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BEFORE THE ARIZONA CORPORATION

COMMISSIONERS

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

Arizona Corporation Commission

DOCKETED

FEB 26 2014

DOCKETED BY nr

IN THE MATTER OF THE APPLICATION OF
ANTELOPE WATER COMPANY FOR A
PERMANENT RATE INCREASE.

DOCKET NO. W-02005A-13-0201

DECISION NO. 74366

ORDER

Open Meeting
February 6 and 7, 2014
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

PROCEDURAL HISTORY

1. On June 20, 2013, Antelope Water Company ("AWC" or "Company") filed an application with the Commission for a permanent rate increase and on July 12, 2013, the Company filed an amendment to the application (collectively, the "Application"). AWC attached to the Application a copy of the notice provided to customers on June 18, 2013, regarding the Application. No customer comments have been filed in response to the notice.

2. On July 18, 2013, the Commission's Utilities Division ("Staff") advised AWC that its application was insufficient and provided the Company with Data Requests, to which AWC responded on July 31, 2013.

3. On August 5, 2013, Staff filed its Sufficiency Letter stating the Application was sufficient pursuant to Arizona Administrative Code ("A.A.C.") R14-2-103, and classifying AWC as a Class E utility.

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1 is not metered prior to distribution to customers and AWC calculates the total water usage through its
 2 customers' service meters. The average and median water use by customers during the test year were
 3 18,880 gallons and 10,919 gallons per month, respectively.

4 10. AWC's present rates and charges, as proposed by AWC in its Application, and as
 5 recommended by Staff in its Staff Report, are as follows:

	<u>Present Rates</u>	<u>Proposed Rates Company</u>	<u>Proposed Rates Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8 x 3/4-inch Meter	\$11.50	\$17.50	\$13.50
3/4-inch Meter	13.00	19.00	13.50
1-inch Meter	20.00	26.00	33.75
1 1/2-inch Meter	28.50	34.50	67.50
2-inch Meter	60.00	66.00	108.00
3-inch Meter	120.00	126.00	216.00
4-inch Meter	250.00	256.00	337.50
6-inch Meter	500.00	506.00	675.00

Gallons Included in Minimum	1,000	1,000	0
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13 **COMMODITY CHARGE:**
 14 **(Per 1,000 gallons)**

15 **All Meter Sizes**

Over 1,000 gallons	\$1.50	\$1.50	N/A
0 to 5,000 gallons	N/A	N/A	\$1.00
5,001 to 15,000 gallons	N/A	N/A	1.40
Over 15,000 gallons	N/A	N/A	2.10

18 **SERVICE LINE AND METER INSTALLATION CHARGES:**
 19 **(Refundable Pursuant to A.A.C. R14-2-405)**

	<u>Current Charges</u>	<u>Company's Proposed Charges</u>	<u>Staff Recommended Service Line</u>	<u>Staff Recommended Meter</u>	<u>Staff Recommended Total Charges</u>
5/8" x 3/4" Meter	\$310.00	\$310.00	\$415.00	\$105.00	\$520.00
3/4" Meter	350.00	350.00	415.00	205.00	620.00
1" Meter	400.00	400.00	465.00	265.00	730.00
1-1/2" Meter	610.00	610.00	At Cost	At Cost	At Cost
2" Meter Turbine	1,025.00	1,025.00	At Cost	At Cost	At Cost
3" Meter Turbine	1,405.00	1,405.00	At Cost	At Cost	At Cost
4" Meter Turbine	2,240.00	2,240.00	At Cost	At Cost	At Cost
6" Meter Turbine	4,345.00	4,345.00	At Cost	At Cost	At Cost

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	Present Rates	Proposed Rates Company	Proposed Rates Staff
<u>SERVICE CHARGES:</u>			
Establishment	\$20.00	\$20.00	\$20.00
Establishment (After Hours)	40.00	40.00	N/A ³
Service Charge (After Hours)	N/A	N/A	\$40.00
Reconnection (Delinquent)	\$40.00	\$40.00	40.00
Meter Test (If Correct)	30.00	30.00	30.00
Meter Re-Read (If Correct)	10.00	10.00	10.00
NSF Check	15.00	15.00	15.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-establishment (Within 12 months)	**	**	**
Deferred Payment (Per Month)	1.50%	1.50%	1.50%
Late Fee (Per Month)	1.50%	1.50%	1.50%
<u>MONTHLY SERVICE CHARGE FOR FIRE SPRINKERS:</u>			
4" or Smaller	N/A	N/A	***
6"	N/A	N/A	***
8"	N/A	N/A	***
10"	N/A	N/A	***
Larger than 10"	N/A	N/A	***

* Per Commission Rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** 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 line.

