0336 dated July 25, 2012, and remains open.

## **CUSTOMERS**

Tacna provides water service to an area north and south of Interstate Highway 8, about 40 miles east of Yuma in Yuma County. According to the manager, Tacna currently serves 130 5/8-inch meter residential customers and 8 5/8-inch meter business/commercial customers. The current rates do not vary based on customer class.

## **ENGINEERING ANALYSIS**

Tacna operates two separate systems. The northern system (north side of Interstate 8) serves the bulk of the customer base. The southern system (south side of Interstate 8) serves only five unmetered customers. Please see attached Engineering Memorandum.

## **COMPLIANCE**

The Engineering Memorandum lists three compliance items from the Commission's Compliance Section. In speaking with the Company's owner, Mr. Kelland, he and Staff have been unable to locate, identify, or otherwise satisfy the two outstanding compliance issues from Decision No. 69208 dated December 21, 2006.

The filing of a fully executed main extension agreement for water facilities for the extension area due by December 12, 2007.

The Company will inform the Commission by means of a compliance filing, 30 days prior to commencing the provision of service to customers exiting the Mohawk Utility Company for service with Tacna Water Management Company.

Due to the age of these two issues and the inability of Tacna to appropriately satisfy them, Staff recommends that these two compliance items be permanently withdrawn. The third compliance item comes from Decision No. 73357, regarding the open OSC case (Docket No. W-01344A-12-0336). The specific issue is:

File within 10 days effective of this Decision, a preliminary statement describing how it will make the showing of cause. Said filing shall include an answer to Staff's complaint if not yet filed. This was due by August 31, 2012.

Staff notes that the new manger filed a response (dated February 27, 2013, but not docketed until Mach 22, 2013.

Staff believes that this latest filing will meet the compliance requirements for Decision No. 73357.

**CONSUMER SERVICES**

The Corporations Division of the Commission indicates that Tacna is currently in good standing.

A review of the Consumer Services section records for the period January 1, 2010, through March 13, 2013, reflects four complaints, one inquiry, and three opinions have been filed. All complaints and inquiries have been resolved and closed. The three opinions were all opposed to the requested rate increase in Docket No. W-01344A-11-0077, the original rate increase request which has been withdrawn.

**RATES**

The current rates do not distinguish between customer classes so the residential rates are the same as the rates for the commercial/business class. Currently, Tacna only serves 5/8 inch meters.

<u>Monthly Minimum</u>	<u>Current</u>		<u>Requested</u>	
	<u>Residential</u>	<u>Commercial</u>	<u>Residential</u>	<u>Commercial</u>
5/8 X 3/4 inch meter	7.00	7.00	28.00	100.00
3/4 inch meter	7.00	7.00	32.00	132.00
1 inch meter	11.62	11.62	38.00	138.00
1-1/2 inch meter	23.25	23.25	45.00	145.00
2 inch meter	37.20	37.20	65.00	165.00
3 inch meter	69.75	69.75	85.00	185.00
4 inch meter	116.25	116.25	120.00	220.00
6 inch meter	232.50	232.50	250.00	250.00
<u>Commodity Charge</u>				
<u>(Per 1,000 gallons)</u>				
1) 0 to 3,000 gallons	0.75	0.75	1.00	1.00
2) 3001 to 7,000 gallons	0.95	0.95	1.50	1.50
3) Over 7,000 gallons	1.05	1.05	1.75	1.75

Tacna is requesting an emergency surcharge for the difference in the above listed rates. For just the 5/8 inch meter that means the emergency surcharge for residential service would be \$21.00 (28.00 – 7.00) for the monthly minimum charge and for commercial service would be \$93.00 (100.00 – 7.00) for the monthly minimum charge. Since the commodity rates for residential and commercial are the same, that means the emergency commodity surcharge would be \$0.25 (1.00 – 0.75) for the first tier, \$0.55 (1.50 – 0.95) for the second tier, and \$0.70 (1.75 – 1.05) for the third tier for all customer classes.

Additionally, Tacna wishes to alter two of its miscellaneous service charges as follows:

	<u>Current</u>	<u>Requested</u>
Customer Deposit Fee	as per AAC R14-2.403(B)	\$75.00
Late Payment Fee	1.50 percent of unpaid balance.	\$5.00 Residential 10% Commercial

Staff notes that many of the rates listed above do not reflect Staff's normal rate design aspects, volume break points, or pricing levels, however due to the lack of historical operational information; Staff is unable to apply its normal rate design determinations. Therefore Staff will not offer an alternative rate design at this time. Staff does recommend that this docket be held open after a Decision is issued so that if circumstances require a quick alteration in the rate design, Staff will be able to react quickly to do so. On that basis, Staff recommends the rate increases as requested by Tacna be authorized on an interim basis.

