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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

Arizona Corporation Commission

DOCKETED

FEB 20 2013

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IN THE MATTER OF THE APPLICATION OF
KOHL'S RANCH WATER COMPANY FOR
APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02886A-12-0190

DECISION NO. 73731

ORDER

Open Meeting
February 12 and 13, 2013
Phoenix, Arizona

BY THE COMMISSION:

This case involves a permanent rate case application filed with the Arizona Corporation Commission ("Commission") by Kohl's Ranch Water Company, a Class D water utility providing service to approximately 123 metered customers in an area northeast of Payson in Gila County during the Test Year ending January 31, 2012 ("TY").

* * * * *

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

FINDINGS OF FACT

Background

1. Kohl's Ranch Water Company ("KRWC") is a for-profit Arizona "C" corporation providing water utility service to approximately 123 metered customers in a small service area including two separately sourced water systems, known as the Spring System and the Well System, which have an emergency interconnection but otherwise are not connected. KRWC's service area covers less than one-tenth of a square mile and is located northeast of Payson, in Gila County, to serve the Kohl's Ranch Lodge resort ("Resort") and a subdivision known as Kohl's Ranch Tonto Creek ("KR Tonto Creek").

1 2. KRWC operates under a Certificate of Convenience and Necessity (“CC&N”)
2 originally granted to an individual doing business as Kohl’s Ranch Water Company in 1964.¹ The
3 current KRWC was incorporated in 1994, received Commission approval of the transfer of the
4 original CC&N and assets in 1995, and was sold by its bankrupt parent company, ILX Resorts
5 Incorporated (“ILX”), to its current owners in January 2011.²

6 3. KRWC is now owned by Douglas Thorne³ and operated by Mr. Thorne and his wife,
7 Evelyn Thorne. Mr. Thorne is a Certified Grade 4 Water Operator. During the TY, KRWC paid
8 salaries to both Mr. and Mrs. Thorne.

9 4. KRWC’s current permanent rates and charges were approved in 1972 and include for
10 all customers, regardless of meter size, a base rate of \$5.75 per month, which includes 5,000 gallons
11 of water at no additional charge, and a commodity rate of \$0.50 per 1,000 gallons of water used in
12 excess of the first 5,000 gallons.⁴

13 5. In January 2011, in Decision No. 72094, the Commission approved an emergency rate
14 increase for KRWC, designed to enable KRWC to operate as a stand-alone entity so that the
15 liquidating trustee for ILX’s bankruptcy would be able to find a permanent buyer for KRWC, which
16 had been continually subsidized in its operations by ILX since 1995. In the emergency rate case
17 decision, KRWC was required to file a permanent rate case application by April 30, 2012, and to
18 bring it to sufficiency by July 31, 2012.⁵ The approved emergency rates were to remain effective

19
20 ¹ See Decision No. 72094 (January 20, 2011) at 2. Official notice is taken of Decision No. 72094.

21 ² Commission approval of this parent-level transfer of ownership of KRWC’s stock was not sought because KRWC is
22 not a Class A utility and thus is not subject to the Commission’s affiliated interest rules. See A.A.C. R14-2-802.

23 ³ Although KRWC’s rate application shows Thorneco West Inc. as the owner of KRWC, annual reports made by
24 KRWC to the Commission’s Corporations Division in 2011 and 2012 show that KRWC is owned by Douglas Thorne;
25 that Douglas and Evelyn Thorne serve as President and Vice-President, respectively; and that Douglas Thorne is its sole
26 Director. Official notice is taken of these 2011 and 2012 annual reports, which are available through the Commission’s
27 website using the STARPAS function. The 2012 annual report for Thorneco West Inc., of which official notice is also
28 taken, shows that Thorneco West Inc. is owned by Douglas, Evelyn, and David Thorne and that Douglas is its President
and Evelyn its sole Director. Additionally, although the documentation for the stock purchase agreement to transfer
ownership of KRWC from ILX to Mr. Thorne/Thorneco West Inc. was provided to Staff and discussed at the procedural
conference of July 20, 2012, the documentation was not provided to the Hearing Division and does not appear to have
been filed in this docket or in the docket for KRWC’s recent emergency rate case (Docket No. W-02886A-10-0369).

⁴ Official notice is taken of Decision No. 42881 (October 12, 1972).

⁵ Although KRWC missed the application deadline by approximately one month, it met the sufficiency deadline, even
though it had filed a request for an extension in the emergency rate case docket on March 29, 2012, due to difficulty in
obtaining information from KRWC’s former accountant and ILX. The emergency rate case decision did not impose any
adverse consequences resulting from a late rate case application per se.

