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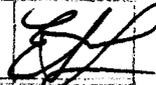
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MAR 31 2014

March 31, 2014

Arizona Corporation Commission
Docket Control Center
1200 W. Washington Street
Phoenix, AZ 85007

ORIGINAL

DOCKETED BY 

Re: Docket No. W-02518A-13-0414 Q Mountain Mobile Home Park,
DBA Q Mountain Vista Water, Rate Application
Supplemental Comments to Staff Report

Dear Sirs:

Q Mountain Mobile Home Park, DBA Q Mountain Vista Water files these supplemental comments to the Staff Report as permitted by the Procedural Order dated March 17, 2014.

INTRODUCTION

Q Mountain Vista expresses its appreciation to Staff for the time and effort undertaken in reviewing our rate filing application. We agree with much of the Staff Report. However, some of the recommendations of Staff fail to recognize the specifics associated with this application, such as the not for profit/volunteer nature of our organization. We are concerned that Staff's recommendations, if not amended as we suggest, will not allow us to pursue the improvements to our system and service supported by both Staff and the Company's Board of Directors. In particular, we are concerned that Staff's recommendations on revenue levels and rate design will have the opposite effect and could result in a reduction in the level of service. We also request implementation of a purchased water adjustor so changes to our cost of wholesale water purchased from the Town of Quartzsite, over which we have no control, are automatically passed through to our customers. Finally, we request the new rates go into effect without delay.

In evaluating the Staff Report and our requested changes, the Commission must consider the specific nature of our organization, our customers and the water system we have inherited.

WE ARE A NOT FOR PROFIT/VOLUNTEER ORGANIZATION

Q Mountain Mobile Home Park is a not for profit home owners association that also does business as Q Mountain Vista Water. The homeowners/customers own the water system and elect the Board of Directors that operates the water system for the benefit of these same homeowners/customers.

There are no shareholder "investors" for us to secure additional revenues.

Our Board of Directors are all customers of the water company. We serve as directors and officers without compensation. We are on the Board because we understand reliable water service is critical to the community in which we live. Our goal is to provide the homeowners/customers that elect us potable water when they turn on their faucets and to do so at the lowest possible cost. WE, THE CUSTOMERS, ARE THE ONES THAT ULTIMATELY PAY FOR THE SYSTEM'S OPERATING COSTS, MAINTENANCE, REPAIRS AND CAPITAL IMPROVEMENTS, including any debt financing. It is critical that rates generate sufficient revenues to meet both anticipated and unanticipated costs and also build reasonable reserves. Otherwise our ability to provide adequate water service to our community is placed at significant risk.

We cannot justify or afford full-time staff. Instead, we look to volunteers, contract labor and outside professionals to advise and assist in the operation of the water system. Unfortunately, our limited resources and isolated location limit the pool of entities with whom we can contract.

We can assure the Commission, each member of the Board and several of our customers spend untold uncompensated hours each year trying to make this system the best it can be with the resources we have available to us.

OUR CUSTOMER BASE IS LARGELY SEASONAL WITH MINIMAL WATER USAGE

The majority (61%) of Q Mountain Vista customers are seasonal (139 of our 228 customers) and reside in mobile homes and RV's. There is limited landscaping or other outside watering. In fact, 24% of the 2,714 bills we produced during the test year were for zero gallons (663 of 2,714). Another 21% of our billings (569 of 2,714) reflect use of 1,000 gallons or less. In other words, 45% of our water bills are for 1,000 gallons or less. Our median monthly usage is only 1,290 gallons, which is 27% less than our 1,760 median usage in 2009. In fact, even though we have 4 additional customers, including the addition of our only 1 inch meter, our test year revenues of \$61,914 were \$4,856 less than the \$66,770 level authorized by Decision No. 72394. These statistics demonstrate that the higher rates and three tier rate design approved by Decision No. 72394 and effective June 1, 2011 have already significantly reduced water usage and impact our ability to achieve the revenue level authorized by the Commission.

