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BEFORE THE ARIZONA CORPORATION

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

SEP 15 2014

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

DOCKETED BY ne

IN THE MATTER OF THE APPLICATION OF
MT. TIPTON WATER COMPANY, INC. FOR A
PERMANENT INCREASE IN ITS WATER RATES
AND CHARGES.

DOCKET NO. W-02105A-13-0415

DECISION NO. 74755

OPINION AND ORDER

DATES OF HEARING: June 23, 2014
PLACE OF HEARING: Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE: Sarah N. Harpring
APPEARANCES: Mr. Steve Wene, MOYES SELLERS & HENDRICKS,
LTD, on behalf of Mt. Tipton Water Company, Inc.; and
Mr. Brian E. Smith, Staff Attorney, Legal Division, on
behalf of the Utilities Division of the Arizona
Corporation Commission.

This case concerns an application for a permanent rate increase filed by Mt. Tipton Water Company, Inc. ("Mt. Tipton"), a nonprofit Class C water utility providing service in an area approximately 35 miles northeast of Kingman, in Mohave County. Mt. Tipton proposes rates to generate a revenue increase of approximately 11 percent over test year revenues and proposes to collect a monthly surcharge of approximately \$10 to be used exclusively to pay off more than \$200,000 in property tax arrearages. The Commission's Utilities Division ("Staff") recommends adoption of Staff's recommended revenue requirement, rate design, and surcharge.

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**Background**

1. Mt. Tipton is a nonprofit Arizona corporation owned by its ratepayers, who are its members. (Tr. at 17-18.) Mt. Tipton received a Certificate of Convenience and Necessity (“CC&N”) to provide water utility service to the public in Decision No. 40644 (May 26, 1970).¹

2. Mt. Tipton is governed by a Board of Directors, elected by those ratepayer/members who are property owners and who have paid a fee to become voting members. (Tr. at 18-19.)

3. Mt. Tipton’s service area is located approximately 35 miles northwest of the City of Kingman in Mohave County and consists of approximately 10.5 square miles. (Ex. S-1 at ex. DMH-1 at 1.) The service area includes a community known as Dolan Springs. (*See, e.g.*, Tr. at 190.)

4. Mt. Tipton owns and operates both a potable water system and a non-potable water system. (Ex. S-1 at ex. DMH-1.)

5. Mt. Tipton’s current potable water rates were established in Decision No. 72001 (December 10, 2010),² which also required Mt. Tipton to file a permanent rate case application by December 10, 2013.

6. Mt. Tipton’s non-potable water tariff went into effect by operation of law on June 15, 2011.³ Mt. Tipton has not requested to revise that tariff in this matter.

7. During the test year ending June 30, 2013 (“TY”), Mt. Tipton served potable water to an average of 660 metered customers, the vast majority of whom (653) were served by 5/8” x 3/4” meters, with most of those customers (609) also being residential. (Ex. A-1 at att. 2 at Sched. H-5.)

8. Mt. Tipton’s metered customer count has been declining for at least the past five years—from approximately 750 in July 2008, to 720 in June 2009, to 692 in May 2010, and to 660 during the TY. (*See* Decision No. 72001 at 2; Ex. A-1 at att. 2 at Sched. H-5.) Mt. Tipton is not expected to see customer growth in the near future. (Ex. S-1 at ex. DMH-1 at 8.)

9. Mt. Tipton has a history of significant instability in its leadership, but has been operating smoothly for the past several years. (*See* Tr. at 53.)

¹ Official notice is taken of this Decision.

² Official notice is taken of this Decision.

³ Official notice is taken of the filings in Docket No. W-02105A-11-0198, concerning the non-potable water tariff.

1 10. Michelle Monzillo has been Mt. Tipton's Business Administrator for nearly five years.
 2 (Tr. at 10.) Mt. Tipton also has three field employees, including a Field Manager who has been with
 3 Mt. Tipton for a number of years. (See Tr. at 15; Decision No. 71418 (December 8, 2009).⁴) All of
 4 Mt. Tipton's employees are paid on an hourly basis, with the highest hourly rate being \$13.50.⁵ (Tr.
 5 at 45.)

6 11. A December 19, 2013, check of Staff's Compliance Section database revealed no
 7 delinquent compliance items for Mt. Tipton. (Ex. S-1 at ex. DMH-1 at 8.)

8 **Procedural History**

9 12. On December 2, 2013, Mt. Tipton filed with the Commission a rate application
 10 requesting an increase in gross revenue of approximately \$45,947, representing an increase of
 11 approximately 13.53 percent over adjusted TY revenue, reported at \$339,584. The application
 12 included the Direct Testimony of Ms. Monzillo and of Sonn Rowell, Certified Public Accountant
 13 ("CPA"), hired as a Regulatory Consultant.

14 13. On December 30, 2013, Staff issued a Letter of Deficiency.

15 14. On January 6, 2014, Staff issued a Letter of Sufficiency, stating that Mt. Tipton's
 16 application had met the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-
 17 103 and that Mt. Tipton had been classified as a Class C water utility.

18 15. On January 13, 2014, a Rate Case Procedural Order was issued scheduling the
 19 prehearing conference in this matter to be held on June 19, 2014, and the hearing to commence on
 20 June 23, 2014, and establishing other procedural requirements and deadlines.

21 16. On February 12, 2014, Mt. Tipton filed an Affidavit of Mailing stating that the
 22 prescribed customer notice had been mailed on January 31, 2014.

23 17. On March 13, 2014, Mt. Tipton filed an Affidavit of Publication showing that the
 24 prescribed customer notice had been published in the *Kingman Daily Miner* on February 28, 2014.

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26 _____
 27 ⁴ Official notice is taken of this Decision.

28 ⁵ This is the rate paid to Mt. Tipton's field manager; Ms. Monzillo is paid \$13.00 per hour. (Tr. at 54.) This reflects wage increases given to all employees in 2012 and to one employee in 2013. (Tr. at 45.) At the time, Mt. Tipton did not consider itself to be short on funds, although it had not earned its revenue requirement since its last rate case. (*Id.*)

1 18. On May 21, 2014, Staff filed the Direct Testimony of Briton A. Baxter, Public
2 Utilities Analyst IV, and Dorothy Hains, Utilities Engineer.

3 19. On June 4, 2014, Mt. Tipton filed the Rebuttal Testimony of Ms. Rowell and Ms.
4 Monzillo.

5 20. On June 11, 2014, Staff filed a Request for Extension, seeking a two-day extension to
6 file Staff's Surrebuttal Testimony. Staff asserted that Mt. Tipton had no objections.

7 21. On June 12, 2014, a Procedural Order was issued extending the filing deadline for
8 Staff's Surrebuttal Testimony as requested and providing Mt. Tipton a corresponding extension to
9 file its Rejoinder Testimony.

10 22. On June 13, 2014, Staff filed the Surrebuttal Testimony of Mr. Baxter and Ms. Hains.

11 23. On June 18, 2014, Mt. Tipton filed a Motion to Reschedule Prehearing Conference,
12 requesting that the prehearing conference start time be delayed one hour due to a scheduling conflict.

13 24. On June 18, 2014, Mt. Tipton also filed the Rejoinder Testimony of Ms. Rowell and
14 Ms. Monzillo.

15 25. On June 18, 2014, a Procedural Order was issued granting Mt. Tipton's requested
16 extension.

17 26. On June 19, 2014, the pre-hearing conference was held as scheduled, with Mt. Tipton
18 and Staff appearing through counsel. The parties provided a joint issues matrix and were advised of
19 questions to address at hearing.

20 27. On June 20, 2014, Staff filed the Supplemental Testimony of Mr. Baxter.

21 28. Also on June 20, 2014, Mt. Tipton filed a Notice of Refiling Rejoinder Testimony, to
22 add to Ms. Rowell's testimony schedules that had been referenced but omitted previously.