1 until the resolution of this permanent rate case, provided that the permanent rate case application was
2 brought to sufficiency by July 31, 2012. Consequences were imposed for a failure to meet the
3 sufficiency date.

4 6. KRWC's Well System, Arizona Department of Environmental Quality ("ADEQ")
5 Public Water System ("PWS") No. 04-089, serves the Resort, which includes a hotel, restaurant,
6 cabins, and an outdoor recreation area. The Well System includes a well producing 35 gallons per
7 minute ("GPM"); a storage tank with a capacity of 200,000 gallons; booster pumps; a pressure tank;
8 and a distribution system with only one 6-inch metered customer, the Resort. The Well System also
9 serves as the emergency water supply for the Spring System, as needed, through an emergency
10 interconnection consisting of a 2-inch meter with a shut-off valve and PRV valve. The
11 Commission's Utilities Division ("Staff") determined that the Well System has adequate production
12 capacity and storage capacity to serve the existing customer base and reasonable growth. The Well
13 System did not provide any water to the Spring System during the TY.

14 7. The Spring System, ADEQ PWS No. 04-013, is a pump-less system that is gravity fed
15 by a naturally occurring spring with a capacity of 40 GPM. The spring water is gravity fed from a
16 spring box, through a chlorinator and four-tank filtration system, through a meter in the chlorination
17 building, and to distribution lines serving approximately 121 metered connections during the TY. All
18 of the customers on the Spring System are served by 5/8" x 3/4" meters, and the majority of the
19 customers are seasonal, part-time residents. To the extent that the system's water is not used, the
20 surplus supply is drained out into a creek through a water line fitted with a check valve to prevent
21 backflow of untreated creek water. The Spring System does not have a storage tank.

22 8. During the TY, median monthly water usage for the 5/8" x 3/4"-meter customers served
23 by KRWC was 617 gallons, and average monthly water usage for those customers was 2,089 gallons.

24 9. During the TY, KRWC's Well System pumped 5,456,090 gallons and sold the same
25 number of gallons to the Resort, reflecting no water loss. This is possible because the well meter and
26 6" customer meter for the Resort are only approximately 200 feet apart, which minimizes the
27 possibility of water loss. The Resort's monthly water usage averaged 454,674 gallons for the TY.

28 10. During the TY, KRWC's Spring System obtained 6,033,700 gallons from the spring

1 and no water through the emergency interconnect; sold 3,140,222 gallons; used an estimated 12,000
2 gallons for backwashing filter equipment; and drained an estimated 2,202,000 gallons into the creek.
3 This resulted in water loss of approximately 11.26 percent, which exceeds Staff's recommended limit
4 of 10 percent. KRWC attributes the water loss to six water main breaks during the TY, numerous
5 leaks, and old inaccurate water meters. In May 2012, KRWC reduced the non-revenue water drained
6 into the creek by installing a meter in the drain line and reducing the drain line flow from
7 approximately 6,000 gallons per day ("GPD") to approximately 500 GPD with a gate valve
8 adjustment.

9 11. During the period from January 1, 2009, through September 12, 2012, the
10 Commission received one complaint concerning KRWC and one opinion filed in opposition to the
11 proposed rate increase. The complaint has been resolved and closed.

12 12. ADEQ has reported that both of KRWC's water systems are in compliance with
13 ADEQ requirements and delivering water meeting the water quality standards required by 40 C.F.R.
14 141 and Arizona Administrative Code ("A.A.C.") Title 18, Chapter 4.

15 13. KRWC's systems are not located in an Active Management Area ("AMA"). The
16 Arizona Department of Water Resources ("ADWR") has reported that KRWC's water systems are
17 not subject to ADWR requirements governing water providers and/or community water systems.

18 14. KRWC has an approved Curtailment Plan Tariff. KRWC filed a Backflow Prevention
19 Tariff with the Commission on July 20, 2012.

20 15. KRWC is current in its property and sales tax payments.

21 16. KRWC is current on its Utilities Division and Corporations Division annual reports
22 and is in good standing with the Commission's Corporations Division.

23 17. Staff's Compliance database shows no delinquent compliance items for KRWC.

24 **Procedural History**

25 18. On May 25, 2012, KRWC filed with the Commission a permanent rate case
26 application reporting TY operating revenues of \$109,311.28 and requesting an increase in revenues
27 of \$8,645.28, or approximately 7.90 percent. KRWC's application did not include a copy of its
28 customer notification.

1 19. On June 1, 2012, a comment opposing the requested rate increase was filed by a
2 KRWC customer.