11. Staff determined AWC's original cost rate base to be negative \$5,717, which is the same as its fair value rate base ("FVRB"). This is a \$208,150 increase to AWC's proposed FVRB of negative \$213,867, primarily due to Staff's \$209,050 adjustment to accumulated amortization of contribution in aid of construction. Staff also made adjustments to the Company's proposed plant-in-service, accumulated depreciation, and working capital amounts.

12. We find Staff's adjustments to AWC's FVRB are reasonable and we adopt Staff's proposed FVRB of negative \$5,717.

13. Staff increased AWC's proposed test year operating revenues by \$231, from \$29,070 to \$29,301.

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³ Staff's Schedule BCA-4 lists a recommended Establishment (After Hours) Service Charge of \$40.00. However, in the Staff Report, Staff recommended the elimination of the Establishment (After Hours) Service Charge in favor of an overall After Hours Service Charge of \$40.00. (Staff Report, page 8.)

1 14. Staff made several adjustments to AWC's proposed test year operating expenses,
2 resulting in a decrease of \$13,017, from \$39,856 to \$26,839.⁴ The decrease to AWC's test year
3 operating expenses is primarily due to Staff's \$12,905 reduction in depreciation expense. Staff also
4 made adjustments to AWC's proposed repairs and maintenance expense, water testing expense, rate
5 case expense, and property tax expense.

6 15. Based on Staff's analysis, AWC's present rates and charges produced adjusted
7 operating revenues of \$29,301 and adjusted operating expenses of \$26,839, resulting in a net test year
8 operating income of \$2,462, a cash flow of \$710,⁵ and an operating margin of 8.40 percent.

9 16. AWC's proposed rates and charges produce operating revenues of \$33,606 and
10 operating expenses of \$39,856, resulting in operating loss of \$6,250, for no return on FVRB, but
11 yielding a positive cash flow of \$4,903.

12 17. Given AWC's negative FVRB, Staff was unable to determine a meaningful rate of
13 return for AWC. Instead, Staff adopted a cash flow methodology to calculate adequate revenue to
14 meet the Company's operating needs. Staff's recommended rates and charges result in a \$4,305
15 increase over adjusted test year revenues, or 14.69 percent, for total revenues of \$33,606. With
16 recommended operating expenses of \$27,029, AWC would receive \$6,577 in operating income,
17 resulting in a cash flow of \$4,825 and an operating margin of 19.57 percent.

18 18. We find Staff's operating revenue, operating expense (as revised to reflect a 19
19 percent property tax assessment ratio) and revenue recommendations reasonable and we adopt them.

20 19. AWC's proposed rates would increase the average monthly customer water bill by
21 \$7.50, or 19.6 percent, from \$38.32 to \$45.82, and increase the median monthly customer water bill
22 by \$7.50, or 28.4 percent, from \$26.38 to \$33.88.

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26 ⁴ In their property tax expense calculations, both AWC and Staff used an assessment ratio of 22.5 percent. Pursuant to
27 A.R.S. § 42-15001, the current property tax assessment ratio is 19 percent. The operating expense amounts stated herein
28 are based on revisions to Staff's calculations found on Schedule BCA-3, page 4, using the current statutory assessment
ratio, and the flow through of the corrected property tax figures to Staff schedules BCA-1 and BCA-3, page 1.

⁵ In Decision No. 60166 (April 17, 1997), the Commission authorized a \$75,000 loan from the USDA Rural Development
for system improvements. The annual debt service on the 40-year loan is \$3,132.

1 20. Staff's proposed rates would increase the average monthly customer water bill by
2 \$2.33, or 6.1 percent, from \$38.32 to \$40.65, and increase the median monthly customer water bill by
3 \$0.41, or 1.5 percent, from \$26.38 to \$26.79.

4 21. AWC did not file objections to Staff's recommended rates and charges.

5 22. We find Staff's proposed rates and charges reasonable and we adopt them.