23 29. On June 23, 2014, a full evidentiary hearing for this matter was held before a duly
24 authorized Administrative Law Judge of the Commission, with Mt. Tipton and Staff both appearing
25 through counsel. Mt. Tipton provided exhibits and the testimony of Ms. Monzillo and Ms. Rowell.
26 Staff provided exhibits and the testimony of Ms. Hains and Mr. Baxter. At the conclusion of the
27 hearing, late-filed exhibits ("LFEs") were requested from the parties, and it was determined that the
28

1 parties would file a single round of briefs. No members of the public attended the hearing to provide
2 comment.

3 30. On June 27, 2014, Staff filed a Notice of Filing Withdrawal of Recommendation
4 Regarding Standpipe Meter, stating that Staff had reconsidered and desired to withdraw a
5 recommendation for replacement of a standpipe meter. Staff also separately filed its LFE, comprised
6 of Staff's Final Surrebuttal Schedules BAB-18, BAB-19, and BAB-20 (rate design and typical bill
7 analyses) as well as a brief summary of the information contained therein.⁶

8 31. On June 27, 2014, Mt. Tipton filed its LFE—a Filing of Additional Evidence,
9 comprised of a debt service invoice issued to Mt. Tipton by the Water Infrastructure Finance
10 Authority ("WIFA") on June 10, 2013, along with Exhibit A from a WIFA Loan Agreement dated
11 June 23, 2009.

12 32. On July 11, 2014, Mt. Tipton filed its Closing Brief, which included Mt. Tipton's
13 Final Schedules.

14 33. On July 18, 2014, Staff filed Staff's Closing Brief.

15 34. On July 21, 2014, Mt. Tipton filed a Supplemental Brief Regarding System Repairs.

16 35. Staff did not file any response or objection to Mt. Tipton's unexpected Supplemental
17 Brief Regarding System Repairs.

18 36. No comments have been received concerning this matter.

19 **Pertinent Prior Decisions**

20 37. In Decision No. 60988 (July 15, 1998),⁷ the Commission authorized Mt. Tipton to
21 borrow up to \$1.2 million from WIFA and the United States Department of Agriculture – Rural
22 Development for the purpose of funding the Detrital Well Improvements Project, which was intended
23 to increase Mt. Tipton's well production capacity by connecting Mt. Tipton's system to a strong
24 production well known as the Detrital Well, located approximately 10 miles away. The Decision also

25 ⁶ Ms. Rowell had testified that Staff's recommended surrebuttal rate design would generate revenue \$3,758 short of
26 Staff's recommended revenue requirement. (Tr. at 82-83.) Mr. Baxter agreed that Staff's rate design had errors that
27 needed to be corrected, and it was determined that Staff would file a LFE, including its corrected rate design schedules, to
28 which Mt. Tipton would have an opportunity to respond. (Tr. at 174-75.) Mr. Baxter clarified that Staff's recommended
revenue requirement had not changed; Staff had just determined that the calculation of revenue generated by its
recommended rate design was inaccurate and needed to be addressed. (Tr. at 199.)

⁷ Official notice is taken of this Decision.

1 authorized Mt. Tipton to collect non-refundable off-site facilities hook-up fees (“HUFs”) to be used
2 for the purpose of funding the Detrital Well Improvements Project.

3 38. In Decision No. 64287 (December 28, 2001),⁸ the Commission authorized the sale to
4 Mt. Tipton of the assets of Dolan Springs Water Company, Inc. (“Dolan Springs Water”) and the
5 transfer to Mt. Tipton of Dolan Springs Water’s CC&N. The Commission also canceled the authority
6 for the \$1.2 million financing for the Detrital Well Improvements Project (per Mt. Tipton’s request)
7 and authorized Mt. Tipton to enter into a WIFA loan for \$880,000, with the proceeds to be used to
8 purchase the assets of Dolan Springs Water, to interconnect the Mt. Tipton and Dolan Springs Water
9 systems, and to increase Mt. Tipton’s water production capacity. Mt. Tipton intended at the time to
10 form a water improvement district after the interconnection and improvements were completed. In its
11 Decision, the Commission expressly found that Staff’s review had not included an analysis for a used
12 and useful determination of the proposed acquisition and interconnection for ratemaking purposes;
13 the Commission also ordered that approval of the WIFA financing did not constitute or imply
14 Commission approval or disapproval of any particular expenditure of the financing proceeds for
15 purposes of establishing just and reasonable rates. In addition, the Commission found that Mt. Tipton
16 had been collecting HUFs, authorized Mt. Tipton to continue collecting HUFs under its tariff, and
17 ordered Mt. Tipton to use the HUF funds for capital improvements required to serve new customers.

18 39. In Decision No. 67162 (August 10, 2004),⁹ the Commission granted Mt. Tipton a
19 permanent rate increase and, *inter alia*, increased and imposed reporting requirements and use
20 restrictions on Mt. Tipton’s HUFs.

21 40. In Decision No. 70836 (March 17, 2009),¹⁰ the Commission granted Mt. Tipton
22 authorization to sell an office building located at 16055 Pierce Ferry Road in Dolan Springs, with the
23 first priority usage of the proceeds to be payment of delinquent property taxes then estimated at
24 \$104,045, including interest. The Decision imposed other related requirements.

25 ...

26 ...

27 ⁸ Official notice is taken of this Decision.

28 ⁹ Official notice is taken of this Decision.

¹⁰ Official notice is taken of this Decision.

1 41. In Decision No. 70837 (March 17, 2009),¹¹ the Commission found that Mt. Tipton had
 2 violated Decision No. 67162 by failing to deposit its HUFs into a separate interest-bearing account,
 3 by spending HUFs on items other than off-site facilities, and by charging HUFs in an amount
 4 unauthorized by its HUF tariff. Among other things, the Commission suspended the HUF tariff,
 5 prohibited Mt. Tipton from charging or collecting HUFs until further Order of the Commission,
 6 ordered Mt. Tipton to cease making expenditures using the HUFs already collected, and ordered Mt.
 7 Tipton to reimburse the HUF account in the amount of \$40,800.

8 42. In Decision No. 71166 (June 16, 2009), the Commission granted Mt. Tipton approval
 9 to obtain a WIFA loan in an amount up to \$140,000, to be used to fund a Well Rehab Program, a
 10 New Source Program, and a Water Loss Reduction Program. These were to include cleaning of
 11 wells, the addition of a new well, and replacement of 100 meters.

12 43. In Decision No. 72001, the Commission adopted Mt. Tipton's current rates and
 13 charges. The Commission also found that Mt. Tipton had reimbursed its HUF account for only
 14 \$3,050 of the \$40,800 required and further found the following:

15 Mt. Tipton did not request to have its HUF Tariff reinstated in this case,
 16 Staff did not make any recommendation regarding whether such
 17 reinstatement would be appropriate, and it appears that there is currently
 18 no growth in Mt. Tipton's service area. Thus, we will not take any action
 19 herein to modify the suspended status of Mt. Tipton's HUF Tariff. If Mt.
 20 Tipton desires to have its HUF Tariff reinstated in the future, it must file
 21 an application with the Commission requesting such authority and must
 22 not assess any HUF unless and until such authority is obtained. In
 addition, once Mt. Tipton has reimbursed its HUF account as ordered by
 Decision No. 70837, if Mt. Tipton desires to be able to spend any of the
 HUF funds therein, Mt. Tipton must file an application with the
 Commission requesting such authority and must not spend any of the
 reimbursed HUF funds unless and until such authority is obtained.¹²

23 **Mt. Tipton's Systems**

24 44. Mt. Tipton's potable water system consists of five active wells—Well No. 1 (Office
 25 Well), Well No. 2 (Iron Well),¹³ Well No. 5 (Chambers Well), Well No. 7 (Tank Well), and Well No.

26 ¹¹ Official notice is taken of this Decision.

27 ¹² Decision No. 72001 at 34.