3 20. On June 25, 2012, Staff issued a Letter of Insufficiency and request for additional
4 information.

5 21. On June 27, 2012, Staff filed a Request for a Procedural Conference.

6 22. On July 10, 2012, KRWC filed amended application pages.

7 23. On July 10, 2012, a Procedural Order was issued scheduling a procedural conference
8 to be held on July 20, 2012, at the Commission's offices in Phoenix, Arizona.

9 24. On July 20, 2012, the procedural conference proceeded as scheduled, with Staff
10 appearing through counsel and KRWC appearing through Mr. Thorne. Mrs. Thorne also attended.

11 25. On July 20, 2012, KRWC filed additional amended application pages, a Curtailment
12 Plan Tariff, and a Cross-Connection or Backflow Prevention Tariff.

13 26. On August 1, 2012, Staff issued a Letter of Sufficiency, stating that KRWC's
14 application had, as of July 31, 2012, met the sufficiency requirements of A.A.C. R14-2-103 and had
15 been classified as a Class D utility.

16 27. On October 22, 2012, Staff issued a Staff Report recommending approval of KRWC's
17 rate application using Staff's recommended rates and charges. KRWC did not file a response to the
18 Staff Report.

19 28. On December 21, 2012, a notarized statement was filed showing that KRWC had
20 mailed notice of the rate application to its customers on April 24, 2012. The notice to customers
21 stated that KRWC was seeking an increase in revenues of \$11,681.13, equal to the operating loss
22 reported by KRWC.⁶ The notarized statement had been submitted to Staff on June 14, 2012, but had
23 not been docketed.

24 29. On January 10, 2013, a Recommended Order was issued recommending that Staff's
25 recommended rates and charges be adopted, along with specified commodity rates for meter sizes for
26 which Staff had recommended monthly minimum charges but no commodity rate design. KRWC has
27

28 ⁶ When KRWC filed its actual application, it reduced the revenue increase requested to \$8,645.28.

1 not filed any response to the January 10, 2013, Recommended Order.

2 30. On January 11, 2013, Staff filed a Supplemental Staff Report, stating that the
3 Supplemental Staff Report was in response to KRWC's comments filed shortly after and in response
4 to the original Staff Report.⁷ In the Supplemental Staff Report, Staff recommended revised rates and
5 charges based upon a revision to Staff's recommendation for purchased power expense. KRWC has
6 not filed any response to the Supplemental Staff Report.

7 31. On January 23, 2013, KRWC's comments regarding the original Staff report were
8 docketed.

9 32. On January 28, 2013, a Procedural Order was issued suspending the Commission's
10 time frame to issue a Decision in this matter and ordering KRWC to ensure that all substantive
11 submissions to the Commission regarding its rate application, and any future matters that may arise at
12 the Commission related to KRWC's operations as a public service corporation, are timely filed with
13 the Commission's Docket Control Center.

14 **Ratemaking**

15 33. KRWC does not possess sufficient and reliable information to establish the original
16 cost plant values for its plant accounts. Instead, KRWC provided plant values using what it described
17 as estimated 1984 pricing, which Staff characterized as reconstruction cost new pricing ("RCN").⁸
18 KRWC proposed TY utility plant in service of \$163,150, which Staff adjusted to \$163,110 after
19 making a number of adjustments to reflect Staff's own RCN analysis. The most significant
20 adjustments were in the accounts for storage tank, transmission and distribution mains, and structures
21 and improvements, although the adjustments nearly balanced each other out overall. Staff then
22 calculated accumulated depreciation of \$159,568⁹ and a working capital allowance of \$8,758 using
23 the formula method, for a recommended fair value rate base ("FVRB") of \$12,300. We find that
24 Staff's calculation of KRWC's FVRB is just and reasonable, and we will adopt it.

25 34. KRWC reported TY total operating revenue of \$109,311.28, when emergency
26

27 ⁷ The referenced KRWC comments were apparently provided to Staff without being docketed.

28 ⁸ KRWC's use of the small utility rate application waived use of reconstruction cost new to determine fair value rate base.

⁹ KRWC had calculated accumulated depreciation of approximately \$5,014.

1 surcharge revenues are included. Staff agreed with KRWC's TY total operating revenue. We find
2 that KRWC's TY total operating revenue was \$109,311.

