

ORIGINAL



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MEMORANDUM

TO: Docket Control Center

FROM: Steven M. Olea  
Director  
Utilities Division

DATE: August 6, 2013

RE: STAFF REPORT FOR GOLDEN SHORES WATER COMPANY, INC.'S  
EMERGENCY RATE APPLICATION (DOCKET NO. W-01815A-13-0210)

Attached is the Staff Report for Golden Shores Water Company, Inc.'s ("Company") application for an emergency rate increase. Staff recommends approval of Staff's alternative emergency rate increase.

As per the Procedural Order issued July 17, 2013, any interested party wishing to file comments regarding the attached Staff Report may file those comments with the Arizona Corporation Commission's Docket Control Center no later than August 20, 2013. Hearing has been scheduled for August 27, 2013.

SMO:DWC:lhmlML

Originator: Darron W. Carlson

Arizona Corporation Commission  
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Docket No. W-01815A-13-0210

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**GOLDEN SHORES WATER COMPANY, INC.**

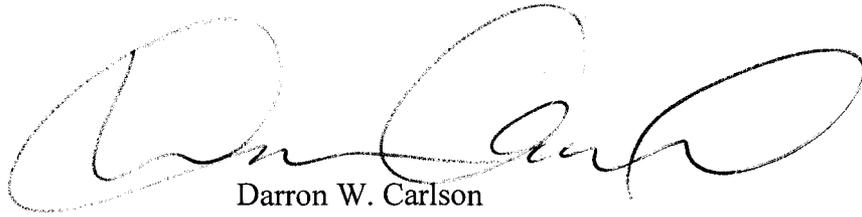
**DOCKET NO. W-01815A-13-0210**

**APPLICATION FOR AN  
EMERGENCY RATE INCREASE**

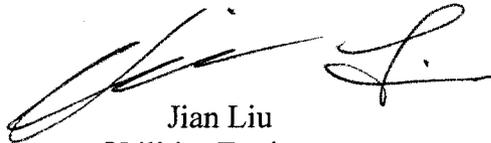
**AUGUST 6, 2013**

## STAFF ACKNOWLEDGMENT

The Staff Report for Golden Shores Water Company, Inc. ("Company"), Docket No. W-01815A-13-0210 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, and rate design. Jian Liu was responsible for the engineering and technical analysis. Trish Meeter 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



Jian Liu  
Utilities Engineer



Trish Meeter  
Public Utilities Consumer Analyst II

## **EXECUTIVE SUMMARY**

Golden Shores Water Company, Inc. ("Company") is located in Topock, Arizona in Mohave County. The Company provides water utility services to approximately 1,510 residential customers and 27 commercial customers.

The Company is requesting an emergency rate increase in the amount of \$444,994, or a 95.0 percent increase over 2012 revenue of \$468,673. Staff recommends an emergency rate increase in the amount of \$100,261, or a 21.4 percent increase over 2012 revenue of \$468,673.

The Company may be approaching insolvency and is operating at a significant loss. It has not had a rate increase since 1999.

### **Staff Recommendations**

Staff recommends approval of Staff's recommended emergency rate increase in the amount of \$100,621.

Staff further recommends that the rates approved in this case will be interim until permanent rates are established in the next rate case filing.

Staff further recommends that the Company be ordered to obtain a bond or an Irrevocable Standby Letter of Credit .

Staff further recommends that the Company be ordered to file a full rate case application no later than April 30, 2014 using a 2013 test year. Failure to file a rate case by April 30, 2014, should result in the immediate suspension of the interim rates approved in this case.

Staff further recommends that the Company file, by January 31, 2014, documentation from ADWR stating that Golden Shores is in compliance with ADWR requirements.

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## **Introduction**

On June 27, 2013, Golden Shores Water Company, Inc. (“Golden Shores” or “Company”) filed an application for an emergency rate increase with the Arizona Corporation Commission (“Commission”). On July 17, 2013, a Procedural Order was issued setting August 27, 2013 as the date for the hearing on this application.