#### **WIFA LOAN**

In addition to the above rates, Tacna currently has a WIFA loan surcharge tariff and collects \$6.78 per month for each 5/8 inch meter it serves to pay its debt service. That amounts to \$935.64 (138 5/8 inch customers X \$6.78) per month. There is currently no requirement that the Company segregate those WIFA loan funds and Tacna does not do so. Those funds have been available but have not been used in payment of the WIFA loan. Tacna's last loan payment was made October 1, 2010. WIFA used up the Tacna debt reserve by July 1, 2011.

WIFA has contacted Tacna's manager to discuss restructuring Tacna's loan payments. WIFA has issued a re-amortized loan schedule to Tacna that requires the Company to begin making payments starting July 1, 2013. Tacna's manager has advised Staff that she is attempting to open a separate account for the WIFA surcharge funds and it is Tacna's intention to begin segregating those funds. The new loan schedule requires a first payment of \$20,175.74 (\$18,393.20 back interest and fees + \$1,782.54 regular monthly payment) on July 1, 2013, six more monthly payments of \$1,782.54 through January 1, 2014, then the payment amount to WIFA drops down to \$1,504.13 for the duration of the loan through August 1, 2026. However, the difference between the \$1,782.54 payment amount and the \$1,504.13 payment amount of \$278.41 is supposed to be deposited into a separate account called repair and replacement account. Tacna could utilize the repair and replacement funds as needed to maintain its arsenic treatment facilities.

Staff spoke with the new manager and discussed Tacna's ability to make that first payment on July 1, 2013. Tacna confirms that it will be able to make the regular payment (\$1,782.54) but cannot possibly fund the back interest and fees (\$18,393.20). Staff contacted WIFA and discussed Tacna's situation. WIFA advised that if Tacna begins making its payments on July 1, 2013, in the amount of \$1,782.54, WIFA Staff would be open to requesting that the WIFA Board waive the back interest and fees due on the loan.

Staff believes that it is imperative that Tacna take advantage of the re-amortization of the WIFA loan. Staff recommends that the Company be ordered to segregate the WIFA surcharge funds in a separate account and that access to that account, for withdrawals, be allowed only to WIFA. Staff also recommends that the Company be ordered to further segregate the WIFA surcharge beginning February 1, 2014, and establish a repair and replacement account that will be funded with \$278.41 of the WIFA surcharge funds per month thereafter. That repair and replacement account can be accessed by Tacna as needed to maintain its arsenic treatment facilities.

Staff believes that the current WIFA surcharge is not adequate to fund the re-amortized loan payments. Following is a calculation of what is needed to fund the WIFA loan payments:

Regular monthly payment	\$1,782.54
Divide by number of customers	<u>138</u>
Equals per customer per month charge	\$12.92
Less current surcharge amount	\$6.78
Equals extra amount necessary to be taken from emergency rates.	<u>\$6.14</u>

In addition to the \$6.78 WIFA surcharge currently being collected, Staff recommends that \$6.14 per customer per month be taken from the emergency rate increase funds and deposited each month in the segregated WIFA loan account.

## CONCLUSIONS

Staff believes that emergency conditions exist such that this filing meets the requirements necessary to qualify for action by the Commission.

Staff believes that the bonding requirements that are normally associated with emergency rate increases be minimized as Tacna and its owner have very limited funding available.

Staff believes the follow-up full rate case filing should be filed no later than March 31, 2014, using a test year ending December 31, 2013, or no later than September 30, 2014, using a test year ending June 30, 2014. If the Company fails to timely file its rate case by September 30, 2014, all interim rates should cease effective October 1, 2014.

Staff believes that, due to a lack of historical financial information about Tacna's operations, the Company should be required to file monthly income statements for Staff's review until permanent rates are established in the next rate case.

## RECOMMENDATIONS

### Staff recommends:

- Approval of the requested rates as altered by Staff on an interim basis.
- Permanent withdrawal of the two outstanding compliance items from Decision No. 69208, dated December 21, 2006.
- That the bonding requirements associated with emergency rate increases be minimized.
- That the Company be ordered to file a full permanent rate application no later than March 31, 2014, using a test year ending December 31, 2013, or no later than September 30, 2014, using a test year ending June 30, 2014.
- That if the Company fails to file its full permanent rate application by September 30, 2014, all interim rates should cease effective October 1, 2014.
- That the Company be ordered to begin making WIFA loan payments in a timely manner beginning July 1, 2013.
- That after July 1, 2013 the Company files a request with WIFA Staff requesting that it ask the WIFA Board to waive back interest and fees.
- That the Company be ordered to open and maintain a separate bank account in which it will deposit the WIFA surcharge funds each month and that any withdrawal from this account will be restricted to only WIFA.
- That in addition to the WIFA surcharge noted above, \$6.14 per month per meter will be taken from the emergency funds and also deposited into the restricted WIFA account each month.
- That effective February 1, 2014 the Company will open another account, the repair and replacement account, and will deposit \$278.41 each month from the WIFA surcharge funds. This account can be utilized by the Company as needed to maintain its arsenic treatment facilities.
- That the docket remains open after the decision is issued, so that Staff may react to any unforeseen circumstances.
- That the Company be ordered to file monthly income statements to the Chief of the Financial and Regulatory Analysis section of the Utilities Division every month until permanent rates are approved in the Company's next rate case filing.

