

OPEN MEETING ITEM

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BRENDA BURNS
BOB BURNS
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ARIZONA CORPORATION COMMISSION

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DATE: MARCH 25, 2013
DOCKET NO.: W-03067A-12-0232

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Dwight D. Nodes. The recommendation has been filed in the form of an Opinion and Order on:

BEAVER DAM WATER COMPANY, INC.
(RATES)

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:

APRIL 3, 2013

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:

APRIL 9, 2013 AND APRIL 10, 2013

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
DOCKETED

MAR 25 2013

DOCKETED BY *JM*

Jodi A. Jerich
JODI JERICH
EXECUTIVE DIRECTOR

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF
BEAVER DAM WATER COMPANY, INC. FOR A
RATE INCREASE.

DOCKET NO. W-03067A-12-0232

DECISION NO. _____

OPINION AND ORDER

DATES OF HEARING: February 4, 2013 (Public Comment) and February 19, 2013 (Hearing)

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes

APPEARANCES: Mr. William D. Condray, KELLEY MOSS, PLLC, on behalf of Beaver Dam Water Company, Inc.;

Mr. Jarrett J. Haskovec, LUBIN & ENOCH, P.C., on behalf of Beaver Dam Property Owners' Association; and

Ms. Robin Mitchell, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

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

FINDINGS OF FACT

Procedural History

1. On June 8, 2012, Beaver Dam Water Company, Inc. ("Beaver Dam" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for a rate increase.

2. On June 21, 2012, Beaver Dam filed an affidavit of customer notification indicating that it mailed notice of the application to its customers on June 14, 2012.

3. On June 29, 2012, the Commission's Consumer Services Division docketed a public comment received from Jay Hitchcox that also included a request for intervention. However, no

1 address was included on the public comment statement and there was no indication that the Company
2 was served with the intervention request.¹

3 4. On July 9, 2012, the Company filed additional information in support of its
4 application.

5 5. On July 9, 2012, the Commission's Utilities Division ("Staff") issued a Letter of
6 Sufficiency stating that Beaver Dam's application met the sufficiency requirements set forth in
7 Arizona Administrative Code ("A.A.C.") R14-2-103, and classified the Company as a Class C utility.

8 6. On July 30, 2012, a Procedural Order was issued scheduling a hearing for February 4,
9 2013, establishing various filing deadlines, and ordering the Company to provide public notice of the
10 application and hearing.

11 7. On August 17, 2012, Beaver Dam filed a certification of mailing and publication of
12 the public notice and a response to Mr. Hitchcox's intervention request.

13 8. On November 1, 2012, the Beaver Dam Property Owners Association ("BDPOA")
14 filed an Application to Intervene stating that it has a real and substantial interest in this proceeding as
15 a homeowners' association representing customers within Beaver Dam's service area.

16 9. On November 15, 2012, Staff filed a Request for Extension of Time with a proposal to
17 modify the procedural schedule and hearing date.

18 10. On November 20, 2012, a Procedural Order was issued granting Staff's request to
19 modify the procedural schedule. The hearing was rescheduled for February 19, 2013, thereby
20 extending the time clock in this matter by 15 days. The Procedural Order also reserved the noticed
21 February 4, 2013 hearing date for public comment, and granted the BDPOA's intervention request.

22 11. On December 12, 2012, Staff filed a Staff Report containing its recommendations, and
23 the BDPOA filed the direct testimony of Jerome Brick.

24 12. On December 20, 2012, William Condray filed a Notice of Appearance on behalf of
25 the Company.

26 13. On January 11, 2013, Beaver Dam filed the rebuttal testimony of Bob Frisby and
27

28 ¹ By Procedural Order issued November 20, 2012, Mr. Hitchcox's letter was ruled to be public comment.

1 Thomas Bourassa.

2 14. On February 1, 2013, the BDPOA filed the surrebuttal testimony of Mr. Brick.

3 15. On February 1, 2013, Staff filed a Request for an extension of time to file its
4 surrebuttal testimony.

5 16. On February 4, 2013, the hearing was convened for the purpose of taking public
6 comment. No members of the public appeared on that date; however, the Commission has received
7 27 written public comment letters opposing the requested rate increase. Most of the public comments
8 were from members of the BDPOA who oppose the Company's proposal to begin billing them as
9 individual customers rather than the current arrangement in which the BDPOA is billed as a single
10 customer.

11 17. On February 5, 2013, Staff filed its Surrebuttal Staff Report.

12 **Background**

13 18. Beaver Dam is a for-profit Arizona Class C public service corporation providing
14 water utility service to the public pursuant to authority granted by the Commission in Decision No.
15 55788 (November 13, 1987).