6 23. Staff recommends that AWC file with Docket Control, as a compliance item in this
7 docket, within 30 days of the effective date of this Decision, a schedule of the approved rates and
8 charges.

9 24. Staff further recommends that AWC adopt Staff's typical and customary depreciation
10 rates shown in the attached Exhibit A on a going-forward basis.

11 25. In Staff's Engineering Report, Staff stated that during an on-site inspection with AWC
12 representatives, Staff observed a new 50,000 gallon storage tank, a new hydro-pneumatic pressure
13 tank, and a building for housing new filtration equipment located on the site containing the
14 Company's water treatment plant; however, the storage tank and the pressure tank were not
15 connected to the system.

16 26. Staff learned that in 2008, a developer planned a new subdivision within the
17 Company's certificated area and constructed the infrastructure for the subdivision and two model
18 homes using loan proceeds acquired from AEA Federal Credit Union ("AEA"). The developer did
19 not obtain an Approval to Construct the system infrastructure from the Arizona Department of
20 Environmental Quality ("ADEQ"), nor was a main extension agreement submitted to the
21 Commission for approval. The developer subsequently filed for bankruptcy and AEA acquired
22 ownership of the new tanks, the building at AWC's treatment site, the subdivision and the model
23 homes. Staff noted that the plant items are not included in the Company's rate base.

24 27. According AWC, it has reached an agreement with AEA regarding the disposition of
25 the plant items under the terms of a Water Service Agreement ("Agreement"). Pursuant to the
26 Agreement, AEA will transfer possession and ownership of the storage tank, pressure tank and the

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1 building housing the filtration system to AWC and AWC will provide water service to five lots
2 within the new subdivision. The Company states that AEA has signed the Agreement, but as of the
3 date of the Staff Report AEA had not provided a signed copy to Staff.

4 28. Staff recommends that AWC file with Docket Control, as a compliance item in this
5 docket, within 90 days of the effective date of this Decision, copies of the fully-executed Agreement.

6 29. Engineering Staff also noted that the raw water provided by WMIDD is not metered
7 and the Company accounts for the total raw water volume received by total customer usage. Because
8 the inflowing raw water is not metered, the Company cannot compute any water loss resulting from
9 leakage, theft, filter backwashing and flushing. Staff observed that AWC has an inoperable flow
10 meter on its booster pump discharge pipe that, if repaired or replaced, could provide adequate water
11 volume information.

12 30. Staff recommends that AWC repair or replace the broken flow meter on the booster
13 pump discharge pipe and file with Docket Control, as a compliance item in this docket, within 90
14 days of the effective date of this Decision, documentation demonstrating that the repair or
15 replacement of the flow meter has been completed.

16 31. Because the Company has not been able to determine levels of non-accounted for
17 water, Staff recommends that once there is a functioning flow meter, the Company should begin
18 monitoring water loss on a monthly basis by coordinating readings of the flow meter, filter backwash
19 and individual customer meters and report the water loss monitoring results in its Annual Reports to
20 the Utilities Division.

21 32. Further, in the event water loss reported in any Annual Report is greater than 10
22 percent, AWC should prepare a report containing a detailed analysis and plan to reduce water loss to
23 less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less
24 than 10 percent, the Company should submit a detailed cost/benefit analysis to support its opinion. In
25 no case should the Company allow water loss to be greater than 15 percent. The water loss reduction
26 report or the detailed analysis, whichever is submitted, should be filed with Docket Control as a
27 compliance item in this docket no later than March 31st of the year following a reported water loss of
28 greater than 10 percent.

1 33. Staff also concluded that AWC does not have adequate storage capacity and
2 recommends that the Company increase capacity by a minimum of 15,000 gallons. Staff stated that
3 installation of the storage tank transferred from AEA to AWC would resolve the storage concerns.

4 34. Staff recommends that AWC file with Docket Control, as a compliance item in this
5 docket, no later than December 31, 2014, a copy of the ADEQ Approval of Construction for the
6 additional storage capacity.

7 35. AWC is not within an Arizona Department of Water Resources (“ADWR”) active
8 management area (“AMA”). In a Compliance Status Report dated July 1, 2013, ADWR determined
9 that AWC is currently in compliance with departmental requirements governing water providers
10 and/or community water systems.