28 ¹³ In its Supplemental Brief Regarding System Repairs, filed on July 21, 2014, of which official notice is hereby taken,
 Mt. Tipton asserted that the Iron Well had ceased production in late June 2014 and had to be repaired at a cost of
 \$23,589.36, which virtually depleted Mt. Tipton's financial reserves. Mt. Tipton asserted that its other two production

1 8 (Horizontal Well)—with a combined pump yield of 277 gallons per minute (“GPM”); 10 storage
 2 tanks with a combined capacity of 498,500 gallons;¹⁴ three booster pump stations; and a distribution
 3 system serving its metered customer connections. (Ex. S-1 at ex. DMH-1 at 1-4.) The Office Well is
 4 the newest of Mt. Tipton’s wells, drilled in 2010, and has the greatest yield at 140 GPM, slightly
 5 more than the yield of the other four wells combined. (See Ex. S-1 at ex. DMH-1 at 2.)

6 45. Mt. Tipton’s potable water system previously included three additional wells, which
 7 are now inactive: Well No. 3 (Church Well or LDS Well), which was capped in 2012; Well No. 4
 8 (the Detrital Well), previously leased from the Bureau of Land Management (“BLM”), but for which
 9 the lease has been allowed to expire; and Well No. 9 (Spring Well), which was capped and
 10 disconnected from the system after being struck by lightning in April 2010. (Ex. S-1 at ex. DMH-1 at
 11 4.)

12 46. Mt. Tipton’s non-potable water system consists of two artesian wells that produce
 13 approximately 12 GPM, three storage tanks, and a 3” standpipe system. (Ex. S-1 at ex. DMH-1 at 4.)
 14 The non-potable water system is not regulated by the Arizona Department of Environmental Quality
 15 (“ADEQ”). (*Id.*)

16 47. Staff determined that Mt. Tipton’s potable water system has an adequate supply and
 17 storage capacity to serve its present customer base and reasonable growth and that its non-potable
 18 water system has adequate production to serve its non-potable water users. (Ex. S-1 at ex. DMH-1 at
 19 5.)

20 48. Mt. Tipton is in compliance with ADEQ requirements and is delivering water meeting
 21 the water quality standards of Title 40, Part 141 of the Code of Federal Regulations and Title 18,
 22 Chapter 4 of the Arizona Administrative Code. (Ex. S-1 at ex. DMH-1 at 8.)

23 _____
 24 wells are older and in worse condition than the Iron Well and that approving anything less than Mt. Tipton’s proposed
 25 revenue requirement would put Mt. Tipton in a “very precarious position.” Mt. Tipton provided copies of two documents
 26 from A-1 Well Service and Supply, Inc. (“A-1 Well Service”): (1) a “Price Estimate” to clean the well, dated June 27,
 27 2014, and totaling \$12,317.54; and (2) a “Water Well Installation Estimate Revised,” showing a “Contract Date” of July
 28 1, 2014, including the notation “Repump-6/27/14,” and totaling \$11,271.82. From the documents, it is unclear whether
 all of the services described had actually been completed and to what extent A-1 Well Service had been paid.

¹⁴ Although the engineering report included an itemized list of 10 storage tanks with a combined capacity of 498,500
 gallons, the narrative of the report stated that the storage capacity is 531,000 gallons. (See Ex. S-1 at ex. DMH-1 at 2-3.)
 The reason for the discrepancy is unclear.

1 49. Mt. Tipton is not located in an Arizona Department of Water Resources (“ADWR”)
2 Active Management Area (“AMA”). (Ex. S-1 at ex. DMH-1 at 8.)

3 50. Mt. Tipton is in compliance with ADWR requirements governing water providers
4 and/or community water systems. (Ex. S-1 at ex. DMH-1 at 8.)

5 51. Mt. Tipton has an approved Curtailment Tariff and an approved Cross Connection &
6 Backflow Prevention Tariff on file with the Commission. (Ex. S-1 at ex. DMH-1 at 11.)

7 52. Mt. Tipton has no outstanding compliance issues with the Commission’s Compliance
8 Section or Corporations Division.

9 **Water Loss; BMPs**

10 53. For the TY, Mt. Tipton reported that its potable water system pumped 47,768,000
11 gallons and sold 34,766,000 gallons, which reflects water loss of 13,002,000 gallons or 27.22 percent,
12 considerably exceeding Staff’s recommended threshold of 10 percent maximum water loss. (Ex. S-1
13 at ex. DMH-1 at 6-7.) For its non-potable system, the TY water loss was even higher, at 79 percent.¹⁵
14 (*Id.*)

15 54. Ms. Monzillo testified that Mt. Tipton’s water loss has been “very high” for
16 approximately the last 2.5 years, although it had been “reasonable and under control” at the time Mt.
17 Tipton was last before the Commission for a rate case.¹⁶ (Tr. at 14.) Mt. Tipton has not determined
18 the cause of this water loss, although it is believed to be water theft. (Tr. at 53.) Ms. Monzillo stated
19 the following about efforts to determine the cause of the water loss:

20 We certainly have theories about what we logically believe may be
21 happening. Of course, until we find evidence to prove those theories,
22 they’re just speculation. We have dug at the end of a couple of dead end
23 lines, places that we logically thought somebody might have an illegal
connection; did not find anything. Are currently discussing the possibility

24 ¹⁵ The non-potable system’s water tank is free-flowing and gravity-fed, using no electricity, and has a history of
overflowing. (Decision No. 72001 at 14.)

25 ¹⁶ In its last rate case, Mt. Tipton reported water loss of 8.54 percent for the first six months of 2010 (post-test year), in
26 spite of line breaks, overflows, and blow-offs during that period. (Decision No. 72001 at 16.) For the test year in that
27 rate case, Mt. Tipton had reported water loss of 23.04 percent, but attributed a portion of that to line breaks, leaks, and
28 blow-offs occurring during the test year; malfunctioning meters that had not yet been replaced; and a physical problem
with its old Office Well that caused water to be registered as pumped more than once. (*Id.* at 14-15.) Additionally, Mt.
Tipton attributed part of that water loss to Lake Mohave Ranchos Fire District’s taking water from unmetered hydrants
without reporting the full amount taken. (*Id.*) Mt. Tipton reported that its water loss improved greatly when the old
Office Well was taken offline. (*Id.* at 15.)

1 of doing an aerial survey, looking for green areas where somebody might
 2 have an illegal ranch line running off somewhere in the desert. But it
 3 seems like the only thing we could really do is continue to dig at the end
 4 of the water lines in the area that we are fairly certain that is coming from,
 5 based on the fluctuations in water levels in the tanks.

6 I guess I question the cost effectiveness of doing that. We're
 7 talking, I'm not sure how many, probably 20, 25 areas that would require
 8 substantial digging, backhoe expense, employee labor. So we would like
 9 to continue on that path and find it. It's just not clear that we would find it
 10 or how long it would take and how much it would cost to do so.

11

12 Backhoe is \$60 an hour, and most likely all three of the field employees
 13 would have to be present, which would be taking them away from their
 14 normal duties. And I think that would be about it; employee labor and \$60
 15 an hour for backhoe. So certainly, probably, 6, \$700 per occurrence.¹⁷

16 55. Mt. Tipton's field personnel routinely survey the entire water system looking for wet
 17 spots and leaks and checking "closed" meters¹⁸ for usage, especially when there's been a drop in tank
 18 levels; and Mt. Tipton has previously discovered water theft and even had an individual prosecuted
 19 for it a few years ago. (Tr. at 16-17, 37-38.) Mt. Tipton now routinely padlocks the valves to most of
 20 its closed meters, which has increased expenses due to the purchase of the padlocks. (Tr. at 49.)
 21 Some of the valves cannot be locked, however, and Mt. Tipton has not dug up the meter boxes to
 22 change out those valves. (Tr. at 49-50.) Mt. Tipton has found a few padlocks that have been cut off
 23 and removed, but not many. (Tr. at 50.)