16 19. Beaver Dam currently provides water utility service to approximately 305 metered
17 customers near the Town of Littlefield, in the extreme northwest corner of the state in Mohave
18 County. Most of the Company's customers are residential (296) and served by 5/8-inch x 3/4-inch
19 meters. However, the BDPOA is currently served by a 6-inch meter, and then bills its members for
20 water through association dues. The BDPOA has 177 buildable lots. (Ex. S-1, at 3; Ex. S-2, at 2.)

21 20. The Company's current rates were approved in Decision No. 71415 (December 8,
22 2009), and are based on a 2007 test year.

23 21. Staff performed an on-site field inspection of the Company's water system on
24 September 6, 2012. Beaver Dam has two water systems: System 1 (PWS No. 08-006) in the
25 Littlefield area consists of three wells with a total pump yield of 585 gallons per minute ("gpm"),
26 three storage tanks totaling 194,000 gallons, and a distribution system; and System 2 (PWS No. 08-
27 093) along I-15, near the Arizona/Nevada border, consists of one well with a total pump yield of 550
28 gpm, two storage tanks totaling 311,424 gallons, and a distribution system. (Ex. S-1, Eng. Report, at

1 1.)

2 **Rate Application**

3 22. Average and median water usage by 5/8 x 3/4-inch meter residential customers during
4 the test year were 6,577 gallons per month and 4,250 gallons per month, respectively.

5 23. According to Beaver Dam's rebuttal schedules, in the 2011 test year the Company had
6 adjusted operating income of \$(6,315), on an adjusted fair value rate base ("FVRB") and original cost
7 rate base ("OCRB") of \$368,943, for no rate of return. (Ex. A-2, Sched. A-1.) The Company
8 proposes operating revenue of \$354,283, an increase of \$49,285, or 16.16 percent, over the
9 Company's test year revenue of \$304,988. (*Id.*)

10 24. Staff's Surrebuttal Staff Report indicates that Beaver Dam's adjusted test year
11 operating income was \$(12,468), on an adjusted OCRB and FVRB of \$366,710, for a zero rate of
12 return. (Ex. S-2, Sched. JAC-1.) Staff also recommends operating revenue of \$354,283, an increase
13 of \$49,285, or 16.16 percent, over test year revenue of \$304,988.²

14 **Rate Base**

15 25. As set forth in Mr. Bourassa's rebuttal testimony, the Company proposes an OCRB of
16 \$368,943. (Ex. A-2, Sched. B-2.)

17 26. Staff recommends an OCRB of \$366,710. (Ex. S-2, Sched. JAC-2.) The \$2,233
18 difference between the Company and Staff's recommendations is due to their cash working capital
19 calculations in which Staff subtracts taxes other than income (primarily payroll taxes) from the
20 formula method's operating expense adjustment, whereas the Company does not do so. (Tr. 79-80.)
21 However, Mr. Bourassa testified that the difference in the working capital calculation is not a big
22 issue because the Company and Staff are in agreement on the ultimate revenue requirement. (*Id.*)

23 27. We find that the OCRB for Beaver Dam should be \$366,710, as recommended by
24 Staff. The Company did not propose a FVRB that differs from OCRB, and therefore the Company's
25 FVRB is also \$366,710.

26

27 ² The BDPOA did not take a position on Beaver Dam's revenue requirement with the exception of a statement in Mr.
28 Brick's surrebuttal testimony that he believes the rate of return recommendations of both the Company and Staff are too
high. (BDPOA Ex. 2, at 2.)

1 **Operating Revenue**

2 28. Beaver Dam and Staff are in agreement that adjusted test year revenues were
3 \$304,998. (Ex. S-2, Sched. JAC-1; Ex. A-2, Sched. A-1.) We find that Beaver Dam's test year
4 revenues were \$304,998 for purposes of setting rates in this proceeding.

5 **Operating Expense**

6 29. As set forth in Beaver Dam's rebuttal testimony and Staff's Surrebuttal Staff Report,
7 the Company and Staff are now in material agreement regarding all rate base and operating income
8 issues. (Tr. 49.) Staff recommends total adjusted operating expenses of \$322,651, whereas the
9 Company proposes total adjusted operating expenses of \$322,093. (Ex. S-2, Sched. JAC-1; Ex. A-2,
10 Sched. C-1.) The small difference appears to be due to a slight variation in the calculation of
11 depreciation expense and income tax expense. (Ex. S-2, at 1.) We will adopt Staff's recommendation
12 of \$322,651 for the Company's operating expenses in this case, resulting in net operating income for
13 Beaver Dam of \$31,632. (*Id.* at Sched. JAC-1.)