11 36. Staff recommends that the Company file with Docket Control, as a compliance item in
12 this docket, within 90 days of the effective date of this Decision, at least three BMPs in the form of
13 tariffs that substantially conform to the templates available at the Commission’s website, for the
14 Commission’s review and consideration. Not more than two of the BMPs may come from the
15 “Public Awareness/Public Relations” or “Education and Training” categories. In its next general rate
16 application, AWC may request recovery of the actual costs incurred by BMP implementation.

17 37. In a Compliance Status Report dated August 26, 2013, ADEQ determined that AWC
18 is in full compliance with ADEQ requirements and is currently delivering water that meets water
19 quality standards required by A.A.C., Title 18, Chapter 4.

20 38. According to Staff, AWC is in compliance with Commission filing requirements and
21 is in good standing with the Corporations Division.

22 39. Staff’s review of the Commission’s Consumer Services records showed that between
23 January 1, 2010, and September 16, 2013, there were no inquiries, complaints or opinions filed
24 against AWC.

25 40. AWC has Commission-approved Backflow and Curtailment tariffs.

26 41. AWC is current on its property and sales tax payments.

27 42. We believe it is reasonable to allow AWC to collect from its customers a
28 proportionate share of any privilege, sales or use tax as provided for in A.A.C. R14-2-409(D).

1 43. Because an allowance for the property tax expense is included in AWC's rates and
 2 will be collected from its customers, the Commission seeks assurances from AWC that any taxes
 3 collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the
 4 Commission's attention that a number of water companies have been unwilling or unable to fulfill
 5 their obligation to pay the taxes that were collected from its ratepayers, some for as many as twenty
 6 years. It is reasonable, therefore, that as a preventive measure AWC shall file annually, as part of its
 7 annual report, an affidavit with the Commission's Utilities Division attesting that the Company is
 8 current in paying its Arizona property taxes.

9 44. Staff's recommendations, as well as the requirements stated in Findings of Fact Nos.
 10 42 and 43, are reasonable and shall be adopted.

11 **CONCLUSIONS OF LAW**

12 1. AWC is a public service corporation within the meaning of Article XV of the Arizona
 13 Constitution and A.R.S. §§ 40-250, 40-251.

14 2. The Commission has jurisdiction over AWC and the subject matter of the Application.

15 3. AWC gave notice of the Application in accordance with Arizona law.

16 4. The rates and charges authorized herein are just and reasonable and should be
 17 approved without a hearing.

18 5. Staff's recommendations, as well as the requirements stated in Findings of Fact Nos.
 19 42 and 43, are reasonable and should be adopted.

20 **ORDER**

21 IT IS THEREFORE ORDERED that Antelope Water Company is hereby directed to file with
 22 Docket Control, as a compliance item in this docket, by February 28, 2014, revised schedules setting
 23 forth the following rates and charges:

24 **MONTHLY USAGE CHARGE:**

25 5/8 x 3/4-inch Meter	\$ 13.50
3/4-inch Meter	13.50
1-inch Meter	33.75
26 1 1/2-inch Meter	67.50
2-inch Meter	108.00
27 3-inch Meter	216.00
4-inch Meter	337.00
28 6-inch Meter	675.00

COMMODITY CHARGE:
(Per 1,000 gallons)

All Meter Sizes

0 to 5,000 gallons	\$ 1.00
5,001 to 15,000 gallons	1.40
Over 15,000 gallons	2.10

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

	<u>Service Line</u>	<u>Meter Charge</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$415.00	\$105.00	\$520.00
3/4" Meter	415.00	205.00	620.00
1" Meter	465.00	265.00	730.00
1-1/2" Meter	At Cost	At Cost	At Cost
2" Meter	At Cost	At Cost	At Cost
3" Meter	At Cost	At Cost	At Cost
4" Meter	At Cost	At Cost	At Cost
6" Meter	At Cost	At Cost	At Cost

SERVICE CHARGES:

Establishment	\$20.00
Service Charge (After Hours)	40.00
Reconnection (Delinquent)	40.00
Meter Test (If Correct)	30.00
Meter Re-Read (If Correct)	10.00
NSF Check	15.00
Deposit	*
Deposit Interest	*
Re-establishment (Within 12 months)	**
Deferred Payment (Per Month)	1.50%
Late Fee (Per Month)	1.50%

MONTHLY SERVICE CHARGE FOR FIRE SPRINKERS:

4" or Smaller	***
6"	***
8"	***
10"	***
Larger than 10"	***

* Per Commission Rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** 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 line.

