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MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: May 2, 2014

RE: STAFF'S RESPONSE TO Q MOUNTAIN MOBILE HOME PARK DBA Q MOUNTAIN VISTA WATER'S COMMENTS TO THE STAFF REPORT ISSUED ON MARCH 5, 2014 (DOCKET NO. W-02518A-13-0414)

Arizona Corporation Commission
DOCKETED

MAY 02 2014

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On March 31, 2014, a Procedural Order was issued directing Staff to file a response to Q Mountain Mobile Home Park DBA Q Mountain Vista Water's ("Company") comments to the Staff Report by April 18, 2014. Staff requested an extension until May 2, 2014 to submit this response.

Pursuant to that Order and the extension granted, Staff hereby submits its response.

SMO:TBH:red/ML

Originator: Teresa B. Hunsaker

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Service List for: Q Mountain Mobile Home Park
Docket No. W-02518A-13-0414

Ms. Cheryl A. Greenstreet
Secretary, Board of Directors
Q Mountain Mobile Home Park
PO Box 4930
Quartzsite, Arizona 85359

Mr. Robert Kelley, Jr.
Board of Directors
Q Mountain Mobile Home Park
PO Box 4930
Quartzsite, Arizona 85359

Ms. Janice Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Ms. Lyn Farmer
Director, Hearings Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

**ARIZONA CORPORATION COMMISSION
STAFF'S RESPONSE TO COMMENTS TO THE STAFF REPORT
DOCKET NO. W-02518A-13-0414
MAY 2, 2014**

INTRODUCTION

On November 29, 2013, Q Mountain Mobile Home Park dba Q Mountain Vista Water ("Q Mountain" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent increase in its water rates and charges.

On December 20, 2013, the Commission's Utilities Division ("Staff") filed a Letter of Sufficiency, stating that Q Mountain's rate application had met the sufficiency requirements of the Arizona Administrative Code ("A.A.C."), and that Q Mountain had been classified as a Class D utility. On February 11, 2014, the Company filed amendments to its rate application.

On March 5, 2014, Staff filed a Staff Report recommending approval of Q Mountain's rate application using Staff's recommended rates and charges.

Administrative Law Judge ("ALJ") Yvette B. Kinsey issued a procedural order on March 17, 2014, ordering that Q Mountain shall file, on or before March 31, 2014, either a letter attesting that the Company is in agreement with Staff's recommendations as stated in the Staff Report or comments discussing any disagreements with Staff's recommendations.

On March 17, 2014, Q Mountain docketed a letter dated March 13, 2014, stating its disagreement with Staff's recommendations regarding the rate design and operating expenses.

The ALJ issued a procedural order on March 28, 2014, ordering Staff to file, on or before April 18, 2014, a response addressing the disagreements raised by the Company to Staff's recommendations. The ALJ also suspended the timeclock in this matter.

On March 31, 2014, Q Mountain docketed Supplemental Comments to the Staff Report. On April 9, 2014, Q Mountain docketed further Supplemental Comments to the Staff Report regarding a Purchased Water Cost Adjustor.

On April 17, 2014, Staff submitted a request for extension to May 2, 2014, to the ALJ.

On April 18, 2014, the ALJ granted an extension until May 2, 2014.

On April 24, 2014, Q Mountain docketed further Supplemental Comments regarding the Town of Quartzsite's ("Town") proposed water rates for Fiscal Year 2014-2015.

The Company filed a total of 13 comments in response to the recommendations made in the March 5, 2014 Staff Report. These comments are shown below along with the Staff's reply to each

of the comments. Ten of the Company's comments related to rate design issues, the revenue requirements and a request for a purchased water adjustor mechanism.

The Company has requested that it be allowed to pass through increases in its purchased water costs through a Purchased Water Adjustor Mechanism ("PWAM"). The Company is requesting to recover increases in both the commodity rate and the customer charge from the Town. Q Mountain currently has a contract with the Town that expires on August 31, 2014. The Company would then be subject to the current rates set by Town. The Company stated that the Town is in the midst of a water study to possibly increase the cost of water. Due to the Company's reliance on the Town for all its water supply, its inability to control the cost of that water supply in the face of the Town's rate increases, Staff recommends the creation of a PWAM that will allow the Company to impose a surcharge to cover increased costs. On April 21, 2014, the Town Manager, Laura A. Bruno provided the Company the new recommended rates to be effective on or before October 1, 2014 for the Company as follows: Base Monthly Rate \$1,047.29, Commodity Rate for first 15,000 gallons \$4.48 per 1,000 gallons and over 15,000 gallons \$5.43 per 1,000 gallons. These new recommended rates are going through workshops and the public hearing process and have not been adopted by the Town Council as of May 2, 2014.