14 **Revenue Requirement**

15 30. As described in its Surrebuttal Staff Report, Staff recommends total operating revenue
16 of \$354,283, an increase of \$49,285, or 16.16 percent, over test year revenue of \$304,998. Staff's
17 recommendation would result in net operating income of \$31,632 and an 8.63 rate of return on
18 Beaver Dam's OCRB and FVRB of \$366,710. Staff's recommended revenue requirement produces
19 an operating margin of 8.93 percent, and would result in a times interest earned ratio ("TIER")³ of
20 3.11 and a debt service coverage ("DSC")⁴ ratio of 2.48. (Ex. A-2, at 1, Sched. JAC-1.)

21 31. Staff stated that it considers Beaver Dam's capital structure to be "indeterminable due
22 to concerns regarding the accuracy of the Company's financial statements." As a result, Staff could
23 not determine a return on equity for Beaver Dam and Staff therefore relied on a rate of return on
24 FVRB and operating margin analysis to determine the Company's revenue requirement. (Ex. S-1, at

25 ³ TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater
26 than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long
term but does not mean that obligations cannot be met in the short term.

27 ⁴ DSC represents the number of times internally generated cash will cover required principal and interest payments on
28 short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt
obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations
and that another source of funds is needed to avoid default.

1 6.) According to Staff, its proposed rates provide a 219 basis point “cushion” compared to Beaver
2 Dam’s original request for a 6.44 percent rate of return, to address concerns expressed by the
3 Company that higher commodity rates would result in customer conservation and not allow it to
4 realize the revenue requirement established in this case. (Ex. S-2, at 2.)⁵

5 32. The Company is currently out of compliance with the coverage ratios required under
6 loans it has with the Water Infrastructure Finance Authority (“WIFA”).⁶ (Tr. 21.) WIFA requires a
7 minimum DSC of 1.20 and, according to Mr. Bourassa, Beaver Dam received a letter from WIFA
8 informing the Company that it was out of compliance with the WIFA loan covenants. (Tr. 46.)
9 However, under Staff’s and the Company’s proposed revenue increase, Beaver Dam would be back in
10 compliance with WIFA requirements upon approval of new rates in this case. (Ex. S-1, at 6.)

11 33. Based on Staff’s recommendations, which are materially the same as the proposal in
12 the record from Beaver Dam, we determine that the Company is entitled to a gross revenue increase
13 of \$49,285, or 16.16 percent, over test year revenues of \$304,998, for total operating revenue of
14 \$354,283. This finding is based on a FVRB of \$366,710, and a fair value rate of return of 8.63
15 percent, producing adjusted operating income of \$31,632.

16 **Rate Design**

17 34. Although the revenue requirement issues were uncontested at the hearing, two primary
18 disputed issues remain in the area of rate design. The first issue relates to Beaver Dam’s proposal in
19 this case to begin individually metering all lots within the BDPOA. The BDPOA is currently billed
20 as a single 6-inch meter customer which then apportions an equal share to each POA member through
21 assessments. The second rate design issue is between the Company and Staff regarding the
22 appropriate allocation between the monthly customer charge and commodity charges, as well as the
23 break-over points for the usage tiers.

24

25

26 ⁵ In its Surrebuttal Staff Report, Staff stated that if the Commission is concerned that customer conservation would not
27 allow Beaver Dam to realize the established revenue requirement, the Commission could “alternatively” increase Staff’s
28 recommended minimum monthly customer charge and third-tier commodity rate to allow an additional \$6,372 in metered
water revenues, and thereby achieve an overall 10.0 percent rate of return on FVRB. (*Id.* at 3.).

⁶ Beaver Dam currently has two WIFA loans with an aggregate balance of \$237,153 as of the end of the 2011 test year.
(Ex. A-3, at 23.)

1 entity since its formation in 1987, and he asserts that the majority of residents support continuation of
2 the current billing method. (BDPOA Ex. 2, at 7-8.) He claimed that members are not concerned if
3 they are assessed an equal portion of the BDPOA's water bill, even if other residents may use more
4 water. He also stated that the current arrangement affords members the convenience of being able to
5 write a single check rather than having to mail a separate check for water to the Company. (*Id.* at 8.)

6 41. Mr. Brick also contends that the current billing arrangement offers economies and
7 benefits to the Company because it does not have to read 177 extra meters every month; the Company
8 does not have to field questions from individual BDPOA members; the Company does not need to
9 print and mail billing statements to 177 customers; and the BDPOA members generally maintain
10 service all year, thereby reducing the number of potential calls related to disconnecting and
11 reconnecting service that may occur if seasonal residents are billed individually. (*Id.* at 8-9.)