Staff recognizes that the seasonality of our customer base mandates that at least 60% of our revenues should come from the monthly minimum. (Staff Report at p. 7). Staff, however, does not justify lowering the percentage of revenues currently recovered from our monthly minimum of 62%. Nor does Staff make any attempt to justify lowering the break over point 1,000 gallons for the third tier (from the 8,001st gallon to 7,001st gallon).

THE BOARD OPERATES A 20 TO 30 YEAR OLD DEVELOPER INSTALLED SYSTEM

Neither the existing Board of Directors nor our customers are responsible for the type and quality of the water system installed in the late 1980s and early 1990s to serve us. Those decisions were made by the subdivision's developer and the governmental entities providing regulatory oversight when the system was installed 20 to 30 years ago. The customers only assumed control over the Board of Directors and the system in 2006. While line losses are important, our first task was to deal with the high nitrate levels in our water supply that rendered it unfit for potable use. We were notified of the issue by ADEQ in 2007, shortly after the customers assumed control of the water system. After reviewing various alternatives and securing customer input (through a vote on the various options), the nitrate issue was

resolved by interconnection with the Q Mountain Vista Water system with the Town of Quartzsite's water system in October, 2008. At that point, we became a captive wholesale customer of the Town.

While connecting to the Quartzsite water system ensured we have a dependable supply of potable water, the pressures fluctuate more than the Town told us they would and on occasion have exceeded the maximum design of our water delivery system. As a result, we have suffered additional line losses since connecting to the Town. We added a pressure reduction assembly in September of 2012 in an effort to lower psi controlling water loss and future damage. See, Staff Engineer Report (Attachment A to Staff Report) at page 10.

In accordance with Decision No. 72394, we conducted an extensive line loss study in an effort to identify the source(s) of the problem and develop viable methods of addressing them. A copy of the 87 page report was filed in Docket No W-02518A-10-0227 on January 2, 2013 and is incorporated in this Docket by this reference. Pages 46-47a of the Water Loss Report (discussing the strategies we have and are implementing) are attached as Exhibit A. However, line breaks and leaks are extremely difficult to locate in our system due to the sandy nature of our soils (limiting detection from the surface) and the inability to isolate much of the system due to a combination of insufficient valves initially installed and prior management's failure to exercise the installed valves regularly. As a result, we have not yet identified all leaks or a cost effective method of doing so. We are in the process of seeking WIFA funding to secure technical assistance on the issue.

ISSUES WITH STAFF RECOMMENDATIONS

We agree with most of the adjustments Staff has recommended in the Staff Report and with most of its recommendations contained on page 9 of the Staff Report, including:

1. An OCRB/FVRB of \$31,851;
2. Filing semi-annual line loss reports;
3. Addressing leaks as soon as they are identified (which we do);
4. Approval of the BMP tariffs;
5. Use of Staff depreciation rates;
6. No service line or meter connection fees; and
7. A \$20 Insufficient Funds charge.

However, we take issue with Staff's recommended revenue requirement and rate design, as well as any condition that might delay the effective date of new rates. Finally, as a system that purchases 100% of its water from a third party that adjusts rates after hearing and approval by the Mayor and Council of the Town of Quartzsite, we ask that a purchased water cost adjustor mechanism be approved to ensure our rates automatically adjust to reflect our actual cost of purchased water.

A. REVENUE REQUIREMENT

Our application requests annual revenues of \$79,020. Staff is recommending revenues of \$77,361 - \$1,659 less than we requested. Staff has underestimated test year rate case expense by \$2,173 (due to a failure to include approved, but uncollected rate case expense from our last (2010) rate case) and by reducing known and definite purchase water costs by \$3,659 as a water loss adjustment. These two adjustments to the Staff Report support a revenue requirement of \$83,193, but we continue to support the lesser \$79,020.

1. Prior Rate Case Expense

The rates approved by Decision No. 72394 were effective June 1, 2011. The Staff recommendations, adopted by the Commission, included \$16,302 in rate case costs, amortized over 5 years, or \$3,261 during the test year. See, Staff Report dated October 5, 2012, p. 8. As of June 1, 2014 only 3 years of the authorized rate case expense (\$9,783) will have been collected, leaving \$6,519 to be recovered under the rates approved by this application.