24 56. While Mt. Tipton is able to determine how much water is stolen if it is taken through a
 25 closed meter, it is not able to determine how much water is stolen through a blow-off valve.¹⁹ (Tr. at
 26 38, 50.) Because Mt. Tipton believes that blow-off valves in remote areas have been opened to fill
 27 water haulers, Mt. Tipton has locked approximately 15 to 20 of its 40 or so blow-off valves. (Tr. at
 28 50-51.) Thus far, Mt. Tipton has concentrated on locking the blow-off valves in more desolate areas
 without active customers nearby. (Tr. at 51.) Mt. Tipton plans to buy additional batches of valve
 covers soon to continue the process. (*Id.*)

29 . . .

30 ¹⁷ Tr. at 14-15.

31 ¹⁸ A closed meter is a meter assigned to an account that has been closed. (Tr. at 38.)

32 ¹⁹ Blow-off valves are located at the end of dead-end water lines. (Tr. at 50.) They are opened periodically for the
 purpose of letting water flow out to clear the line and ensure water quality. (*Id.*)

1 57. Ms. Monzillo believes that some of the water theft is committed by persons living
2 within the service area. (Tr. at 51.) Due to the volume of water disappearing, and the consistency,
3 however, she believes that there may be an unauthorized “ranch line” hooked into the system and
4 providing water to an area outside of the service area. (Tr. at 51.)

5 58. Mt. Tipton previously had trouble with the Lake Mohave Ranchos Fire District (“Fire
6 District”) taking potable water without reporting it, but the Fire District now pays a tariff rate of
7 \$22.25 per month for unlimited use of non-potable water. (Tr. at 17.) Mt. Tipton believes that the
8 Fire District is still taking some potable water without reporting it, but is unsure to what extent or
9 even if that is actually occurring. (Tr. at 17.)

10 59. Related to water loss control, Staff recommends the following:²⁰

11 (a) That Mt. Tipton be required, before filing its next rate case, to prepare a report
12 containing a detailed analysis and plan to reduce its potable system’s water loss to 10 percent or less
13 or, if Mt. Tipton believes that it is not cost effective to reduce the water loss to 10 percent or less, to
14 submit a detailed cost-benefit analysis to support its opinion;

15 (b) That Mt. Tipton be required to file with Docket Control, within 90 days after
16 the effective date of a Decision in this proceeding, as a compliance item in this docket, at least five
17 Best Management Practices (“BMPs”), in the form of tariffs substantially conforming to the
18 templates created by Staff and available on the Commission’s website,²¹ for the Commission’s
19 review and consideration, with a maximum of two BMPs coming from the “Public Awareness/Public
20 Relations” or “Education and Training” categories; and

21 (c) That Mt. Tipton be permitted to request cost recovery of the actual costs
22 associated with the BMPs implemented in its next general rate application.²²

23 60. We agree with (a) above, except that we believe the water reduction plan or cost
24 benefit analysis should be submitted sooner. Therefore, we will require their submission by no later
25 than July 31, 2015.

26 ²⁰ Staff also originally recommended that Mt. Tipton be required to replace the 5/8” x 3/4” meter on its coin-operated
27 standpipe with a 2” meter, within 90 days after the effective date of the Decision in this matter. (Ex. S-1 at 7.) Staff
withdrew this recommendation in its Notice filed on June 27, 2014, of which official notice is taken herein.

28 ²¹ See <http://www.azcc.gov/Divisions/Utilities>.

²² See Ex. S-1 at ex. DMH-1 at 5-7.

1 61. Mt. Tipton does not agree with Staff's recommendation that Mt. Tipton be required to
2 file five BMP tariffs for consideration, due to the expense associated with implementing BMPs. (Tr.
3 at 18, 39-40.)

4 62. Staff asserted that Mt. Tipton should be required to file the five BMP tariffs with the
5 Commission because Mt. Tipton is not located in an AMA and has a long history of excessive water
6 loss, the BMPs are water conservation programs, and it is Staff's policy to recommend five BMPs for
7 a Class C utility. (Tr. at 134, 149.) Ms. Hains stated that there are BMP tariffs for water theft
8 prevention, leakage detection, and meter replacements and that she does not believe the BMP
9 requirement would be a big burden on Mt. Tipton. (Tr. at 162-64.)

10 63. The Commission recently has declined to impose BMP requirements on water utilities
11 that oppose such requirements. However, Mt. Tipton's long history of excessive water loss and water
12 theft incidents, coupled with its not being located in an AMA, makes Mt. Tipton very well suited to
13 implement BMPs, if the BMPs are determined not to be overly costly to implement in relation to the
14 benefits to be gained thereby. Thus, we will adopt Staff's recommendation for Mt. Tipton to be
15 required to file five proposed BMP tariffs for Commission review and approval, with Mt. Tipton to
16 focus particularly on BMPs designed to alleviate problems identified with Mt. Tipton's system (*e.g.*,
17 water theft at blow offs and in general, faulty meters, unsecured meters). With each separate
18 proposed BMP tariff filing, Mt. Tipton should include a cover document with estimates of the cost
19 initially to implement the BMP and the cost annually to maintain the BMP, a description of any
20 benefits expected to be realized from the ongoing implementation of the BMP, and any additional
21 information that Mt. Tipton believes should be considered by the Commission in reference to the
22 BMP. We will also require Staff to review Mt. Tipton's proposed BMP tariff filing and to file a Staff
23 Report including Staff's analysis of whether the estimated costs of implementing and maintaining the
24 implementation of each BMP outweigh the benefits expected to be realized from the ongoing
25 implementation of the BMP; Staff's recommendation for Mt. Tipton's implementation of each
26 proposed BMP tariff, made in the form of a proposed Order; and any additional information that Staff
27 believes should be considered by the Commission in reference to each proposed BMP tariff.

28 ...

1 64. Staff originally also recommended that Mt. Tipton be required to commence a non-
 2 potable water usage monitoring and reporting program immediately and be required to file water loss
 3 progress reports each January and July, as a compliance item in this docket, with each progress report
 4 covering the previous six months and the first water loss progress report due in January 2015. (Ex. S-
 5 1 at ex. DMH-1 at 5-7.) Staff withdrew this recommendation on Surrebuttal. (Ex. S-2.) In addition,
 6 on Surrebuttal, Staff recommended that the Commission terminate the non-potable water monitoring
 7 and reporting requirement adopted in Decision No. 72001. (Ex. S-2 at 2.) Ms. Hains asserted that
 8 because the Fire District has transitioned all or most of its non-domestic water use to Mt. Tipton's
 9 potable system, it is no longer necessary to monitor and report water use data for the non-potable
 10 water system, and it is better to allow the non-potable system's water source to remain free flowing
 11 and unrestricted. (*Id.*) We find that Staff's recommendation to eliminate this monitoring and
 12 reporting requirement adopted in Decision No. 72001 is reasonable and appropriate, and we will
 13 approve it.

14 65. Staff's recommendations set forth in Findings of Fact No. 59 are reasonable and
 15 appropriate, and we will adopt them, with the modification made in Findings of Fact No. 60.

16 **Property Tax Arrearages**

17 66. Mt. Tipton has significant Mohave County property tax arrearages from not having
 18 paid its taxes fully from 2004 through 2009.²³ (Ex. A-5.) The property taxes for 2010 through 2013
 19 have been paid in full, but Mt. Tipton continues to accrue interest on the prior years' arrearages at an
 20 annual rate of 16 percent, which comes to approximately \$1,380 per month.²⁴ (Tr. at 10, 21, 103; Ex.
 21 A-5.)) There is a lien in place for each year's arrearages,²⁵ and Mohave County does not allow a lien
 22 to be paid off through partial payments, only in full all at once. (Tr. at 27-28.) Mohave County is
 23 also unwilling to negotiate any reduction. (*Id.*)

24
 25 ²³ Ms. Monzillo testified that she believes the taxes were not paid because Mt. Tipton did not have the money to pay.
 (Tr. at 22.)