12 42. The BDPOA contends that there is no cost of service information in the record that
13 supports treating its residents as typical residential customers, and that the BDPOA is similar to RV
14 Parks that receive special billing status. (*Id.* at 9.)

15 43. Mr. Brick stated that Staff's analysis did not include an assessment of the bill impact
16 on the BDPOA members if individual metering were to be adopted, because Staff considered only
17 what effect the proposed increase would have on current 5/8-inch x 3/4-inch residential customers (and
18 not the BDPOA members who would be switched to individual meters from the current master
19 metered arrangement). (*Id.* at 11.) He claims that although the Staff Report cites to an increase of
20 approximately 16 percent for current individually metered residential customers, Staff does not
21 mention that a BDPOA member would experience an effective increase from approximately \$12 to
22 more than \$30 per month under Staff's recommendation, or more than 150 percent, for a BDPOA
23 customer with usage of 1,308 gallons per month. (*Id.* at 12.)

24 44. As an alternative, Mr. Brick suggested that the current billing arrangement should be
25 maintained, but the BDPOA could be billed a monthly minimum equal to a charge of \$15 per
26 BDPOA member per month, plus the two-tier commodity charges for 6-inch meters of \$4.00 per
27 thousand gallons up to 400,000 gallons per month and \$5.00 per thousand gallons over 400,000
28 gallons per month. According to Mr. Brick, this alternative would result in POA members paying

1 approximately \$20.00 per month rather than more than \$30.00 per month if they are switched to
2 individual meters. (*Id.* at 13-14.)

3 45. Mr. Bourassa testified that prior to the Company's last rate case, the BDPOA was
4 billed as 6-inch meter customer based on a charge of \$15 per lot (177 x \$15=\$2,655 per month) plus
5 a commodity charge of \$1.50 per thousand gallons, or the same rate that other residential customers
6 were then paying. (Ex. A-2, at 44.) However, in Decision No. 71415 the Commission adopted a 6-
7 inch meter monthly minimum rate of \$1,375 (the equivalent of \$7.77 per BDPOA lot) with
8 commodity charges of \$3.15 per thousand gallons up to 600,000 gallons and \$3.75 per thousand over
9 600,000 gallons. According to Mr. Bourassa, based on BDPOA usage in the test year of that prior
10 case (9,844 thousand per month per residential unit), the annual revenues that were expected to be
11 generated from the BDPOA were \$90,706, or \$42.71 per month per residential unit. (*Id.* at 45.)
12 Based on the projected revenues, the BDPOA was expected to experience an increase of
13 approximately 43.5 percent, compared to the overall revenue increase of 59.39 percent, and an
14 increase of over 90 percent for the non-BDPOA residential customers. (*Id.*) Mr. Bourassa pointed
15 out that compared to the \$42.71 per BDPOA unit expected to be generated after Decision No. 71415,
16 the Company's proposal in this case to individually meter BDPOA customers would result in an
17 average monthly bill of \$34.71 based on usage of 1,290 gallons per month. (*Id.* at 46.)

18 46. Mr. Bourassa claims that it is reasonable to bill the BDPOA members as individual
19 customers because Beaver Dam is responsible for providing safe and reliable water service to each of
20 the BDPOA residences; under Arizona Department of Environmental Quality ("ADEQ") regulations
21 the Company is responsible for maintaining the distribution system up to the property lines of all the
22 BDPOA lots; and Beaver Dam is responsible for providing adequate fire flow for BDPOA residences
23 which require the capacity of Company-owned storage and pumping facilities not located within the
24 BDPOA boundaries. (*Id.*) Mr. Bourassa also pointed out that all of the residential lots in the
25 BDPOA now have individual meters installed, unlike in the Company's last rate case. (*Id.* at 47.)
26 Beaver Dam asserts that if the BDPOA residents do not pay their proportionate share of rates, the
27 remaining 311 customers would continue subsidizing the BDPOA members. (*Id.*)

28 47. Mr. Bourassa stated that the BDPOA's drilling of its own irrigation wells caused it to

1 purchase from Beaver Dam over 18 million gallons less during the test year in this case compared to
2 the prior case test year. As a result, the Company received approximately \$66,000 less revenue from
3 the BDPOA than was expected coming out of the last rate case, and reduced the projected monthly
4 \$42.71 per residential unit to \$11.83 per unit during the current test year. (*Id.*) The Company claims
5 that while it is understandable that the BDPOA wished to achieve savings for its members by drilling
6 its own wells, those efforts did not reduce Beaver Dam's cost of serving the BDPOA residents by the
7 same magnitude because the Company still incurs costs associated with providing reliable service to
8 each of the lots. (*Id.* at 48.)