In this case, Staff recognizes rate case expenses of \$3,831, all related to this case, amortized over 3 years for an annual expense of \$1,277. Staff Report at p. 7. However, Staff failed to add the uncollected portion of rate case expense related to the 2010 rate case (\$6,519). When the uncollected 2010 rate case expense are included, total rate case expense is \$10,350 (\$3,831 + 6,519). When the \$10,350 expense is amortized over 3 years, as recommended by Staff, the annual rate case expense is increased from \$1,277 to \$3,450 (an increase of \$2,173 over the amount included by Staff). This one adjustment increases the revenue requirement to \$79,534 (\$514 more than we initially requested).

2. Water Loss Adjustment

Staff has reduced our test year purchased water costs by \$3,659 to eliminate the cost of unaccounted for water above 10%. We do not contest the manner in which Staff computed the adjustment and we also appreciate losses above 10% are generally inappropriate. However, the specific facts must be considered before any penalty, such as proposed by Staff, is imposed. The adjustment is inappropriate in this case for numerous reasons, including: 1) we have taken reasonable efforts to identify and address line losses, including depletion of all monetary reserves (see 87 page Water Loss Report filed January 2, 2013 in Docket No. W-02518A-10-0227); 2) the system is 20 to 30 years old; 3) the current owners/operators of the system had no control over the nature or quality of system installed; 4) leaks do not appear on the surface quickly and only after large quantities of water have been discharged; 5) the leak problem was exasperated in addressing a water quality issue; 6) failure to pay the actual and full cost of water billed by Quartzsite threatens continued supply of water from the Town; and 7) the Company is a not for profit entity with no shareholders or other revenue source other than Commission approved rates.

We have acted reasonably in trying to resolve the line loss issue and Staff has not suggested otherwise. Our line loss study did not identify all existing leaks, but it and the repairs we have made have exhausted all our existing cash reserves. We are in the process of seeking WIFA grant funding for additional studies of the problem. Replacement of the system is a very expensive alternative. The Town of Quartzsite has estimated that it will cost 1.5 million dollars to replace our entire distribution system and meet the Town's standards.¹ At 5% interest, a 1.5 million dollar thirty year loan would cost the company approximately \$2,684 each month (or 74% of the value of the excess losses on an annual basis). The Board seeks sufficient revenues to continue exploring the situation and repairing the leaks when they are located. Staff's proposed adjustment places its ability to do so in jeopardy.

¹¹ The Town has indicated it will not consider acquiring or taking over management of the system (2 options the current Board would be willing to explore) unless it substantially complies with the Town's standards. Therefore, examining the cost of a system meeting Town standards is appropriate.

The bottom line is that we must continue to pay for all water supplied by the Town, whether it is sold to customers or is unaccounted for water. Failure to pay bills in full when tendered threatens our entire water supply. Reducing our available cash only makes it more difficult to pursue solutions and increases the possibility that we will be unable to pay the cost of our wholesale water. Staff's recommendation of reducing purchased water costs by \$3,659 must be rejected.

B. RATE DESIGN

Staff's rate design is similar to the one we proposed. However, our rate design provides greater revenue stability, which is critical to this non-profit company. In particular, our monthly minimum is \$1.00 more (\$18 versus Staff's \$17) and our first tier is slightly higher (\$3.00 for the first 2,000 gallons versus Staff's \$2.50). As 61% of our customers are seasonal and 45% of the billing statements generated involve either no usage or usage of 1,000 gallons or less, the monthly minimum and first tier are extremely critical to the rate stability of the Company. An \$18 monthly minimum and \$3.00 commodity charge for the first tier is reasonable and should be adopted.