26 ²⁴ Ms. Rowell testified that the interest is not compounded. (Tr. at 103.)

27 ²⁵ The liens for 2004 and 2005 are owned by the same private person, who lives somewhere in the eastern United
 States. (Tr. at 22, 49.) Mt. Tipton desires to pay off those liens first, rather than facing foreclosure. (Tr. at 22-23.) Mt.
 28 Tipton has not approached the private person to see if a payment plan could be arranged, because Mt. Tipton's
 understanding is that once the debt becomes a lien, it must be paid in full all at once. (Tr. at 22, 48.) Ms. Monzillo
 volunteered that Mt. Tipton could make contact with the private person to explain its situation. (Tr. at 49.)

67. As of October 19, 2013, Mt. Tipton had the following tax arrearage liabilities:²⁶

Year	Original Tax Liability	Accrued Interest & Fees	Total Amount Due
2004	\$20,342.66	\$25,254.90	\$45,597.56
2005	\$7,777.27	\$8,503.15	\$16,280.42
2006	\$19,431.43	\$17,901.92	\$37,333.35
2007	\$19,965.05	\$15,198.44	\$35,163.49
2008	\$18,077.76	\$10,871.66	\$28,949.42
2009	\$17,914.98	\$7,912.59	\$25,827.57
Total	\$103,509.15	\$85,642.66	\$189,151.81

68. Mt. Tipton requests authority to charge a separate property tax surcharge, in the form of a monthly flat rate determined by meter size, so that Mt. Tipton can accrue, in a separate account, the funds needed to pay off each of its tax liens in turn. Specifically, Mt. Tipton requests authority to charge the following property tax surcharges, for until the property tax arrearages have been paid in full, which is estimated to take 32 months:

MONTHLY SURCHARGE:²⁷

5/8" x 3/4" Meter	\$ 10.15
3/4" Meter	15.23
1" Meter	25.38
1½" Meter	50.75
2" Meter	81.20
3" Meter	152.25
4" Meter	253.75
6" Meter	507.50

69. Mt. Tipton's Final Supplemental Schedules 1 and 2, which set out the surcharge calculation along with the surcharge collection, tax arrearage interest accrual, and pay off schedule, are attached hereto and incorporated herein as Exhibit A. Ms. Rowell expressed "a strong level of confidence" that the surcharges Mt. Tipton proposes, with the timetable Mt. Tipton proposes, would get the tax arrearages paid off in full in 32 months, assuming no dramatic changes in Mt. Tipton's customer base.²⁸ (See Tr. at 103, 109-11.)

²⁶ See Ex. A-5. To date, although the building on Pierce Ferry Road has been listed for sale for several years, the price has been dropped from \$180,000 to \$140,000, and several parties have been interested in purchasing it, Mt. Tipton has been unable to sell the building because no interested party has been able to qualify for a mortgage. (Tr. at 47-48.) At the time of hearing, Mt. Tipton had lost one of its three tenants; was on the verge of serving a pay or evict notice on another tenant; and had been informed that it would be losing its final tenant at the end of September. (*Id.* at 28-29, 47.)

²⁷ Mt. Tipton Closing Brief at Final Supp. Sched. 1. Mt. Tipton did not include a surcharge rate for 8" meters. (*Id.*)

²⁸ Mt. Tipton's proposed surcharge repayment plan also assumes, and covers, the increased property taxes expected to be charged due to Mt. Tipton's increased revenues attributable solely to the surcharges. (Tr. at 110-11.)

1 hurt twice as bad.” (Tr. at 86-88.) Mr. Baxter stated that setting the surcharge as a percentage of
2 each customer’s bill would cause problems in the timing of the receipt of funds, the unpredictability
3 of the revenues generated, and the difficulty in accounting for the surcharge funds separately to
4 ensure proper use of the proceeds. (Tr. at 180.)

5 73. Mt. Tipton opposes Staff’s proposed surcharges as too high, stating that its customers
6 would not be able to afford them, which would either result in further loss of customers or decreased
7 usage. (Ex. A-4 at 6; Tr. at 85.) Ms. Rowell also asserted that Staff’s proposed surcharge plan did
8 not appear to be sufficient to cover all of the interest that would accrue during Staff’s recommended
9 repayment period. (Tr. at 104.) She acknowledged that Mt. Tipton’s proposed repayment plan would
10 result in customers’ paying an additional 14 months of interest, but asserted that this is a better
11 strategy for a utility that is owned by its customers, who also select the people who run the utility.
12 (Tr. at 104-05; Ex. A-4 at 6.)

13 74. If Mt. Tipton’s property tax arrearages are allowed to continue accruing interest at the
14 current rate, without Mt. Tipton being able to obtain a fund stream from its ratepayers specifically to
15 pay off the property tax arrearages, those arrearages will continue snowballing until they reach a sum
16 that Mt. Tipton could never hope to repay. Some action must be taken to address this, as it appears
17 that Mt. Tipton’s plan to pay off the tax arrearages using funds from the sale of the Pierce Ferry Road
18 building may not come to fruition. While we understand Staff’s desire to pay off the arrearages with
19 the greatest possible haste, we are concerned that Staff’s repayment proposal may result in more
20 anguish for Mt. Tipton’s ratepayers than is necessary. We share Mt. Tipton’s concern for its
21 customers to be able to afford paying both for their water service and usage and for the property tax
22 arrearages. We also find Mt. Tipton’s surcharge calculation methodology, which clearly shows the
23 payoffs for the liens as they occur, to be more transparent and thus reliable. We adopt Mt. Tipton’s
24 proposed surcharges, as set forth in Exhibit A attached hereto.

25 75. Mt. Tipton will be required to open a separate, interest bearing property tax arrearage
26 surcharge account in which it shall deposit all surcharge funds received. Each time the account
27 reaches a balance that is sufficient to pay off a lien, Mt. Tipton shall do so without delay. Each time
28 a lien is paid off, within 30 days after the date the lien is paid off, Mt. Tipton shall also file with the

1 Commission's Docket Control Center, as a compliance item in this docket, a Notice of Payment
 2 documenting the lien involved, the amount paid, the date paid, and that the payment made represents
 3 payment in full. We will also require Mt. Tipton to file annual reconciliation reports detailing any
 4 and all activity in this account. These reports shall be filed in July of every year, beginning in July
 5 2015, and shall cover the previous 12 months.

6 76. Additionally, because Mt. Tipton has not yet contacted the private individual who
 7 holds the 2004 and 2005 tax liens to determine whether Mt. Tipton can pay each of these separately,
 8 we will require Mt. Tipton to do so. If the lienholder is amenable to having the liens paid separately,
 9 Mt. Tipton shall pay off the 2004 lien as soon as the balance in the surcharge account is sufficient to
 10 enable it to do so, as this will benefit Mt. Tipton and its ratepayers.

11 **HUF Account**

12 77. As of the hearing in this matter, Mt. Tipton's reimbursement efforts had brought its
 13 HUF account to a balance slightly higher than \$8,100. (Tr. at 42.) The interest rate accruing on the
 14 HUF account is significantly lower than the interest accruing on the tax arrearages, and Mt. Tipton
 15 proposes to use the HUF account funds toward payment of its tax arrearages. (Tr. at 26-27, 42.) Mt.
 16 Tipton also requests to have the requirement for further reimbursement of the HUF account
 17 eliminated. (Tr. at 42.) Mt. Tipton asserts that the original purpose for the HUF funds—to connect
 18 the then-leased Detrital Well, 10 miles away on BLM land, to Mt. Tipton's water system—would
 19 have cost millions and that its ratepayers never would have been able to pay the rates necessary to
 20 cover such an expenditure. (Tr. at 24-25.) Mt. Tipton no longer leases the Detrital Well and has now
 21 abandoned the plan to connect the Detrital Well as a "pipe dream." (Tr. at 25-26.)