9 48. Staff supports the Company's proposal to convert to individual metering of the
10 BDPOA residents. Staff stated that "[i]ndividual billing appropriately makes each customer
11 responsible for water consumption and allows each customer control over his/her bill." (Ex. S-1, at
12 5.)

13 49. We agree with the Company and Staff that the BDPOA residents should be
14 individually metered and billed for water usage. It is unfair to the other customers on Beaver Dam's
15 system to continue to pay significantly higher rates and effectively subsidize the BDPOA members'
16 water bills. In prior cases, the Company did not have meters in place for each of the individual lots in
17 the BDPOA, which necessitated a master-meter arrangement with the BDPOA. Now that those
18 meters have been installed, it is appropriate to allow Beaver Dam to treat all of its 5/8-inch x 3/4-inch
19 residential customers on an equal basis. Although there is no cost-of-service study in the record of
20 this case, we do not agree with the BDPOA that its Park is similar to an RV Park. As indicated by
21 Mr. Frisby, the BDPOA area consists of stick-built homes, park model homes, mobile homes, and
22 RV lots, and each of the lots are individually subdivided and owned. Further, unlike an RV Park,
23 under ADEQ regulations the Company is responsible for maintaining its water lines up to each lot.
24 (Tr. 17-19.) The Company represented that any additional costs which may be incurred from reading
25 meters and generating bills for BDPOA residents would be minimal; but, in any event, it is not
26 requesting recovery in this case of any costs associated with individual metering of BDPOA
27 members. We therefore adopt Beaver Dam's proposal to begin individually metering the BDPOA
28 residents.

1 **Customer Charge and Commodity Break-Over Levels**

2 50. Currently, 5/8 x 3/4-inch meter customers pay a monthly fixed customer charge of
3 \$27.50 plus commodity charges of \$2.10 per thousand gallons for the first 5,000 gallons, \$3.15 per
4 thousand for usage from 5,001 to 12,000 gallons, and \$3.75 per thousand over 12,000 gallons per
5 month.

6 51. Beaver Dam proposes to increase the customer charge to \$31.52 per month, keep the
7 break-over points the same (*i.e.*, 5,000 and 12,000 gallons), and set commodity rates at \$2.47, \$3.59,
8 and \$4.71 per thousand gallons, respectively, for the first, second, and third usage tiers. (Ex. A-2,
9 Sched. H-3.)

10 52. Staff recommends keeping the 5/8 x 3/4-inch meter customer charge at \$27.50, setting
11 the commodity break-over points at 3,000 and 7,000 gallons, and pricing usage within the first tier at
12 \$2.25 per thousand (under 3,000 gallons), \$4.25 per thousand in the second tier (3,001 to 7,000
13 gallons), and \$5.75 per thousand gallons for all usage above 7,000 gallons per month. (Ex. S-2,
14 Sched. JAC-4.)

15 53. The effect of the difference between the Company and Staff rate designs is that the
16 Company would collect a greater percentage of the revenue requirement through the fixed customer
17 charge (approximately 65 percent) and in the lower commodity tiers under its proposal; whereas
18 Staff's recommended rate design would collect approximately 56 percent of the revenue requirement
19 through the customer charge and would place more of the revenue responsibility on higher usage
20 customers. (Tr. 81).

21 54. The Company contends that Staff's recommendation would result in conservation by
22 higher usage customers and lead to revenue erosion due to reduced customer usage. Mr. Bourassa
23 stated that in Beaver Dam's prior rate case, test year average usage for 5/8 x 3/4-inch customers was
24 15,279 gallons per month, compared to average usage of 6,577 gallons in the current test year, or
25 nearly 57 percent less. (Ex. A-2, at 28.)

26 55. Mr. Bourassa claims that the current break-over points have resulted in significant
27 water conservation and there is no good reason to change the commodity tiers in this case, as has
28 been recommended by Staff. He asserts that the rate increase approved in the last rate case caused

1 customers, especially those with usage in the upper tiers, to reduce their usage, and thus cause
2 revenues to decline. Mr. Bourassa contends that the reduction in customer usage is not attributable to
3 weather or the economy in general, and that adopting Staff's recommendation to recover more of the
4 rate increase in the upper tiers would result in a further erosion of revenues (*Id.* at 31-39.)

5 56. At the hearing, Mr. Bourassa continued to advocate for collecting a higher amount of
6 the revenue requirement through the customer charge and lower usage tiers, and for maintaining the
7 current break-over points for commodity charges, in order to mitigate revenue erosion. He conceded,
8 however, that Staff's recommendation to allocate 56 percent of revenue recovery to the fixed
9 customer charge is at the higher end of what Staff usually recommends, even for smaller companies.
10 (Tr. 73.) He also agreed that adoption of Staff's recommendation would be one way that the
11 Commission could help "soften the blow" on low-usage BDPOA customers who will experience a
12 substantial increase in rates, even under Staff's rate design, as they transition from the current master
13 meter arrangement to being billed as individual customers. (*Id.* at 77.)