MEMORANDUM

DATE: March 11, 2013

TO: Darron Carson

FROM: Katrin Stukov *ICS*  
Utilities Engineer

RE: Tacna Water Management Company emergency rate increase application  
Docket No. W-01344A-13-0032

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**Introduction**

On February 21, 2013, Tacna Water Management Company ("Company" or "Tacna") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting implementation of emergency rates to provide sufficient revenues to cover replacement of broken meters and waterlines and the regular operation and maintenance of the Company's water systems.

The Company operates two water systems north and south of Highway 8, approximately 40 miles east of Yuma in Yuma County. For purpose of this Memorandum these two water systems will be referred to as "Northern" and "Southern" systems. These systems are not interconnected. Tacna provides water service to approximately 145 customers.

**Northern System**

According to the Arizona Department of Environmental Quality ("ADEQ"), in 2008 ADEQ issued Tacna a Notice of Violation ("NOV") for an arsenic exceedance. To comply with NOV and to avoid the need for an arsenic removal system, the Company switched from a ground water supply<sup>1</sup> to a surface water supply in 2009. Tacna has contracted a 100 acre-feet per year allocation of Colorado River water from the Wellton-Mohawk Irrigation and Drainage District ("Wellton-Mohawk") and installed a surface water supply and filtration system.

According to the Company, Tacna stopped paying Wellton-Mohawk's monthly bills and is no longer allowed to use the canal water. As a result, the Company had to revert back to using its Well No. 1 in 2011.

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<sup>1</sup> Tacna reported that its Well#2 was taken out of service and abandoned in 2006, and its Well #1 was used as an emergency back-up well after the switch to surface water supply in 2009.

The current operation of the Northern System consists of one well (Well No. 1), a filtration system, a chlorinator, an old refurbished storage tank, a booster pump, a bladder tank and a distribution system serving approximately 140 customers north of Interstate Highway 8.

Tacna did not report the water use data. According to the Company, the meter readings are not accurate due to the number of broken meters. Based on the unknown gallons pumped/purchased and sold, the system's capacity cannot be determined.

### **Southern System**

The Southern system consists of a single well, a bladder tank and a distribution system serving approximately five unmetered customers south of Interstate Highway 8.

The Company did not report water use data. Based on the unknown gallons pumped and sold, the system's capacity cannot be determined.

### **ADEQ Compliance Status**

The ADEQ regulates the Company's Northern water system under ADEQ Public Water System ("PWS") No. 14-018. Per ADEQ Compliance Status Report dated February 28, 2013, ADEQ reported the following ongoing unresolved deficiencies: (1) exceedance of the maximum containment level for arsenic, (2) failure to submit the maximum residual disinfectant levels for July 2009 through the present, (3) failure to submit annual Consumer Confidence Reports on time for 2001 through the present, and (4) operation & maintenance deficiencies. Based upon the noted monitoring, reporting and operation & maintenance deficiencies, on December 19, 2012, ADEQ issued an administrative order<sup>2</sup> requiring compliance with the Arizona Revised Statutes and the rules adopted pursuant to the statutes. This ADEQ administrative order remains in effect.

Based upon the noted ongoing unresolved monitoring, reporting and operation & maintenance deficiencies, ADEQ cannot determine if the water system PWS No. 14-018 is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.

The Southern water system has less than 15 connections and is not considered a community system at this time. Subsequently, it is not subject to ADEQ Compliance monitoring.

### **Arizona Department of Water Resources ("ADWR") Compliance Status**

The Company is not located in Active Management Area ("AMA"). ADWR has determined that the Company's Northern System is not in compliance with ADWR requirements with regard to Annual Report and System Water Plan filings<sup>3</sup>. The Southern System is not a

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<sup>2</sup> ADEQ Docket No. DW-42-12

<sup>3</sup> Per ADWR Compliance Report dated March 2, 2011.

community system at this time and is not subject to ADWR filing of Annual Report and System Water Plan.

### **ACC Compliance Status**

A check of the Utilities Division compliance database indicated that there are three delinquencies for the Company. The three delinquencies are as follows:

1. The Company failed to file a fully executed main extension agreement by December 12, 2007 for water facilities into the Company's CC&N extension area granted by Decision No. 69208.
2. The Company failed to inform the Commission by means of a compliance filing, 30 days prior to commencing the provision of service to customers exiting the Mohawk Utility Company for service with Tacna.
3. The Company failed to timely file an Answer to Staff's Complaint as required by Decision No. 73357, which ordered the Company to show cause. The Answer was due by August 31, 2012; it was docketed on March 22, 2013.