The Company stated in its application that its current rates were set in 1999. The Company also stated over the last decade that operating costs for salaries, fuel, purchased power, etc. have all risen. Further, the Company states that it is also in need of a number of repairs that have been put off due to a lack of funds.

Golden Shores claims a roughly \$445,000 net loss on a “Company adjusted” 12-month operating period ending December 31, 2012. The Company is requesting an increase in operating revenue of \$444,994, or 95.0 percent over current revenue of \$468,673. If approved, the Company’s annual revenue would be \$913,667.

Golden Shores claims that it is insolvent and may not be able to maintain service pending the usual processing of a full permanent rate case.

## **Background**

Golden Shores is a Class C water utility engaged in the business of providing potable water service. The Company’s current rates were approved in Decision No. 61832, dated July 20, 1999.

The Company previously filed a full permanent rate application on February 23, 2007, under Docket No. W-01815A-07-0117 seeking a 30 percent rate increase. After the Company met sufficiency requirements in that case, Staff issued a set of data requests to which the Company had responded. The Company, without explanation, withdrew its rate application on October 10, 2007.

## **Customers**

Golden Shores provides water service to approximately 1,510 5/8-inch meter residential customers, 24 5/8-inch meter commercial customers, 2 one-inch meter commercial customers, and 1 two-inch meter commercial customer.

## **Engineering Analysis**

Staff Engineering has determined that the Arizona Department of Environmental Quality has found that the Company is currently delivering water that meets water quality standards. The Company is not located in an Active management Area (“AMA”) and is not subject to any Arizona Department of Water Resources (“ADWR”) AMA reporting and conservation

requirements. However, ADWR advises that the Company has not timely filed its Annual Report and System Water Plan and therefore, is not in compliance with ADWR. Please refer to the attached Engineering Memorandum for further information and a description of the water system.

### **Consumer Services**

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

A review of the Consumer Services section records for the period of January 1, 2010 through July 18, 2013, reflects no complaints or opinions in 2013, one billing complaint in 2012, one billing complaint in 2011, and two complaints (one billing and one quality of service) in 2010. All complaints have been resolved and closed.

### **Compliance**

Golden Shores has no outstanding compliance issues pending.

### **Staff Review**

The Company's emergency rate filing was produced by a consultant hired by the Company. The consultant incorporated a number of adjustments and projections as if the application was for full permanent rates, as opposed to emergency rates. Many of the proposed adjustments are unsupported and/or highly speculative or otherwise not known and measurable and should not be addressed in this emergency rate filing.

The Company is losing money each year and Staff believes that the Company may be approaching a position of insolvency and cannot wait for the period of time normally required to process a regular rate case, to get necessary rate increases.

In reviewing the unadjusted income statement for 2012, it does indicate that the Company lost \$79,497 (omitting income taxes and return). These numbers are unaudited but for the purposes of an interim rate increase they can be used to establish the Company's needs in an emergency rate case filing. Staff reviewed the Company's proposed adjustments but did not find them appropriate for an emergency rate case since the requested adjustments cannot be verified and audited as would be done in a normal rate case. While Staff would generally consider any necessary adjustments in making recommendations in this case, Staff is not comfortable with the accuracy or the necessity of most, if not all of the adjustments.

Staff believes that the Company does need some emergency rate relief but believes the Company's request is excessive. Staff is recommending a revenue increase of \$100,261, or a 21.4 percent increase over 2012 revenue of \$468,673. If Staff's recommendation is approved, the Company's annual revenue would be \$568,934.

Following normal emergency rate case procedures require that the Company provide a bond in an amount sufficient to cover a refund of the interim rates approved in this case. If it is later determined that the emergency rate increase was not necessary or only partially necessary, the bond will facilitate the refunding of the interim rates to ratepayers. Staff recommends that a bond or an Irrevocable Standby Letter of Credit be required, but does not believe the entire amount of the emergency rate increase need be covered.