14 57. Staff claims that its recommendation would enhance revenue stability by generating
15 approximately 56 percent of revenue from the customer charge, which is significantly higher than its
16 normal recommended range of 30 to 40 percent. (Ex. A-2, at 2.) Staff asserts that although revenue
17 stability is a desirable attribute of rate design, it is important in the long term to have a sustainable
18 balance between water supply and demand. (*Id.*)

19 58. Staff also indicated that it typically uses 3,000 gallons as the first tier break-over point
20 to capture non-discretionary residential use. Staff pointed out that 31.9 percent of 5/8 x 3/4-inch meter
21 customer billings in the test year were for 3,000 gallons or less, suggesting that 3,000 gallons is
22 sufficient for many of Beaver Dam's customers. (*Id.*)

23 59. Staff stated that approximately 52.4 percent of 5/8 x 3/4-inch meter billings used 5,000
24 gallons or less, but, according to Staff, just because 5,000 gallons is below the average monthly usage
25 of 6,577 gallons does not justify setting the first break-over point at 5,000 gallons because Staff
26 claims that average usage is less useful than median usage to measure typical consumption. (*Id.* at 3.)
27 Given that median usage for that customer class during the test year was 4,250 gallons, Staff asserts
28 that 3,000 gallons as the first tier ceiling is appropriate because it captures non-discretionary

1 consumption, not typical, or average, usage. Staff contends that using lower break-over points also
 2 helps to offset greater variability in revenue due to the generation of more revenue from the second
 3 and third commodity tiers, because more billings would be captured in those higher less-discretionary
 4 tiers. (*Id.*)

5 60. We believe that Staff's recommended rate design is reasonable and appropriate under
 6 the facts and circumstances of this case. Staff's recommendation maintains the customer charge at
 7 \$27.50 per month and allows non-discretionary usage at a lower commodity charge. We also believe
 8 it is important to recognize that the BDPOA residents who will be transitioned to individual metering
 9 and billing will experience a significant increase compared to their current water assessment by the
 10 BDPOA, and Staff's recommended rate design will, to some extent, mitigate the magnitude of the
 11 increase on those customers compared to the Company's proposal. We will therefore adopt Staff's
 12 rate design recommendation.

13 61. For a 5/8 x 3/4-inch customer with average usage of 6,577 gallons, the monthly rate
 14 increase would be \$6.48, or 15.09 percent. For 5/8 x 3/4-inch customer with median usage of 4,250
 15 gallons, the monthly rate increase would be \$3.14, or 8.61 percent.⁸ (Ex. S-2, Sched. JAC-5.)

16 **Staff Recommendations**

17 62. Staff recommends the following:

- 18 • Approval of Staff's recommended rates and charges as set forth in Surrebuttal
 19 Schedule JAC-4. In addition to collection of its regular rates and charges, that the
 20 Company be authorized to collect from its customers a proportionate share of any
 21 privilege, sales or use tax, pursuant to A.A.C. R14-2-409(D)(5).
- 22 • That the Company be directed to docket with the Commission a schedule of its
 23 approved rates and charges within 30 days of the effective date of this Decision.
- 24 • That the Company be directed, as a compliance item in this docket, to notify
 25 customers of the authorized rates and charges approved in this proceeding, and their
 26 effective date, in a form acceptable to Staff, by means of an insert in its next regular
 27 scheduled billing and to file copies with Docket Control within 10 days of the date
 28 notice is sent to customers.

⁸ We recognize that the increase will be much higher for the BDPOA residents who are currently assessed only \$13.58 for water service by the BDPOA, but will be transitioned to individual metering and billing as a result of this Decision. However, given that many of those customers are seasonal, the monthly charges could be as little as \$27.50 (plus tax) if there is no usage in a given month, and \$34.25 (plus tax) for usage of 3,000 gallons in a month.

- 1 • That the Company adopt the depreciation rates by individual National Association of
2 Regulatory Utility Commissioners (“NARUC”) category, as set forth in Table B of the
3 Staff Engineering Report.
- 4 • That Beaver Dam be required to file with Docket Control, as a compliance item in this
5 docket, within 90 days of the effective date of this Decision, at least five best
6 management practices (“BMPs”) in the form of tariffs that substantially conform to
7 the templates created by Staff, available on the Commission’s website, for the
8 Commission’s review and consideration. A maximum of two of the BMPs may come
9 from “Public Awareness/Public Relations” or “Education and Training” categories of
10 the BMPs. The Company may request cost recovery of actual costs associated with
11 the BMPs implemented in its next general rate application.