RATE DESIGN

1. Company Statement – March 17, 2014: "Q Mountain MHP Water Company has concerns regarding the Staff proposed rate design tier 1. Staff is proposing a rate of \$2.50 per thousand gallons of water usage for zero to 2,000 gallons monthly usage for commodity charges first tier. In September 2014, Company will be paying the Town of Quartzsite a wholesale commodity rate of \$2.37 per thousand gallons of water. That is only 13 cents per thousand gallons of water contributing to the stability of our Company in this tier. This Town commodity rate has been in place since January 1, 2011, by Resolution 10-01 set January 26, 2010. The Town is currently studying their water rate structure for rates for the next five years."

Response: Staff is now recommending approval of a PWAM that will allow the Company to recover increases in both the commodity rate and the customer charge billed from the Town. The approval of a PWAM will address the points raised by the Company. Please refer to the attached proposed PWAM Tariff.

Staff further recommends that the Company notify its customers of any changes in the Town's water charges within 30 calendar days of notice provided by the Town to the Company. Staff also recommends that the surcharge be applied 30 calendar days after the Town implements new water charges.

Staff recommends that the Company file documentation with the Utilities Division of the Commission showing the calculation of the surcharges using

the same methodology discussed herein 30 days prior to the implementation of new surcharges due to new water charges by the Town. Staff further recommends that the Company be permitted to implement the Staff Recommended PWAM Tariff, which is set forth in Exhibit A.

2. Company Statement – March 17, 2014: “In 2012, the Company sold 3.073 million gallons of water at the tier 1 rate. At 13 cents per thousand, tier 1 water sales would contribute \$399.49 above the cost of water purchased from the Town beginning September 2014. Tier 1 water for 2012, 3.073 million gallons is 44% of our water sales. It is conceivable by 2015 that the Company could be paying more for tier 1 water than it is charging our customers.”

Response: This cost of water issue is addressed by the recommended approval of a PWAM in Response 1.

3. Company Statement – March 17, 2014: “Q Mt. HOA Water requests that Tier 1 water consumption contribute more to the stability of the Company either by raising the Staff proposed Tier 1 rate of \$2.50 per thousand gallons to the Company proposed rate of \$3.00 per thousand gallons or allows the Company to pass through all Town increases in cost of water purchased as a surcharge.”

Response: Tier 1 rates are purposely set at a lower rate for non-discretionary use. Staff is recommending a PWAM in Response 1 that will allow the Company to recover increases in both the commodity rate and the customer charge from the Town.

4. Company Statement – March 17, 2014: “Q Mt. HOA Company has concerns regarding the Staff proposed rate design Tier 3. Staff is proposing a rate of \$7.50 per thousand gallons of water for usage over 7,000 gallons per month for commodity charge third tier.”

Response: Staff’s recommended revenue should produce 84 percent of the revenue through the monthly charges and Tier 1.

| Table 1 - Percentage of Proposed Company Revenues for 5/8" Residential Meter | | | | |
|--|-------------|------------|------------|-------------|
| Base | Commodity | | | Total |
| | 0-2000 | 2001-8000 | 8001+ | |
| \$48,852.00 | \$20,421.33 | \$6,381.54 | \$1,919.06 | \$77,573.92 |
| 63% | 26% | 8% | 2% | 100% |

| Table 2 - Percentage of Staff Recommended Revenues for 5/8" Residential Meter | | | | |
|---|-------------|------------|------------|-------------|
| Base | Commodity | | | Total |
| | 0-2000 | 2001-7000 | 7001+ | |
| \$46,138.00 | \$17,017.77 | \$9,384.61 | \$2,529.76 | \$75,070.14 |
| 61% | 23% | 13% | 3% | 100% |

5. Company Response – March 17, 2014: “Q Mt. HOA Water Company would rather see an increase in the monthly usage charge than further constrain of commodity usage for families and year round residences with minimal landscaping. Each additional \$1.00 in monthly minimum charge generates \$2,276 (using 2012 data) greatly contributing to the stability of the Company.”

Response: Staff designed the recommend rates with more than 60 percent in the minimum charges and less than 40 percent in the commodity rates. Staff considered the seasonal nature of the Company as well as the year round residents. Increases to the monthly minimums impacts the low users disproportionately whether seasonal or year round in nature.

6. Company Response – March 31, 2014: Entire Section “OUR CUSTOMER BASE IS LARGELY SEASONAL WITH MIMINAL WATER USAGE”. “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).

Response: Staff’s recommended rate design reflects the present percentage coming from the monthly minimum. The Company did not present sufficient reasons to raise the percentage to 62%. Additionally, Staff addresses the Company’s Comments in Response 5.