22 78. Although Staff agrees that Mt. Tipton should be able to use the currently accumulated
 23 HUF account funds toward repayment of its property tax arrearages, Staff asserts that Mt. Tipton
 24 should still be required to reimburse the HUF account as required by Decision No. 70837. (Tr. at
 25 178.) Staff asserted that Mt. Tipton's cash flow with the Staff-recommended revenue requirement,
 26 even allowing for some contingencies,³² would leave approximately \$15,000 per year or \$1,200 per
 27

28 ³² Mr. Baxter testified that the total cash flow available for Mt. Tipton's use would be \$25,000, and Staff allowed for \$10,000 in contingencies. (Tr. at 184.)

1 month, and that \$420 of this could be set aside each month and applied toward repaying the HUF
2 account. (Tr. at 178-79.) Staff further asserted that after Mt. Tipton builds up a “significant balance”
3 in the HUF account, Mt. Tipton should be permitted to request Commission authority to apply the
4 HUF account funds toward the remaining property tax arrearages or another purpose, which request
5 would at that time be analyzed by Staff and resolved by the Commission at an Open Meeting. (Tr. at
6 179, 187-88.) Mr. Baxter testified that Mt. Tipton should still be required to reimburse the HUF
7 account because that is what the Commission ordered Mt. Tipton to do previously. (See Tr. at 185-
8 87.)

9 79. Mt. Tipton and Staff both factored into their surcharge calculations that Mt. Tipton
10 would be permitted to apply the current balance of the HUF account toward payment of the property
11 tax arrearages. (See Exhibits A and B hereto.)

12 80. While we appreciate Staff’s desire to have Mt. Tipton comply with prior Commission
13 Decisions, we believe that the requirement to repay the HUF account should be reevaluated due to the
14 changes in Mt. Tipton’s circumstances. The HUF account was created to allow Mt. Tipton to connect
15 the Detrital Well, was continued to allow Mt. Tipton to fund infrastructure improvements to serve
16 new customers, and was then continued again to allow for funding of additional facilities to benefit
17 the entire water system. Mt. Tipton no longer has any intention of connecting the Detrital Well to its
18 system, and there is no anticipation of customer growth in the foreseeable future that would
19 necessitate the use of any repaid HUF funds for additional facilities. Mt. Tipton’s needs at this time
20 are for funds to repay its property tax arrearages and a sufficient cash flow to cover its expenses
21 (including debt service). Mt. Tipton should be concentrating its efforts on determining why its water
22 loss is currently so excessive and how the situation can be remedied, followed by taking action to
23 implement the remedy. Mt. Tipton’s needs, and the needs of its ratepayers, would not currently be
24 served by replenishing the HUF account. Thus, we find that it is just and reasonable and in the public
25 interest to authorize Mt. Tipton to transfer the funds from the current HUF account into the new
26 property tax arrearage surcharge account authorized herein and to close the HUF account. We further
27 find that the requirement for Mt. Tipton to reimburse the HUF account should be eliminated. Mt.
28 Tipton does not currently have an approved HUF tariff or the authority to charge HUFs, and we will

1 not change that status herein.

2 81. Because we are eliminating the requirement for Mt. Tipton to reimburse the HUF
3 account for the previously misspent HUF funds, in effect, we are also eliminating reimbursement of
4 the HUF account as a required or permissible use of the proceeds from the sale of the property at
5 16055 Pierce Ferry Road.³³

6 **Spring Well**

7 82. Mt. Tipton and Staff disagree regarding the used and useful status of the Spring Well,
8 which has been capped off and is not connected to the system at this time. (Tr. at 36.)

9 83. Staff determined that the Spring Well is not used and useful to Mt. Tipton's provision
10 of service. (Ex. S-1 at ex. DMH-1 at 11.) Ms. Hains testified that the Spring Well is shallow, at only
11 140 feet deep; was damaged by lightning several years ago; has not been repaired; has been capped;
12 has had its pump removed; has had its pipe connection cut off; and has damaged fencing that no
13 longer prevents people from accessing the well site. (Tr. at 137-38.) Additionally, Ms. Hains
14 reported, the well's production in 2009 was only 0.8 GPM, which is "pretty much just a dripping,"
15 and inadequate to serve as a backup well. (*Id.* at 138.) Ms. Hains also asserted that the decline in the
16 Spring Well's capacity from 20 GPM in 2000 to only 0.8 GPM in 2009 indicates either that the
17 groundwater table in that area is depleted or that the well just will not produce. (Tr. at 167.) Ms.
18 Hains estimated that making the Spring Well operational again would take approximately six
19 months³⁴ and would not be cost effective and, further, opined that ADEQ would require additional
20 source testing before the Spring Well could be used again because of the length of time since it was
21 taken out of service. (*See* Tr. at 154-59, 167-68.) Staff determined that the Spring Well should be
22 retired, as opposed to simply being excluded from rate base as not used and useful plant, although
23
24

25 ³³ This means that the language of the attestation adopted as Exhibit A to Decision No. 70836 should not reflect
26 reimbursement of the HUF account as a required or permissible use of the proceeds from the sale of the property at 16055
27 Pierce Ferry Road, something Mt. Tipton can accomplish by striking the language in any attestation filed in the future.
28 Also, Mt. Tipton should not file documentation showing that funds have been deposited into the HUF account after
closing on the sale of the property at 16055 Pierce Ferry Road.

³⁴ This assumed no deepening of the well and that the same size pump would be used with the same well casing. (*See*
Tr. at 168.) Ms. Hains testified that deepening the well and getting a large casing to reach the more productive aquifer
would trigger the need for a hydraulic study and new ADEQ approval. (Tr. at 168.)

1 that treatment should have no net impact on rate base because the Spring Well should already be fully
2 depreciated. (Tr. at 195-99.)

3 84. Ms. Monzillo testified that the Spring Well itself is “still functional” and “in decent
4 condition,” with its casing intact, although it is not producing water because the electrical equipment
5 for the well was destroyed by a lightning strike. (Tr. at 12-13.) Ms. Monzillo believes that Mt.
6 Tipton would be able to “quickly and fairly inexpensively” equip the Spring Well³⁵ so that, in the
7 event one of Mt. Tipton’s more productive wells is taken offline due to collapse or major repair, the
8 Spring Well could provide a back-up water supply while Mt. Tipton makes other plans. (Tr. at 12-
9 13.)

10 85. Ms. Rowell testified that the Spring Well is fully depreciated, so having it included in
11 rate base does not impact rates. (Tr. at 72.) She further stated that its retirement likewise would not
12 impact rate base. (*Id.*) Mt. Tipton opposes the retirement, however, asserting that keeping track of it
13 on Mt. Tipton’s books creates a book-to-tax difference that presents an additional burden on Mt.
14 Tipton. Mt. Tipton asserts that it intends to use the Spring Well again and thus will keep the well on
15 its tax books. (Tr. at 72-73.)

16 86. While we understand that Mt. Tipton may desire in the future to attempt to place the
17 Spring Well into service again, it is currently neither used nor useful and should not be included
18 within plant in service, even though fully depreciated. Additionally, based on Staff’s testimony, we
19 question whether the Spring Well could be sufficiently productive, once reactivated, to justify the
20 effort and cost. We find that the Spring Well should be retired, as recommended by Staff.

21 **Ratemaking**

22 **Rate Base**

23 87. Mt. Tipton proposes an original cost rate base (“OCRB”) of \$946,859, while Staff
24 recommends an OCRB of \$786,859. The difference in the parties’ OCRB figures is caused by their
25 disagreement over the treatment of 115 acres of property valued at \$170,000, acquired by Mt. Tipton
26

27 _____
28 ³⁵ Mt. Tipton estimates it would cost approximately \$3,000 for the electrical components and a new smaller pump. (Tr.
at 36.)