12 (Ex. S-2, at 3-4.)

13 63. Staff’s recommendations described above were not opposed by the Company (with the
14 exception of rate design as discussed previously). We will therefore adopt Staff’s recommendations
15 as set forth in the Staff Report.

16 **Compliance Issues**

17 64. Staff states that a check with the Commission’s Utilities Division Compliance System
18 database indicated no delinquent compliance items for Beaver Dam as of October 16, 2012. (Ex. S-1,
19 Eng. Report, at 3.)

20 65. Staff states that for the year 2009, there was one complaint regarding billing; for the
21 years 2010 and 2011, there were no complaints; and for 2012, there were no complaints, but 29
22 opinions in opposition to the requested rate increase. All complaints have been resolved and are
23 closed. (*Id.* at Attach. B.)

24 66. Staff found that the Beaver Dam water system has adequate production capacity and
25 storage capacity to serve the existing customer base and reasonable growth. (Ex. S-1, at 3.)

26 67. According to an ADEQ report dated July 27, 2012, Beaver Dam’s water system is
27 delivering water that meets water quality standards required by Title 18, Chapter 4 of the Arizona
28 Administrative Code. (*Id.*)

 68. Beaver Dam is not located in an Active Management Area (“AMA”) and is not subject
to any AMA reporting and conservation requirements. Staff received an Arizona Department of
Water Resources (“ADWR”) compliance status report dated October 12, 2012, indicating that Beaver

1 Dam was in compliance with ADWR requirements governing water providers and community water
2 systems. (*Id.*)

3 69. Staff determined that the Company's non-account water during the 2011 test year was
4 3.25 percent for its System No. 1, and 3.17 percent for its System No. 2, both of which are within the
5 acceptable limits of 10 percent. (*Id.* at 7.)

6 70. Beaver Dam has approved Curtailment Plan and Backflow Prevention Tariffs on file
7 with the Commission. (*Id.* at 10.)

8 **CONCLUSIONS OF LAW**

9 1. Beaver Dam is a public service corporation pursuant to Article XV of the Arizona
10 Constitution and A.R.S. §§ 40-250 and 40-251.

11 2. The Commission has jurisdiction over Beaver Dam and the subject matter of the
12 application.

13 3. Notice of the proceeding was provided in conformance with law.

14 4. Beaver Dam's FVRB is \$366,710, and applying an 8.63 percent rate of return on that
15 FVRB produces rates and charges that are just and reasonable.

16 5. The rates, charges and conditions of service approved herein are just and reasonable
17 and in the public interest.

18 6. It is reasonable and in the public interest to require Beaver Dam to use the depreciation
19 rates as set forth in Table B of the Staff Engineering Report.

20 **ORDER**

21 IT IS THEREFORE ORDERED that Beaver Dam Water Company, Inc. is hereby authorized
22 and directed to file with the Commission, as a compliance item in this Docket, on or before April 30,
23 2013, a revised tariff setting forth the following rates and charges:

24 **MONTHLY USAGE CHARGE:**

| | | |
|----|-------------------|---------|
| 25 | 5/8" x 3/4" Meter | \$27.50 |
| | 3/4" Meter | 41.25 |
| 26 | 1" Meter | 68.75 |
| | 1-1/2" Meter | 137.50 |
| 27 | 2" Meter | 220.00 |
| 28 | 3" Meter | 440.00 |

| | | |
|---|-----------|----------|
| 1 | 4" Meter | 687.50 |
| | 6" Meter | 1,375.00 |
| 2 | 8" Meter | 2,200.00 |
| | 10" Meter | 3,162.50 |
| 3 | 12" Meter | 5,912.50 |

COMMODITY RATES:

(per 1,000 gallons)

| | | |
|----|-----------------------------|--------|
| 6 | 5/8 x 3/4-inch meter | |
| | 0 to 3,000 gallons | \$2.25 |
| 7 | 3,001 to 7,000 gallons | 4.25 |
| | Over 7,000 gallons | 5.75 |
| 8 | | |
| 9 | 3/4-inch meter | |
| | 0 to 3,000 gallons | 2.25 |
| 10 | 3,001 to 7,000 gallons | 4.25 |
| | Over 7,000 gallons | 5.75 |
| 11 | | |
| 12 | 1-inch meter | |
| | 0 to 15,000 gallons | 4.25 |
| 13 | Over 15,000 gallons | 5.75 |
| 14 | 1 1/2-inch meter | |
| | 0 to 35,000 gallons | 4.25 |
| 15 | Over 35,000 gallons | 5.75 |
| 16 | 2-inch meter | |
| | 0 to 60,000 gallons | 4.25 |
| 17 | Over 60,000 gallons | 5.75 |
| 18 | 3-inch meter | |
| 19 | 0 to 125,000 gallons | 4.25 |
| 20 | Over 125,000 gallons | 5.75 |
| 21 | 4-inch meter | |
| | 0 to 200,000 gallons | 4.25 |
| 22 | Over 200,000 gallons | 5.75 |
| 23 | 6-inch meter | |
| | 0 to 400,000 gallons | 4.25 |
| 24 | Over 400,000 gallons | 5.75 |
| 25 | 8-inch meter | |
| 26 | 0 to 675,000 gallons | 4.25 |
| 27 | Over 675,000 gallons | 5.75 |