OPERATING EXPENSES

7. Company Response – March 17, 2014: “Q Mt. HOA Water Company has concerns regarding the analysis of Purchased Water page 6 of the Staff Report and Schedule TBH-3 page 2 of 4, Section B. Non-revenue water above 10% loss plus non-revenue water for beneficial use is not considered in operating expenses, but is a contingency expense provided for by operating margin. Unfortunately Company’s background water loss is significant and chronic. The Company was unable to identify these leaks using a Leak Detection Survey and many of our small burst do not come to the surface in our sand and gravel topography for weeks or months depending on temperature. Using 2013 water loss data, the cost of non-revenue water above 10% and beneficial use at September 2014 rates would be \$6,111 (2.578 million gallons loss @ \$2.37/thousand cost) or 40% of Staff expected operating margin of \$15,303 if generated.”

Response: The responsibility to keep water losses at 10% or lower rests with the Company. The ratepayers should not be burdened with the incremental costs associated with excess water losses. The total allowable gallons

included 220,000 gallons for non-revenue beneficial uses, gallons sold plus the allowable 10 percent water loss. The recoverable cost of water associated with lost volumes must be held to a just and reasonable level for ratemaking purposes.

NOT-FOR-PROFIT ORGANIZATION

8. Company Response – March 31, 2014: “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.” and the Entire Section “WE ARE A NOT FOR PROFIT/VOLUNTEER ORGANIZATION”.

Response: Staff believes its recommendations are just and reasonable and consideration has been given to the fact that the Company is a not-for-profit organization. However, regardless of whether a public service corporation has chosen a corporate structure, rates should be fair, just and reasonable to its customers. The recoverable expenses must be deemed necessary to support business activities and recurring in nature. The not-for-profit nature of the organization does not remove the fact that its customers are customers, similar to those of a for-profit entity.

STAFF RECOMMENDED REVENUE REQUIREMENT AND RATE DESIGN

9. Company Response – March 31, 2014: “ISSUES WITH STAFF RECOMMENDATIONS SECTION 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 cost 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 of \$79,020.”

Response: Regarding the issue related to the recovery of prior rate case expenses: Staff disagrees that the test year rate case expense was underestimated. Staff normalizes expenses in the test year and generally does not allow for the specific recovery above the approved normalized level of operating expenses. Staff does not recommend allowing for a true-up of the recovery of costs related to prior accounting periods.

Response: Regarding the water loss adjustment: Staff disagrees with the Company’s position on the water loss adjustment. Staff made a water loss adjustment of \$3,659 (\$32,701 less \$29,042) for losses that exceeded the

allowable water loss of 10 percent. Staff calculated the purchased water based on total allowable gallons at the Town's current rate of \$2.37 per 1,000 gallons. The total allowable gallons included 220,000 gallons for non-revenue beneficial uses, gallons sold plus the allowable 10 percent water loss.

10. Company Response – March 31, 2014: “ISSUES WITH STAFF RECOMMENDATIONS SECTION B. RATE DESIGN”

Response: Staff addressed the issues raised by Company from the March 17, 2014, comments and March 31, 2014, comments about Rate Design in Responses 1-6.

11. Company Response – March 31, 2014: “ISSUES WITH STAFF RECOMMENDATIONS SECTION C. PURCHASED WATER COST ADJUSTOR”

Response: Staff addressed the PWAM in Response 1 and Exhibit A.

12. Company Response – March 31, 2014: “ISSUES WITH STAFF RECOMMENDATIONS SECTION 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.”

Response: The Company provided the required documentation and therefore this compliance issue has been resolved. Staff agrees that new rates should go into effect when a decision is issued in this case.

13. Company Response – April 9, 2014: “Q Mountain Mobile Home Park is requesting the Water Company be allowed to implement a Purchased Water Adjustor for both monthly base rate and water commodity charges, so charges to Company cost of wholesale water purchase from the Town of Quartzsite, over which we have no control, are automatically passed through to our customers/home owners, eliminating the need for another rate application in the near future. It is critical for the Water Company to generate an operating margin to address our excessive water loss, identify and repair background leaks as well as bursts, and seek engineering design and planning to reconstruct or replace our water distribution system.”

Response: Staff agrees that both the monthly customer charge and the commodity charges be included in the PWAM. Refer to Response 1 on the PWAM and Exhibit A.

Exhibit A

Q MOUNTAIN MOBILE HOME PARK DBA Q MOUNTAIN VISTA WATER
STAFF RECOMMENDED PURCHASED WATER ADJUSTOR MECHANISM ("PWAM")
TARIFF

APPLICABILITY

Applicable to all customers of Q Mountain Mobile Home Park DBA Q Mountain Vista Water.