3 35. KRWC reported TY total operating expenses of \$120,992 and a TY operating loss of
4 \$11,681.¹⁰

5 36. Staff made a number of adjustments to KRWC's TY total operating expenses,
6 including transferring \$20,000 of Mr. Thorne's pay from outside services expense to salaries and
7 wages expense and reducing Mrs. Thorne's salary by \$4,000, to \$20,000; reducing purchased power
8 to reflect only TY expense;¹¹ eliminating \$20,322 in outside services expense as unnecessary;
9 reducing water testing expense to reflect annual expense as calculated by Staff's Engineer; reducing
10 general liability insurance expense to reflect the updated, verified, and supported insurance expense;
11 decreasing depreciation expense to make it consistent with Staff's calculation;¹² decreasing taxes
12 other than income to eliminate sales taxes paid by customers, which are a pass-through tax;
13 increasing property taxes to reflect property tax expense calculated using the Arizona Department of
14 Revenue's methodology; and increasing income tax to reflect Staff's calculation. Staff's adjustments
15 brought KRWC's TY total operating expenses to \$89,858,¹³ resulting in TY operating income of
16 \$19,452. We find that Staff's adjustments to KRWC's TY operating expenses are reasonable and
17 appropriate, and we will adopt them. As a result, we find that KRWC had TY operating income of
18 \$19,452, which reflects a rate of return on FVRB of 158.15 percent and an operating margin of 17.80
19 percent.

20 37. In its application, KRWC proposed an \$8,645 increase in annual revenues, to bring its
21 annual revenue to \$117,957. Using the \$89,858 TY operating expense figure adopted herein, this
22 would result in operating income of \$28,099; a rate of return on FVRB of 228.45 percent; and an

23 _____
24 ¹⁰ Staff stated that KRWC had reported TY operating expenses of \$116,926. It is not apparent from the docketed
25 materials in this matter from where that figure derived, although the Staff Report shows lower KRWC-reported expenses
26 for office supplies and expense and outside services.

27 ¹¹ In the original Staff Report, Staff reduced purchased power expense from \$6,779 to \$3,843 to remove what Staff
28 characterized as \$2,936 in out of TY expense. In the Supplemental Staff Report, Staff stated that KRWC had, subsequent
to the original Staff Report, provided supporting documentation for an additional \$2,868 in TY purchased power expense
and that Staff had adjusted its recommendation accordingly. KRWC's comments to the original Staff Report included
supporting data for KRWC's purchased power expense.

¹² Staff determined that most of KRWC's plant in service is fully depreciated.

¹³ The increase to purchased power expense in the Supplemental Staff Report resulted in a decrease in TY income tax
expense.

1 operating margin of 23.82 percent.

2 38. Staff determined that KRWC's proposed rates and charges would actually produce
3 annual revenue of \$128,551.

4 39. Staff's proposed rates and charges would result in annual total operating revenue of
5 \$103,808. Using Staff's projected operating expenses of \$88,141,¹⁴ this would result in operating
6 income of \$15,667; a rate of return on FVRB of 127.37 percent; and an operating margin of 15.09
7 percent. Staff asserted that its recommended revenue requirement would provide KRWC adequate
8 cash flow to meet its normal operating expenses, maintain its water system, and fund contingencies.

9 40. KRWC's small FVRB makes it difficult to establish just and reasonable rates and
10 charges based upon its rate of return. For this reason, we have also considered KRWC's operating
11 margin for the purpose of establishing just and reasonable rates and charges herein. A very small
12 FVRB may indicate that a public service corporation's owner has failed to make appropriate capital
13 investments in the utility, in which case the dollar amount authorized as a return on FVRB would also
14 be small. Yet, we are cognizant of the very unusual situation in which KRWC finds itself, as the
15 unified ownership of KRWC and its largest customer, the Resort, was only severed approximately
16 two years ago as a result of ILX's bankruptcy; KRWC was never operated as a stand-alone entity
17 while owned by ILX; and KRWC has not had a rate case since 1972. The situation is not something
18 for which KRWC's current owner can fairly be faulted. However, the Commission expects its
19 current owner to make all reasonable efforts to invest in plant as necessary, which will result in a
20 higher FVRB.

21 41. KRWC's current and proposed rates and charges, and the rates and charges
22 recommended by Staff, are as follows:

	<u>Present Rates</u>		<u>KRWC Proposed</u>	<u>Staff Recommended</u>
<u>MONTHLY MINIMUM CHARGES:</u>				
	<u>Permanent</u>	<u>Emergency</u>		
25 5/8" x 3/4" Meter	\$ 5.75	\$ 20.09	\$ 30.00	\$ 22.65
26 3/4" Meter	5.75	N/A	N/A	22.65
27 1" Meter	5.75	N/A	N/A	56.63

28 ¹⁴ This includes decreases in operating and maintenance expense, property and other taxes expense, and income tax expense.