Staff also, without explanation, proposes changing the break point for the third tier to the 7,001st gallon versus the existing 8,001st gallon break point. Such a change, coupled with the commodity rate being proposed will unnecessarily penalize full time residents, who tend to have some outside landscaping, when the overall median usage already reflects very low water usage. There is no demonstration that the rate design needs to encourage additional conservation, especially where Staff provides no method to make up the lost revenue associated with such conservation.

Increasing rates and implementing a three tier rate design in 2011 not only resulted in median water usage being reduced significantly, but also resulted in generating 7% less revenues than authorized. We can anticipate similar impacts on revenues with this rate increase, unless the rates are designed to avoid them. The \$18 monthly minimum and \$3.00 charge for the first 2,000 gallons will go a long way to ensuring that we generate the level of revenues authorized by the Commission. Rejecting Staff's suggestion of lowering the break point of the third rate tier, and reducing the incremental increase on that rate tier will also help to moderate the erosion of revenues that otherwise can be anticipated.

In order for Q Mountain Vista to maintain service, pay bills and to actively pursue identifying and repairing line leaks and the cause of the water losses, we must have a stable revenue source. Staff's rate design unnecessarily threatens our revenue stability and should be rejected.

C. PURCHASED WATER COST ADJUSTER

As a captive customer of the Town of Quartzsite, we have no alternative but to absorb price hikes as they are approved (after Staff study and public hearing) by the Mayor and Council. But for the existing contract rate, we would already be paying a higher cost for purchased water. In fact, had we been paying the current rate, instead of a lower contract rate during the test year, our purchased water cost would have been approximately \$38,276 instead of the \$32,701 we actually paid (or \$5,575 more) and \$9,234 more than the \$29,042 in purchased power costs Staff is recommending we recover in rates. This single increase in expense will consume 60% (\$9,234) of the \$15,303 in operating income the Staff is recommending the Company be allowed (and likely more once new Town rates are approved). Another rate case will take up to a year to process, cost us thousands of dollars in rate case expense,

and consume our limited staff and volunteer time and effort. Therefore, it is respectfully suggested that the Commission approve a purchased water cost adjustor as follows:

Whenever the water rates charged to Company by the Town of Quartzsite are changed, the Company shall include a purchased water surcharge for each gallon of water sold as follows:

Company shall add to its commodity charges approved by the Commission in Docket No. W-02518A-13-0414 the amount determined by subtracting the commodity (gallorage) charge previously charged by the Town from the commodity (gallorage) rate the Town is currently charging.

For illustration purposes only, where the historic Town gallonage charge to the Company is \$1.30 per thousand and the Town's new gallonage rate is \$2.37 per thousand, the surcharge would be \$2.37 minus \$1.30 (or \$1.07). The \$1.07 would then be added to each of the various commodity rates approved in this rate case (e.g. \$3.00 for the first 2,000 gallons would become \$4.07). If the Town's gallonage rate increases to \$2.50 in the future, the surcharge would increase to \$1.20 and the Company would charge \$4.20 per 1,000 gallons for its first tier rate.

The foregoing adjustor would not collect any of the cost incurred for unsold water as it is based solely upon the level of increase over current rates, and is applied only against gallons sold.

We are willing to discuss alternative purchased water adjustors with Staff, and would be willing to defer approval of a specific adjustor based upon a subsequent filing to be made within 4 months of the effective date of the Decision entered in this case. However, we request the Commission to find that such an adjustor mechanism is appropriate and either approve the adjustor we have proposed or, alternatively, hold the docket open for submittal of and decision on a proposed form of adjuster mechanism.

D. THE RATES SHOULD BE EFFECTIVE IMMEDIATELY

Staff recommends that new rates be contingent upon our filing an ADEQ statement that we are supplying potable water. We acknowledge the water system operator with whom we contracted failed to submit MRDL quarterly reports for 2013. Those missing quarters have been supplied by our previous water operator and properly submitted to ADEQ. We are currently working with ADEQ and our new water system operator to submit the Stage 2 DBP Summary and mapping requirements due January 1, 2014 for testing to be done in July, 2014. However, our water supply is provided by the Town. The testing was done and meets requirements and does not impact whether the water was fit for human consumption. Therefore we request that the Staff's recommendation be rejected as unnecessary.