1 as an asset of Dolan Springs Water, but not previously included in Mt. Tipton's rate base.³⁶ Mt.
 2 Tipton proposes to have the entire \$170,000 included in rate base, and Staff recommends inclusion of
 3 only \$10,000, based upon Staff's determination that only seven acres of the property, or
 4 approximately 6.09 percent, is used and useful.³⁷ (See Mt. Tipton Closing Brief at Final Sched. E-5;
 5 Ex. S-5 at Rev. Surr. Sched. BAB-4, BAB-9b.)

6 88. Mt. Tipton asserts that the entire 115 acres of land is necessary to protect its wells.
 7 (Tr. at 11.) Ms. Monzillo described the property as "basically a watershed area that is somewhat
 8 mountainous, that runs down to the area where the wells are . . . and without [which] there could be a
 9 potential for contamination." (Tr. at 11.) Ms. Monzillo acknowledged that she does not know
 10 exactly what would happen if other people drilled wells on the land, although she expects that the
 11 water level of Mt. Tipton's well would decline. (See Tr. at 12, 52.) Ms. Monzillo also acknowledged
 12 that she has no direct knowledge concerning the nature or level of the water source for Mt. Tipton's
 13 well and that she does not have a degree in engineering, geology, hydrology, or an associated field.
 14 (See Tr. at 12, 34-35, 52.)

15 89. Ms. Rowell testified that she does not understand why Staff recommends exclusion of
 16 most of the 115 acres because the land was acquired by Mt. Tipton using WIFA funds when it
 17 acquired the assets and CC&N of Dolan Springs Water, a transaction that the Commission reviewed
 18 and approved.³⁸ (Tr. at 70.) Ms. Rowell asserted that she understood the water source on the 115
 19 acres of land to be close to the surface and not a normal well and that she had heard it called an
 20 artesian well. (*Id.* at 71.) Ms. Rowell asserted that excluding the land from rate base when it had
 21 been obtained using WIFA loans would be "fundamentally wrong," but also acknowledged that just
 22 because plant was financed with debt approved by the Commission does not mean that the plant will

23 ³⁶ Ms. Rowell testified that if the entire 115 acres were included in rate base, and a reasonable rate of return applied to
 24 it, there would be no further ratemaking issues between the parties. (Tr. at 71.) The land was not included in Mt.
 25 Tipton's original rate application in this case, which proposed \$9,842 in land and land rights. (See Ex. A-1 at att. 2 at
 Sched. E-5.) The land was added in Mt. Tipton's Rebuttal Testimony. (See Ex. A-2 at att. 1 at Sched. E-5.)

26 ³⁷ Staff rounded down from \$10,348 because the property value was estimated in the acquisition case. (Ex. S-5 at Rev.
 Surr. Sched. BAB-9b.)

27 ³⁸ Ms. Rowell acknowledged that each Decision approving a financing states that no determination has been made on
 28 used and usefulness and inclusion in rate base of the financed facilities. (Tr. at 126.) She also asserted, however, that in
 light of the extensive review Staff conducts for a financing, a utility should be able to rely on the Commission's allowing
 the financed facilities into rate base, and that not providing a utility that assurance is a "terrible precedent" and a "terrible
 policy." (See Tr. at 126-27.)

1 be included in rate base in a subsequent rate case. (*See* Tr. at 95-98.) Ms. Rowell also acknowledged
2 that she does not have a background in geology or hydrology and relies upon her client regarding
3 whether plant is used and useful and should appropriately be included in rate base. (Tr. at 98-99.)

4 90. Staff determined that only seven of the 115 acres are used and useful because only that
5 portion of the land is surrounded by a 6-foot-tall chain link fence with a locked gate, to secure Well
6 No. 8 (an artesian well³⁹) and two non-potable artesian wells. (Tr. at 136-37, 143-44, 159-60.)
7 According to Ms. Hains, the fenced area does not abut a roadway and is reached by rocky, hilly roads
8 after initially passing through a separate unlocked metal gate such as might be used in a parking lot.
9 (*See* Tr. at 159-61.) Ms. Hains asserted that the land between the initial gate and the gate of the
10 fenced area is all owned by Mt. Tipton, but is open, can be accessed by the public and animals, and is
11 used by high school kids as a place to drink or shoot.⁴⁰ (Tr. at 136-37, 143-44, 159-61.)

12 91. Although Ms. Hains did not study the hydrology of the 115 acre area, she agreed that
13 the addition of wells in the area of the artesian aquifer would probably reduce the hydrologic pressure
14 and also the water flowing through Well No. 8. (*See* Tr. at 139, 147.) Ms. Hains acknowledged that
15 Mt. Tipton could use the land for a storage tank in the future, although there are no current plans to
16 do so. (Tr. at 162.) Ms. Hains also agreed that Mt. Tipton's ownership protects the land and water
17 supply now and for the future because no one can go onto the land and legally drill a well. (*See* Tr. at
18 162.) Ms. Hains is not confident, however, that Mt. Tipton is correct in its belief that having the land
19 protects the aquifer. (*See* Tr. at 147-48.)

20 92. Property acquired with Commission-approved debt or as part of a CC&N transfer is
21 not automatically included in rate base. The standard the Commission must apply in determining
22 what property should be included in a utility's rate base is whether or not the property is used or
23 useful. In this case, the used or useful status of the land in question, to the extent that Mt. Tipton is
24 not actively and obviously using the land, could most appropriately be determined based upon the
25 hydrology of the area. Unfortunately, while there was minimal testimony touching upon that

26 ³⁹ Ms. Hains testified that an artesian well is like a naturally occurring fountain caused by hydrologic pressure shooting
27 out shallow surface-related ground water. (Tr. at 140.) Ms. Hains noted that Mt. Tipton acquired Well No. 8 from Dolan
28 Springs, and ADEQ has grandfathered in Well No. 8 as a potable well, although she questions the appropriateness of that
status. (*See* Tr. at 142-45.)

⁴⁰ Mt. Tipton believes the remaining terrain does not need to be fenced because it is so mountainous. (Tr. at 35.)

1 hydrology, none of it was provided by an expert witness who has studied the hydrology of the area.
 2 Mt. Tipton, as the applicant, had the burden of proving that the land should be included in rate base,
 3 and it has failed to do so.⁴¹ Thus, we will include in rate base only the estimated value of the seven
 4 acres Staff has determined to be used and useful, which is \$10,348.⁴²

5 93. In reaching their respective rate base positions, the parties agreed on adjustments to
 6 Mt. Tipton's accounts for wells and springs, power generation equipment, pumping equipment,
 7 solution chemical feeders, and computers and software. The parties also agreed on accumulated
 8 depreciation and on the correct treatment of service line and meter installation charges, advances that
 9 had been erroneously reported as revenue. We find that the rate base adjustments agreed upon by the
 10 parties are reasonable and appropriate, and we adopt them. As a result, we find that Mt. Tipton's
 11 OCRB is \$787,207.

12 94. Mt. Tipton did not propose the use of reconstructed cost new rate base to determine its
 13 fair value rate base ("FVRB"). (See Ex. A-1.) As a result, we find that Mt. Tipton's FVRB is
 14 equivalent to its OCRB and is \$787,207.

15 Revenue Requirement

16 95. Mt. Tipton and Staff now agree that Mt. Tipton's TY adjusted total operating revenue
 17 was \$335,144.⁴³ We agree and adopt this figure.

18 96. Mt. Tipton and Staff disagree on three areas of TY operating expenses, with Staff's
 19 downward adjustment to purchased power expense being the most contentious. (See Ex. S-5 at BAB-
 20 10, BAB-12.) Mr. Baxter stated that Staff made the purchased power adjustment because it would be
 21 unfair and unreasonable for the ratepayers to be required to pay for power used to pump water that
 22 may have been stolen. (Tr. at 197.) For its calculation, Staff used Mt. Tipton's TY water loss of
 23 27.22 percent and a 10-percent allowable water loss, without accounting for nonrevenue water usage,
 24 because Mt. Tipton did not track nonrevenue water usage during the TY. (Tr. at 179-80; Ex. S-5 at
 25 BAB-12.) Staff's calculation resulted in a downward adjustment of \$3,868. (Ex. S-5 at BAB-12.)