IT IS FURTHER ORDERED that, in addition to collection of its regular rates and charges, Antelope Water Company shall collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409(D).

1 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
2 provided on and after March 1, 2014.

3 IT IS FURTHER ORDERED that Antelope Water Company shall notify its customers of the
4 authorized rates and charges and their effective date, in a form acceptable to the Commission's
5 Utilities Division Staff, by means of an insert in its next regularly scheduled billing.

6 IT IS FURTHER ORDERED that Antelope Water Company shall use the depreciation rates
7 shown in the attached Exhibit A on a going-forward basis.

8 IT IS FURTHER ORDERED that Antelope Water Company file with Docket Control, as a
9 compliance item in this docket, within 90 days of the effective date of this Decision, documentation
10 demonstrating that the repair or replacement of the flow meter on the booster pump discharge pipe
11 has been completed.

12 IT IS FURTHER ORDERED that Antelope Water Company shall begin monitoring water
13 loss on a monthly basis by coordinating readings of the flow meter, filter backwash and individual
14 customer meters and shall report the water loss monitoring results in its Annual Reports to the
15 Utilities Division.

16 IT IS FURTHER ORDERED that in the event water loss reported in any Annual Report is
17 greater than 10 percent, Antelope Water Company shall prepare a report containing a detailed
18 analysis and plan to reduce water loss to less than 10 percent. If Antelope Water Company believes it
19 is not cost effective to reduce the water loss to less than 10 percent, the Company shall submit a
20 detailed cost/benefit analysis to support its opinion. In no case shall the Company allow water loss to
21 be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is
22 submitted, shall be filed with Docket Control as a compliance item in this docket no later than March
23 31st of the year following a reported water loss of greater than 10 percent.

24 IT IS FURTHER ORDERED that Antelope Water Company shall file with Docket Control,
25 as a compliance item in this docket, within 90 days of the effective date of this Decision, a copy of
26 the executed Water Service Agreement between Antelope Water Company and AEA Federal Credit
27 Union.

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1 IT IS FURTHER ORDERED that Antelope Water Company shall file with Docket Control,
2 as a compliance item in this docket, no later than December 31, 2014, a copy of the ADEQ Approval
3 of Construction for the additional storage capacity.

4 IT IS FURTHER ORDERED that Antelope Water Company shall file with Docket Control,
5 as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three
6 BMPs in the form of tariffs that substantially conform to the templates available at the Commission's
7 website, for the Commission's review and consideration. Not more than two of the BMPs may come
8 from the "Public Awareness/Public Relations" or "Education and Training" categories. In its next
9 general rate application, Antelope Water Company may request recovery of the actual costs incurred
10 by BMP implementation.

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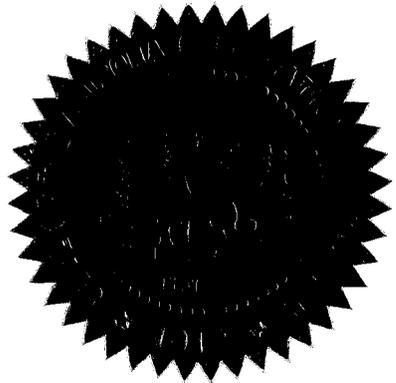
1 IT IS FURTHER ORDERED that Antelope Water Company shall file annually, as part of its
2 Annual Report, an affidavit with the Commission's Utilities Division attesting that it is current in
3 paying its property taxes in Arizona.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
7  
8 CHAIRMAN COMMISSIONER

9   
10 COMMISSIONER COMMISSIONER COMMISSIONER



11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this 24th day of February 2014.

17 
18 JODI JERICH
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____
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1 SERVICE LIST FOR: ANTELOPE WATER COMPANY

2 DOCKET NO.: W-02005A-13-0201

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4 John Kulberg, Director
ANTELOPE WATER COMPANY
P. O. Box 843
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6 Janice Alward, Chief Counsel
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EXHIBIT A

Table C. Depreciation Rate Table for Water Companies

Asset No.	Depreciable Plant	Average Service Life (Years)	Annual Depreciation Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.00
320.3	Point-of-Use Treatment Devices	10	10.00
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	—	—