1	1 1/2" Meter	5.75	N/A	N/A	113.25
1	2" Meter	5.75	N/A	N/A	181.20
2	3" Meter	5.75	N/A	N/A	362.40
2	4" Meter	5.75	N/A	N/A	566.25
3	6" Meter	5.75	2,900.00	2,934.15	1,825.00

COMMODITY RATES (Per 1,000 Gallons):

	<u>Permanent</u>	<u>Emergency</u>	
<u>All Meter Sizes</u>			
6	1 to 5,000 gallons	\$ 0.00	
6	Over 5,000 gallons	0.50	
7			
8	1 to 5,000 gallons	\$ 0.00	\$ 0.00
8	5,001 to 25,000 gallons	3.00	5.50
8	25,001 to 60,000 gallons	4.50	7.00
9	Over 60,000 gallons	6.00	N/A
10	<u>5/8" x 3/4" Meter</u>		
11	1 to 2,000 gallons		\$ 2.00
11	2,001 to 10,000 gallons		4.00
12	Over 10,000 gallons		7.81
13	<u>6" Meter</u>		
13	1 to 60,000 gallons		\$ 4.00
14	Over 60,000 gallons		7.81

SERVICE LINE AND METER INSTALLATION CHARGES:

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

	<u>Present</u>	<u>KRWC</u>	<u>Staff Recommended</u>		
	<u>Total</u>	<u>Proposed</u>	<u>Service</u>	<u>Meter*</u>	<u>Total</u>
18	\$ 100	\$ 100	\$ 415	\$ 105	\$ 520
18	120	120	415	205	620
19	160	160	465	265	730
19	300	300	520	475	995
20	400	400	N/A	N/A	N/A
20	N/A	N/A	800	995	1,795
21	N/A	N/A	800	1,840	2,640
21	N/A	N/A	N/A	N/A	N/A
22	N/A	N/A	1,015	1,620	2,635
22	N/A	N/A	1,135	2,495	3,630
23	N/A	N/A	N/A	N/A	N/A
23	N/A	N/A	1,430	2,570	4,000
24	N/A	N/A	1,610	3,545	5,155
25	500	700	N/A	N/A	N/A
25	N/A	N/A	2,150	4,925	7,075
26	N/A	N/A	2,270	6,820	9,090

* Note: Meter Charge includes meter box or vault.

	<u>Present Rates</u>	<u>KRWC Proposed</u>	<u>Staff Recommended</u>
<u>SERVICE CHARGES:</u>			
	<u>Emergency</u> ¹⁵		
1 Establishment	\$25.00	\$50.00	\$25.00
2 Establishment (After Hours)	\$35.00	N/A	N/A
3 Reconnection (Delinquent)	\$35.00	\$50.00	\$35.00
4 Reconnection (Delinquent, After Hours)	\$45.00	N/A	N/A
5 After Hours Service Charge	N/A	N/A	\$40.00
6 Meter Test (If Correct)	\$35.00	\$65.00	\$35.00
7 Deposit	(a)	*	*
8 Deposit Interest (Per Year)	6.00%	6.00%	*
9 Re-Establishment (Within 12 Months)	(b)	**	**
10 Re-Establishment (After Hours)	(b)	N/A	N/A
11 NSF Check	\$25.00	\$50.00	\$25.00
12 Deferred Payment (Per Month)	1.50%	1.50%	1.50%
13 Meter Re-Read (If Correct)	\$15.00	\$30.00	\$15.00
14 Late Fee (Per Month)	(c)	Per rule	1.50%

- 10 (a) Residential – two times the average bill
11 Non-residential – two and one-half times the average bill
- 12 (b) Months off the system x monthly minimum bill, which shall include monthly usage surcharge while the surcharge is effective
- 13 (c) 1.50 percent of the unpaid balance
- 14 * Per Commission Rule R14-2-403(B)
- 15 ** Number of months off the system times the monthly minimum, per Commission Rule R14-2-403(D)

16 In addition to the collection of regular rates, the utility shall collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per Commission Rule R14-2-409(D)(5).

17 42. The rates and charges proposed by KRWC would increase the monthly bill for a 5/8”
18 x 3/4”-meter customer with median water usage of 617 gallons from \$25.84¹⁶ to \$31.85, for an
19 increase of \$6.01 or 23.3 percent. For a 5/8” x 3/4”-meter customer with average water usage of 2,089
20 gallons, the KRWC-proposed rates and charges would increase the monthly bill from \$25.84 to
21 \$36.27, for an increase of \$10.43 or 40.4 percent.