CONCLUSION

We appreciate the efforts of Staff, but request that the various adjustments discussed above be adopted and that a decision consistent with them be approved as quickly as possible.

Thank you for your assistance.

Respectfully submitted,

Cheryl A. Greenstreet

Cheryl A. Greenstreet, Treasurer for the HOA 2014 Board of Directors

Q Mountain Vista
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Quartzsite, AZ 85359
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Attachment A Supplemental Comments
W-02518A-13-0414 Rate Application
from DECISION #72394 COMPLIANCE
ITEM - WATER LOSS REPORT

STRATEGIES TO ACHIEVE WATER LOSS CONTROL

Initially the amount of water loss in 2009 indicated that apparent loss through meter inaccuracies and billing errors was similar to real water loss after accounting for water bursts. The Board of Directors of the HOA used contractors for large main (4" and 6") repairs and the water operator or site manager for small repairs to service lines and 2" distribution line.

Water loss in 2010 indicated that real or apparent losses were getting worse and a course of action was needed. Primarily because long running unreported leaks were not coming to the surface, the Board's focus was to inspect service lines and to replace meters that were 15-20 years in operation and registering over 1MG. Because no testing of meters that were removed was done and continuing usage data did not indicate increased usage numbers, the amount these old meters were under reading was not known.

The Board decided that testing meters in place would give the give the Company better information. Testing at only one flow rate (two gallons per minute) but not at various rates of flow did not give the Company much useful information. However, repair and inspection of service lines found small leaks and many shut off valves missing or not operable.

Most of known leaks have taken thousands of gallons of leakage per day to surface in our sand and gravel soil. Most of our known water burst have been fittings at intersections, most likely caused by flex in the system caused by pressure surges or compression from heavy vehicles. The Company has made an effort to reduce connections and cross-overs with original water sources at well site A and D.

In the summer of 2011, the Company experienced tremendous water losses that did not come to the surface. By September, desperate for assistance, the Board of Directors contracted National Meter and Automation, DBA Advanced Leak Analysis & Solutions Inc. (See Exhibit IIIB, Results, page 81-83). Forty five data loggers were placed and recorded data for two weeks. Nine loggers in three areas indicated "possible leak noise" or noise from other "appurtenances". Ground mike soundings indicated four possible areas to inspect but each site ranged in distance of almost 20 feet. The Company without funds and without a backhoe was not able to "pothole" these areas. Within weeks in October 2011, water leaks came to the surface in these general areas but in other locations than indicated by the survey. After repair of the bursts, the Company was still leaking an estimated 10,000 gallons a day.

The Board, as non-professionals, sought assistance from the Town of Quartzsite. After discussion with Town staff and a presentation of needs to the Town Council, Town staff and Town engineer were directed to evaluate our distribution system. Discussion with Town staff continued for months, stalled by drafting of a Town Water Master Plan.

In the spring of 2012, the Company continued to experience tremendous water loss without coming to the surface. The Board of Directors were reluctant to commission another water leak survey as the September 2011, survey had not been very helpful. In an attempt to be pro-active

Strategies continued

rather than reactive, the Company purchased a soil moisture probe and acoustical leak detection equipment. This strategy was also unsuccessful. Contractor's and volunteers need more training and a commitment to listen at 2:00 in the morning.

The Company site manager in discussion with the Town water operator realized that pressure fluctuations from 50 PSI to 70 PSI that had been observed for months were not restricted at the backflow assembly because a pressure reducer had not been installed, as engineered, by the previous site manager because of reassurances from the Town that PSI would never exceed 58. The Company concluded that a system designed twenty years ago for operating pressure of 45-55 PSI was being "blown apart" by Town pressure surges.

In July 2012, six water leaks on Cienega surfaced and were repaired. Company water loss dropped dramatically. A pressure reducer at the interconnection was installed September 22, 2012. Several small leaks have surfaced this fall, but water loss has been approximately 7,000 gallons a day for five months of which an estimated 1,100 gallons is apparent water loss.