Further, normal emergency rate case procedures require that the Company be ordered to file a full rate case application within a reasonable period after interim rates are awarded in this case. Staff believes that the Company should be ordered to file a full rate case application no later than April 30, 2014 using a 2013 test year. Staff notes that the filing of a full rate case application at any time before April 30, 2014 using any recent full 12 month period will fulfill this requirement. Failure to file a full rate case application by April 30, 2014, should result in the immediate suspension of the interim rates approved in this case.

### **Rate Design**

The following is a listing of the Company's current rates, the Company's proposed rates, and Staff's recommended rates:

<u>Description</u>	<u>Current</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
Residential 5/8" minimum	\$16.05	\$29.00	\$20.00
Commercial 5/8" minimum	16.05	40.00	25.00
Commercial 1" minimum	50.00	94.00	75.00
Commercial 2" minimum	200.00	480.00	400.00
Commodity all usage (per 1,000 gallons)	1.31	2.86	1.50

Note that Staff is unable to design inverted tiered commodity rates and is unable to determine the median and average usage of customers, as bill counts are not required in filing an emergency rate increase request.

### **Staff Recommendations**

Staff recommends approval of Staff's recommended emergency rate increase in the amount of \$100,621.

Staff further recommends that the rates approved in this case will be interim until permanent rates are established in the next rate case filing.

Staff further recommends that the Company be ordered to obtain a bond or an Irrevocable Standby Letter of Credit .

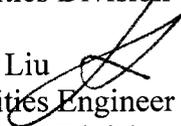
Staff further recommends that the Company be ordered to file a full rate case application no later than April 30, 2014 using a 2013 test year. Failure to file a rate case by April 30, 2014, should result in the immediate suspension of the interim rates approved in this case.

Staff further recommends that the Company file, by January 31, 2014, documentation from ADWR stating that Golden Shores is in compliance with ADWR requirements.

**MEMORANDUM**

**DATE** July 24, 2013

**TO:** Darron Carlson  
Public Utilities Analyst Manager  
Utilities Division

**FROM:** Jian Liu   
Utilities Engineer  
Utilities Division

**RE:** **Golden Shores Water Company**  
**Application for Approval of an Emergency Rate Increase**  
**(Docket No. W-01815A-13-0210)**

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**Introduction**

Golden Shores Water Company ("Golden Shores" or "the Company") presently provides utility service to approximately 1,500 water customers in Mohave County, Arizona. The Company is an Arizona corporation providing water service in Topock, between Bullhead City and Lake Havasu City in Mohave County.

On June 27, 2013 the Company filed with the Arizona Corporation Commission ("Commission" or "ACC") an application for an emergency rate increase. The Company indicated that Golden Shores is running a roughly \$445,000 deficit on adjusted 2012 revenues. Golden Shores is requesting a rate increase of approximately 95%.

**Engineering Analysis**

The existing water system consists of five wells producing approximately 2,350 gallons per minute ("GPM"), and three storage tanks (total storage tank capacity is 450,000 gallons). The Company reported 131,225,000 gallons pumped, 123,135,000 gallons sold, resulting in a water loss of 6.17 percent for calendar year 2012. The water loss for Golden Shores is within the Staff's recommended threshold of 10 percent.

Staff concludes that the Company has adequate production and storage capacity to serve its existing customers and reasonable growth.

## **Arizona Department of Environmental Quality Compliance (“ADEQ”)**

### Drinking Water Compliance Status Report

ADEQ regulates the Company’s Water System under ADEQ Public Water System (“PWS”) #08-024. ADEQ reported that Golden Shores is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated July 24, 2013).

## **Arizona Department Of Water Resources (“ADWR”) Compliance**

The Company is not located in any Active Management Area (“AMA”) and is not subject to any ADWR AMA reporting and conservation requirements. ADWR reported that Golden Shores is currently not in compliance with departmental requirements governing water providers and/or community water systems. The Company’s Annual Report and System Water Plan have not been filed on time and therefore, the Company is not in compliance. (ADWR compliance status report dated July 23, 2013).

## **ACC Compliance**

A check with the Utilities Division Compliance Section showed no delinquent compliance items for the Company. (Compliance Section email dated July 22, 2013).