28

10-inch meter

0 to 900,000 gallons 4.25
 Over 900,000 gallons 5.75

12-inch meter

0 to 1,750,000 gallons 4.25
 Over 1,750,000 gallons 5.75

SERVICE LINE AND METER INSTALLATION CHARGES:

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

| | <u>Service Line</u> | <u>Meter Installation</u> | <u>Total Charges</u> |
|----|---------------------|---------------------------|----------------------|
| 7 | 5/8" x 3/4" Meter | \$425.00 | \$580.00 |
| 8 | 3/4" Meter | 445.00 | 700.00 |
| | 1" Meter | 445.00 | 700.00 |
| 9 | 1-1/2" Meter | 460.00 | 880.00 |
| | 2" Meter (Turbine) | 615.00 | 1,380.00 |
| 10 | 2" Meter (Compound) | 615.00 | 1,460.00 |
| | 3" Meter (Turbine) | 745.00 | 1,930.00 |
| 11 | 3" Meter (Compound) | 745.00 | 2,010.00 |
| | 4" Meter (Turbine) | 1,050.00 | 2,935.00 |
| 12 | 4" Meter (Compound) | 1,050.00 | 3,020.00 |
| | 6" Meter (Turbine) | 1,250.00 | 4,120.00 |
| 13 | 6" Meter (Compound) | 1,250.00 | 5,960.00 |
| | 8" Meter (Turbine) | Cost | Cost |
| 14 | 10" Meter (Turbine) | Cost | Cost |
| | 12" Meter (Turbine) | Cost | Cost |

SERVICE CHARGES:

| | | |
|----|--|---------|
| 16 | Establishment | \$35.00 |
| | Reconnection (Delinquent) | \$50.00 |
| 17 | Meter Test (If Correct) | \$30.00 |
| 18 | Deposit | * |
| | Deposit Interest | * |
| 19 | Re-establishment (Within 12 Months) | ** |
| | NSF Check | \$20.00 |
| 20 | Deferred Payment - per month | *** |
| 21 | Meter Re-read (If Correct) | \$15.00 |
| | Late Fee (per month) | *** |
| 22 | Moving Customer Meter (Customer Request) | **** |
| 23 | Service Charge (After Hours) (Customer Request) | \$35.00 |

Monthly Service Charge for Fire

Sprinkler

| | | |
|----|-----------------|-------|
| 26 | 4" or Smaller | ***** |
| | 6" | ***** |
| 27 | 8" | ***** |
| | 10" | ***** |
| 28 | Larger than 10" | ***** |

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- * Per Commission rule (R14-2-403.B)
- ** Month off the system times the minimum (R14-2-403.D)
- *** 1.5 % on the unpaid balance per month
- **** Per Commission Rules (R14-2-405.B)
- ***** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service

IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for all usage on and after May 1, 2013.

IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. shall notify its customers of the revised schedules of rates and charges authorized herein by means of an insert, in a form acceptable to Staff, included in its next regularly scheduled billing or as a separate mailing to be completed no later than 20 days after the effective date of this Decision. The Company shall also prepare a separate notice for residents of the BDPOA, in a form acceptable to Staff, that explains how the Company will transition those customers to individual metering and billing.

IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. shall use the depreciation rates set forth in Table B of the Staff Engineering Report.

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IT IS FURTHER ORDERED that Beaver Dam Water Company, Inc. shall file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least five BMPs in the form of tariffs that substantially conform to the templates created by Staff, available on the Commission’s website, for the Commission’s review and consideration. A maximum of two of the BMPs may come from “Public Awareness/Public Relations” or “Education and Training” categories of the BMPs. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

| | | |
|--------------|--------------|--------------|
| CHAIRMAN | | COMMISSIONER |
| COMMISSIONER | COMMISSIONER | COMMISSIONER |

IN WITNESS WHEREOF, I, JODI JERICH, 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 _____ 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: BEAVER DAM WATER COMPANY, INC.

2 DOCKET NO.: W-03067A-12-0232

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28