Currently the Company is unable to do night testing by quadrant or district. In 2011 and 2012, the site manager has worked to make shut off valves within the distribution system operate. In June 2012, additional gate valves were installed. The Company would like to isolate quadrants of the distribution system and listen for leak noise at 2:00 am to bring our unreported leak losses down.

Because the Town of Quartzsite is unlikely to be able to assist us with capital improvement funding, the Board of Directors has asked ADEQ for technical assistance in evaluating the Company water system. Once a determination of whether the distribution system can be repaired or is not able to be repaired without reconstruction, the Board plans to apply for grant funds for engineering from WIFA or authorization for an emergency rate increase for engineering with approval of the Arizona Corporation Commission.

COST EFFECTIVENESS

The estimated cost to meet the Town of Quartzsite standard of 8" water lines on every perimeter street and every cross street is over \$1.5M. This would be approximately \$6,000 per parcel in the 80 acres served in the east ½ of the SW ¼ of Section 28. This reconstruction of the distribution system would not be cost effective for water loss of 210,000 gallons per month which costs the Company \$273, approximately \$1.20 per service per month.

As previously analyzed on page 10, it is not cost effective to recapture apparent loss meter by meter. If meter replacement cost \$130 and average monthly consumption is 3,000 gallons, and the old meter is under reading by 15%, it would take 70 months to recapture investment. In 2011 the Company spent over \$6,000 for meter replacement and water line repair. Average water use dropped to 85.1 gallons per service per day in 2012.

However, water loss in 2011 and 2012 have seriously effected the financial health of the Company and drained all cash reserves. The Company needs reduced water loss and water repair costs to be able to repay the HOA monies that were loaned to complete needed capital improvements of gate valves, installation of a pressure reducer, and necessary rebuild of the backflow devise within our current Tariff.

Cost Effectiveness continued

The Company is a small water system serving less than 500 people during peak winter season. The service area is approximately 63 acres, 242 small parcels (4.4/acre) and four adjoining parcels. Our parcels are minimally landscaped with naïve plantings. Our occupancy is high, 85% in the winter; low 23.5% in the summer season; although some parcels are only occupied for several weeks rather than months. Our subdivision is 40% RV's and 60% residential structures. RV parcels typically use less water than mobile homes and park models. Service density is 82 (246 parcels/3 miles of distribution line). Our development is designed for seniors and occupancy typically is two persons per household and not families of three or more.

Our water system's per capita usage is 50 gallons per day (ten year study). Typical of Arizona is 150 gallons per capita per day. If our system's usage was more typical, our water usage would be 25 MG. Our current real annual water loss of 4.0 MG for 2012 would be 13.8% of water source of 29 MG.

In 2013, if current water loss continues, and consumption averages 100 gallons per service, the Company real water loss would be 2.15 MG and estimated WS would be 11.87 MG or 18.1% by volume. This is not 10% of WS by volume, but better than real water loss the Company has experienced in the last three years.

The Company has limited resources in revenue and human resources. Our Company has been operating at a loss for a number of years. The Company governing board, the HOA Board of Directors, and site manager are volunteers. Our water operator and large parts supplier are not local. We must contract for heavy equipment such as backhoes and vacuum trucks.

Because of limited revenue and human resources the Company GOALS FOR 2013 are:

- 1) Try to be proactive in finding unreported leaks in our system.
- 2) District separation and night monitoring with detection equipment and night flow testing.
- 3) Optimize leak repair -- timely, lasting.
- 4) Operate with no more than 45 PSI within the system
- 5) System rehabilitation: Continue to inspect meters and service lines, test as many meters as possible for low flows and replace as possible to improve apparent loss.

Note: estimated monthly cost of 1,100 gallons/day of apparent loss @ \$3.70/thousand = \$122 VS. estimated 5,900 gallons/day of real loss @ \$1.30/1000 = \$230. Currently est. CARL is greater than AL by a factor of 5.4, but cost of CARL is greater than cost of AL by a factor of 1.9.