22 43. The rates and charges recommended by Staff would decrease the monthly bill for a
23 5/8” x 3/4”-meter customer with median water usage of 617 gallons from \$25.84 to \$23.88, for a
24 decrease of \$1.96 or 7.6 percent. For a 5/8” x 3/4”-meter customer with average water usage of 2,089
25 gallons, the Staff-recommended rates and charges would increase the monthly bill from \$25.84 to
26 \$27.01, for an increase of \$1.17 or 4.5 percent.

27 ¹⁵ Service charges were adopted in the emergency rate case because KRWC had no authorized service charges.

28 ¹⁶ These monthly bill amounts include the interim rates and charges approved in Decision No. 72094, so that they accurately reflect customers' billing impacts.

1 44. For the Resort, which is served by a 6" meter and has average monthly water usage of
2 approximately 454,674 gallons, the rates and charges proposed by KRWC would decrease the
3 monthly bill from \$5,718.63 to \$3,289.15, for a decrease of \$2,429.48 or 42.5 percent, while the
4 Staff-recommended rates and charges would decrease the monthly bill to \$5,147.40, for a decrease of
5 \$571.23 or 10.0 percent. We believe that KRWC's omission of a commodity rate for third-tier usage
6 by the Resort, to which the large decrease from its proposed rates is attributable, was inadvertent.

7 **Staff Recommendations**

8 45. Staff recommends:

- 9 a. That Staff's recommended rates and charges be approved;
- 10 b. That KRWC be ordered to file with Docket Control, as a compliance item in
11 this docket, within 30 days after the effective date of the Decision in this
12 matter, a tariff schedule of its new rates and charges;
- 13 c. That the interim rates and charges authorized in Decision No. 72094 be
14 discontinued when the rates and charges authorized in this matter become
15 effective;
- 16 d. That KRWC be ordered, on a going-forward basis, to maintain its books and
17 records in accordance with the National Association of Regulatory Utility
18 Commissioners ("NARUC") Uniform System of Accounts ("USOA");
- 19 e. That KRWC be ordered to use the depreciation rates listed in Table B of the
20 Engineering portion of the Staff Report filed in this matter;
- 21 f. That KRWC be ordered to report information, such as but not limited to plant
22 description and water use data, separately for each of its individual systems by
23 Public Water System ("PWS"), as defined by ADEQ, in future Annual Reports
24 and rate filings with the Commission;
- 25 g. That for the Spring System (PWS No. 04-013), KRWC be ordered:
- 26 i. To file as a compliance item in this docket, within 13 months of the
27 effective date of the Decision in this case, a 12-month Water Use Data
28 Report indicating for the system, for each month during the 12-month

- 1 period, the number of customers served, the gallons sold, the gallons
 2 obtained from the source, the gallons of water drained into the creek,
 3 and the water loss percentage;
- 4 ii. To coordinate the monthly reading of its source meters, drain line
 5 meter, and individual customer meters to ensure that an accurate
 6 accounting of the monthly water loss in the water system can be
 7 determined;
- 8 iii. If the water loss reported in the Water Use Data Report is greater than
 9 10 percent, to evaluate its water system and submit, as a compliance
 10 item in this docket, within 13 months after the effective date of the
 11 decision in this case,¹⁷ either a water loss reduction report containing a
 12 detailed analysis and plan to reduce water loss to less than 10 percent
 13 or, if KRWC believes it is not cost effective to reduce the water loss to
 14 less than 10 percent, a detailed cost benefit analysis to support its
 15 opinion; and
- 16 iv. Not to allow water loss to be greater than 15 percent;
- 17 h. That KRWC be required to file with Docket Control, as a compliance item in
 18 this docket, within 90 days of the effective date of this Decision, for the
 19 Commission's review and consideration, at least three Best Management
 20 Practices ("BMPs") in the form of tariffs that conform to the templates created
 21 by Staff;¹⁸
- 22 i. That KRWC be authorized to request cost recovery of actual costs associated
 23 with the BMPs implemented in its next general rate application;
- 24 j. That KRWC's Backflow Prevention Tariff, filed in this matter on July 20,
 25 2012, be approved; and
- 26 k. That KRWC not be ordered to refund any of the amounts collected through the

27 ¹⁷ Although the Staff Report was somewhat unclear concerning the deadline for the water loss reduction report or
 28 detailed cost benefit analysis, we find that Staff intended for it to be submitted along with the Water Use Data Report.

¹⁸ The templates are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

1 interim rates approved in Decision No. 72094.

2 46. We find that it is just and reasonable to adopt rates that will generate a rate of return
3 on KRWC's FVRB of 184.05 percent and an operating margin of 20.01 percent and that use a rate
4 design based upon the rate design recommended by Staff, but modified as discussed below.