BASE COST OF PURCHASED WATER¹

| | |
|---|--------------------------|
| Base Cost of Purchased Water - Commodity Rate: | \$2.37 per 1,000 gallons |
| Base Cost of Purchased Water - Monthly Customer Charge: | \$843.23 per month |

TERMS AND CONDITIONS

1. Q Mountain Mobile Home Park ("Q Mountain") is authorized to make adjustments to its rates and charges to recover changes to the cost of purchased water from the Town of Quartzsite ("Town") for both the Commodity Rate and the Monthly Customer Charge.
2. An average commodity rate will need to be calculated on a monthly basis when more than one commodity rate is charged by the Town. The average commodity rate is calculated by dividing the total monthly charges for the gallons purchased for all commodity rates by the gallons purchased in thousands.
3. The commodity rate surcharge will be calculated by subtracting the base cost of \$2.37 from the average purchased water commodity rate (per 1,000) being charged by the Town. The difference is multiplied by the actual customer usage divided by 1,000 gallons then multiplied by 1.10² for current allowable water loss (10%). The calculation is as follows: Difference X ((Actual Usage/1,000 gallon) X 1.10 (Current Allowable Water Loss)).
4. The monthly customer surcharge will be calculated by subtracting \$843.23 from the cost of the monthly customer charge (Monthly Base Rate³) being charged by the Town. The difference is divided by the average number of customers from the current year. The calculation is as follows: Difference / Average number of current year customers.
5. Customers shall be notified of any changes in the Town's water charges within 30 days of the notice provided by the Town to Q Mountain.
6. The Purchased Water Cost Adjustor Surcharges shall appear on each customer's bill as a separate charge (Total for the Purchased Water – Commodity Rate Surcharge and Purchased Water - Monthly Customer Surcharge).

¹ This expense is already embedded in the Company's current rates. These are the current rates and charges for Test Year 2012.

² The current allowable water losses may not exceed 10 percent. Once the Company reduces its water losses to less than 10 percent, the surcharge would include only the actual water loss percentage.

³ The Town of Quartzsite refers to this charge as the Monthly Base Rate.

7. The Purchased Water Adjustor Mechanism Tariff can be implemented upon new water charges by the Town.
8. Q Mountain shall apply the surcharge 30 days after the Town implements the new water charges.
9. Q Mountain will make a filing with the Utilities Division of the Arizona Corporation Commission ("Staff") showing the calculation of the surcharges using the same methodology discussed herein within 30 days prior to the implementation of new surcharges due to new water charges by the Town.

CALCULATION OF THE 2015 SURCHARGE⁴ – FOR ILLUSTRATIVE PURPOSES ONLY

| | |
|--|-----------------|
| Monthly Average Cost of Water (Cost of purchased water per 1,000 gallons by Town / Total Gallons Purchased) ⁵ | \$5.41 |
| Less: Staff recommended base cost of purchased water per 1,000 gallons | <u>\$2.37</u> |
| Cost of purchased water gallonage surcharge per 1,000 gallons | \$3.04 |
| | |
| Median Usage Customer Example: ⁶ | |
| Median Usage plus 10% usage (1,290 gallons/1,000 gallons) * 1.10 (Current Allowable Water Loss) | 1.419 |
| Multiplied: By the Cost of purchased water gallonage surcharge per 1,000 gallons | <u>\$3.04</u> |
| Cost of Median Usage purchased water surcharge | \$4.31 |
| | |
| 2015 Cost of monthly customer charge (per month) by Town | \$1,047.29 |
| Less: Staff recommended base cost of monthly customer charge (per month) | <u>\$843.23</u> |
| Cost of monthly customer charge (per month) | \$204.06 |
| Divided: By the Current Year Average Customers ⁷ | <u>223</u> |
| Cost of monthly customer surcharge per customer | \$0.92 |
| | |
| Median Usage Customer Example: ⁸ | |
| Cost of Median Usage purchased water gallonage surcharge (Median Usage 1,290 gallons) | \$4.31 |
| Cost of monthly customer surcharge per customer | <u>\$0.92</u> |
| Total Surcharges for Median Usage Customer | <u>\$5.23</u> |

DOCKET NO. W-02418A-13-0414

EFFECTIVE DATE: September 1, 2014

⁴ The 2015 rates and charges from the Town of Quartzsite's Town Manager on April 21, 2014 used as illustrative examples based on recommended rates by Town's water study for upcoming fiscal year.

⁵ The Monthly Average Cost of Water is calculated by dividing the total monthly charges for the gallons purchased for all commodity rates by the gallons purchased in thousands.

⁶ Test Year Median Usage is 1,290 gallons.

⁷ The 2013 Current Year Average Customers are 223 customers.

⁸ Test Year Median Usage is 1,290 gallons.