5 47. Staff has recommended monthly minimum charges for meter sizes other than the two
6 currently existing in KRWC's system, but has not recommended commodity rates for those other
7 meter sizes. Although KRWC does not anticipate any significant growth, it is possible that any
8 growth occurring could include a meter size not currently served by KRWC and for which Staff has
9 not recommended a commodity rate design. In light of this, we find that it is reasonable and
10 appropriate to approve commodity rates for each meter size for which a monthly minimum charge is
11 recommended, as to do otherwise could result in complications should KRWC experience growth
12 including additional meter sizes in the period before its next permanent rate case. Thus, we will
13 approve a commodity rate design for these other meter sizes, using two tiers, as recommended by
14 Staff for the 6" meter size, and using slightly increased tier break-over points for increasing meter
15 sizes, designed to be harmonious with Staff's recommended tier break-over points (displayed in bold
16 below), as follows:

17	5/8" x 3/4" Meter	2,000 gallons
18		10,000 gallons
18	3/4" Meter	10,000 gallons
19	1" Meter	20,000 gallons
19	1 1/2" Meter	25,000 gallons
20	2" Meter	30,000 gallons
20	3" Meter	40,000 gallons
21	4" Meter	50,000 gallons
21	6" Meter	60,000 gallons

22 48. We find that Staff's recommendations set forth in Findings of Fact No. 45(b) through
23 (k) are just and reasonable and should be adopted.

24 CONCLUSIONS OF LAW

25 1. KRWC is a public service corporation within the meaning of Article XV of the
26 Arizona Constitution and A.R.S. §§ 40-250, 40-251, and 40-367.

27 2. The Commission has jurisdiction over KRWC and the subject matter of the
28

1 application.

2 3. Notice of the application in this matter was given in accordance with the law.

3 4. KRWC's fair value rate base is \$12,300.

4 5. The rates, charges, and conditions of service established herein are just and reasonable
5 and in the public interest.

6 6. It is just and reasonable and in the public interest to adopt the rates and charges
7 described in Findings of Fact No. 46 and 47 and to adopt Staff's recommendations set forth in
8 Findings of Fact No. 45(b) through (k).

9 **ORDER**

10 IT IS THEREFORE ORDERED that Kohl's Ranch Water Company is hereby authorized and
11 directed to file with the Commission's Docket Control, as a compliance item in this docket, on or
12 before March 1, 2013, a revised tariff setting forth the following rates and charges:

13 **MONTHLY MINIMUM CHARGES:**

14	5/8" x 3/4" Meter	\$ 24.00
15	3/4" Meter	21.50
15	1" Meter	60.00
16	1 1/2" Meter	120.00
16	2" Meter	192.00
17	3" Meter	384.00
17	4" Meter	600.00
18	6" Meter	2,425.00

19 **COMMODITY RATES (Per 1,000 Gallons):**

20	<u>5/8" x 3/4" Meters</u>	
20	1 to 2,000 Gallons	\$ 2.17
21	2,001 to 10,000 Gallons	3.97
21	Over 10,000 Gallons	7.40
22	<u>3/4" Meters</u>	
23	1 to 10,000 Gallons	3.97
23	Over 10,000 Gallons	7.40
24	<u>1" Meters</u>	
25	1 to 20,000 Gallons	3.97
25	Over 20,000 Gallons	7.40
26	<u>1 1/2" Meters</u>	
27	1 to 25,000 Gallons	3.97
27	Over 25,000 Gallons	7.40

28

2" Meters

1 1 to 30,000 Gallons 3.97
 2 Over 30,000 Gallons 7.40

3" Meters

3 1 to 40,000 Gallons 3.97
 4 Over 40,000 Gallons 7.40

4" Meters

5 1 to 50,000 Gallons 3.97
 6 Over 50,000 Gallons 7.40

6" Meters

7 1 to 60,000 Gallons 3.97
 8 Over 60,000 Gallons 7.40

SERVICE LINE AND METER INSTALLATION CHARGES:

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

	<u>Service</u>	<u>Meter*</u>	<u>Total</u>
11	5/8" x 3/4" Meter	\$ 415	\$ 520
12	3/4" Meter	415	620
	1" Meter	465	730
13	1 1/2" Meter	520	995
	2" Meter Turbine	800	1,795
14	2" Meter Compound	800	2,640
	3" Meter Turbine	1,015	2,635
15	3" Meter Compound	1,135	3,630
	4" Meter Turbine	1,430	4,000
16	4" Meter Compound	1,610	5,155
	6" Meter Turbine	2,150	7,075
17	6" Meter Compound	2,270	9,090

* Note: Meter Charge includes meter box or vault.

SERVICE CHARGES:

20	Establishment	\$25.00
	Reconnection (Delinquent)	\$35.00
21	After Hours Service Charge	\$40.00
	Meter Test (If Correct)	\$35.00
22	Deposit	*
	Deposit Interest (Per Year)	*
23	Re-Establishment (Within 12 Months)	**
	NSF Check	\$25.00
24	Deferred Payment (Per Month)	1.50%
	Meter Re-Read (If Correct)	\$15.00
25	Late Fee (Per Month)	1.50%

* Per Commission Rule R14-2-403(B)

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

In addition to the collection of regular rates, the utility shall collect from its customers a proportionate

1 share of any privilege, sales, use, and franchise tax, per Commission Rule R14-2-409(D)(5).

2 IT IS FURTHER ORDERED that the rates and charges set forth above shall be effective for
3 all services rendered by Kohl's Ranch Water Company on and after March 1, 2013.

4 IT IS FURTHER ORDERED that the interim rates and charges authorized in Decision No.
5 72094 shall be discontinued effective March 1, 2013.

6 IT IS FURTHER ORDERED that Kohl's Ranch Water Company shall notify its customers of
7 the revised schedule of rates and charges authorized herein by means of an insert in its next regularly
8 scheduled billing, or by separate mailing, in a form acceptable to the Commission's Utilities Division
9 Staff.

10 IT IS FURTHER ORDERED that Kohl's Ranch Water Company shall, on a going-forward
11 basis, maintain its books and records in accordance with the National Association of Regulatory
12 Utility Commissioners Uniform System of Accounts.

13 IT IS FURTHER ORDERED that Kohl's Ranch Water Company shall adopt the depreciation
14 rates, by individual National Association of Regulatory Utility Commissioners category, delineated in
15 Table B of the Engineering Report portion of the Staff Report filed in this matter.

16 IT IS FURTHER ORDERED that in future Annual Reports and rate filings with the
17 Commission, Kohl's Ranch Water Company shall report information, such as but not limited to plant
18 description and water use data, separately for each of its individual systems by Public Water System
19 as defined by the Arizona Department of Environmental Quality.

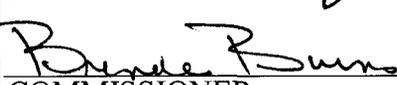
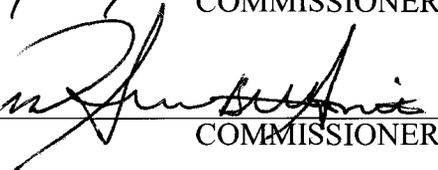
20 IT IS FURTHER ORDERED that for the Spring System (PWS No. 04-013), Kohl's Ranch
21 Water Company shall:

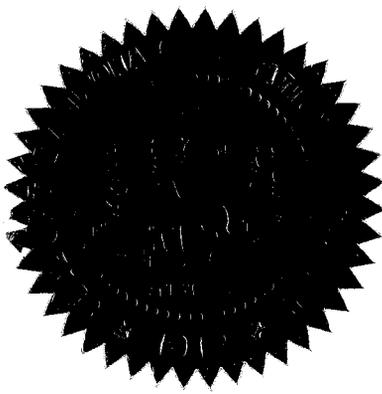
- 22 a. File as a compliance item in this docket, within 13 months after the effective date of
23 this Decision, a 12-month Water Use Data Report indicating for the system, for each
24 month during the 12-month period, the number of customers served, the gallons sold,
25 the gallons obtained from the source, the gallons of water drained into the creek, and
26 the water loss percentage;

1 IT IS FURTHER ORDERED that Kohl's Ranch Water Company is not required to refund to
2 its customers any of the funds collected through the interim rates authorized in Decision No. 72094.

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

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

5
6
7  CHAIRMAN  COMMISSIONER
8  COMMISSIONER  COMMISSIONER  COMMISSIONER
9



10
11 IN WITNESS WHEREOF, I, JODI JERICH, Executive
12 Director of the Arizona Corporation Commission, have
13 hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this 20th day of February 2013.

16 
17 JODI JERICH
18 EXECUTIVE DIRECTOR

19 DISSENT _____

20 DISSENT _____

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1 SERVICE LIST FOR: KOHL'S RANCH WATER COMPANY

2 DOCKET NO.: W-02886A-12-0190

3

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8 Janice Alward, Chief Counsel
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10 ARIZONA CORPORATION COMMISSION
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