26 ⁴¹ The inclusion of any additional portion of the property in rate base should be addressed in Mt. Tipton's next rate
 27 case, based upon the usage or established usefulness of the property at that time.

⁴² We do not find it necessary to round down to \$10,000.

28 ⁴³ Mt. Tipton Closing Brief at Fin. Sched. C-1; Ex. S-5 at Rev. Surr. Sched. BAB-10. This reflects an adjustment to
 exclude from TY revenues \$4,450 in service line and meter installation charges.

1 97. Mt. Tipton disagrees with Staff's recommended downward purchased power expense
2 adjustment, which Ms. Rowell characterized as "100 percent pure punishment and bad policy." (Tr.
3 at 73.) Ms. Rowell asserted that it is unfair because the company has little control over its purchased
4 power bill, the company is not intentionally losing water, and the company must pay the electric bills
5 regardless of whether the expense is built into rates. (Tr. at 74-75.) Ms. Rowell added that it is
6 unclear how giving Mt. Tipton less money to pay its electric bill will encourage it to go out and find
7 leaks and, further, pointed out that Mt. Tipton did not ask for any adjustment to accommodate electric
8 rate increases that will occur. (Tr. at 75-76.)

9 98. We have previously determined that it is appropriate to make a downward purchased
10 power adjustment, on the premise that ratepayers should not be required to pay for the electricity to
11 pump water that is not sold or used in a beneficial nonrevenue-producing manner by the utility. In
12 Decision No. 72001, we found the following:

13 Staff's adjustment to purchased power expense is not a penalty. Rather, it
14 is designed to normalize Mt. Tipton's TY purchased power expenses by
15 bringing them into line with the purchased power expenses that should be
16 incurred by Mt. Tipton when its water pumping is at the level necessary
17 for the water sold by it, with an acceptable amount of water loss. This
18 type of adjustment is appropriate not just because excess water loss is not
19 beneficial to Mt. Tipton's customers, but because Mt. Tipton has provided
20 evidence to demonstrate and has strongly advocated that its water loss is
21 now at a level below 10 percent. Such a level of water loss will result in
22 Mt. Tipton's over-recovering purchased power expenses if it is allowed to
23 recover the full amount of its TY purchased power expenses. For these
24 reasons, we find that Staff's adjustment to purchased power expense is
25 reasonable and appropriate, and we will adopt it.⁴⁴

26 99. Although we continue to believe that downward purchased power expense
27 adjustments for excessive water loss can be appropriate, particularly when a utility would over-
28 recover without the adjustment such as was expected in Decision No. 72001, or the utility is giving
away water purposely or losing water through its own negligence, as the Commission has seen on
occasion in other cases, we are no longer convinced that a downward purchased power expense
adjustment is appropriate for Mt. Tipton. The evidence indicates that Mt. Tipton previously took
action to lower, and succeeded in lowering, its water loss to an acceptable level, only to have the

⁴⁴ Decision No. 72001 at 24-25.

1 water loss inexplicably and consistently rise again. Mt. Tipton believes that water theft may be the
2 cause, and there have been incidents in the past to support that idea. We desire for Mt. Tipton again
3 to take action as necessary to obtain control over its water loss, and we do not believe that denying it
4 revenue to cover its purchased power expense will further Mt. Tipton's ability to take this action. We
5 are also mindful that Mt. Tipton is not operating for profit; that Mt. Tipton and its ratepayers are,
6 essentially, one and the same; and that the risk caused by disallowing recovery of funds Mt. Tipton
7 needs to pay its operating expenses is not that shareholders will see a reduction in their dividends, but
8 that Mt. Tipton's ratepayers may not receive adequate and reliable service. We do not adopt Staff's
9 downward adjustment to Mt. Tipton's TY purchased power expense.

10 100. Mt. Tipton and Staff did not agree on TY water testing expenses, with Staff making an
11 upward adjustment of \$350 to reflect the calculation of Mt. Tipton's estimated minimum annual
12 water testing cost based on Mt. Tipton's mandatory participation in ADEQ's Monitoring Assistance
13 Program ("MAP"). (Ex. S-1 at 8-9.) Staff's engineer calculated these expenses using the ADEQ
14 MAP invoice for calendar year 2013 and asserts that the estimated water testing expenses are a
15 minimum cost based on no "hits" other than lead and copper, as any other "hits" would dramatically
16 increase testing costs. (*Id.*) Staff's adjustment is reasonable, and we will adopt Staff's water testing
17 expense of \$4,306.

18 101. Mt. Tipton and Staff also propose different TY depreciation expense, as a result of
19 using different depreciation rates for Plant Account No. 307, Wells and Springs. Mt. Tipton used
20 3.33 percent, while Staff used 2.50 percent. (Mt. Tipton Closing Brief at Final Sched. C-2a; Ex. S-5
21 at Sched. BAB-14a.) In Decision No. 72001, Mt. Tipton was directed to use a depreciation rate of
22 3.33 percent, and Staff has recommended in this matter that Mt. Tipton be required to use a
23 depreciation rate of 3.33 percent going forward. (*See* Ex. S-1 at ex. DMH-1 at 20.) In light of this,
24 we adopt Mt. Tipton's adjusted TY depreciation expense of \$11,601 for Acct. No. 307, and further
25 adopt Mt. Tipton's proposed adjusted TY depreciation expense of \$47,669.⁴⁵

26 . . .

27 _____
28 ⁴⁵ We note that land and land rights do not depreciate, so the only difference in the parties' calculations was attributable to the depreciation rate to be applied.

1 102. We find that Mt. Tipton's adjusted TY operating expenses were \$289,643. As a
2 result, we find that Mt. Tipton had adjusted TY operating income of \$45,501, which represents a rate
3 of return on Mt. Tipton's FVRB of 5.78 percent and an operating margin of 13.58 percent.

4 103. Because Mt. Tipton is a nonprofit ratepayer/member owned entity, there are no
5 shareholders or owners to whom Mt. Tipton's revenues would be distributed, and all of Mt. Tipton's
6 revenues are reinvested into the company. (Tr. at 19, 91.) Neither Mt. Tipton nor Staff determined
7 Mt. Tipton's revenue requirement by calculating Mt. Tipton's weighted average cost of capital
8 ("WACC") and applying the WACC to Mt. Tipton's FVRB. (See, e.g., Tr. at 91.)

9 104. Mt. Tipton and Staff currently advocate the following:

	Mt. Tipton⁴⁶	Staff⁴⁷
11 OCRB	\$946,859	\$786,859
12 Required Rate of Return	9.21%	10.20%
13 Required Operating Income	\$87,242	\$80,260
14 Adjusted TY Operating Income	\$45,851	\$51,439
15 Operating Income Deficiency	\$41,392	\$28,821
16 Gross Revenue Conversion Factor	1.0183	1.0015
17 Revenue Increase Required	\$42,148	\$28,863
18 Adjusted TY Revenue	\$335,144	\$335,144
19 Revenue Requirement	\$377,292	\$364,007
20 Percentage Revenue Increase Required	12.58%	8.61%
21 Cash Flow	\$26,103	\$25,243
22 Debt Service Coverage Ratio ("DSC")	1.34	1.25

23 105. Although Mt. Tipton was required to and did propose a cost of equity in its rate
24 application, Ms. Rowell placed no emphasis on the cost of equity figure when determining Mt.
25 Tipton's revenue requirement, instead focusing on conditional cash flow as percent of revenue. (Tr.
26 at 113-14.) Ms. Rowell added, however, that she believed the rate of return proposed by Mt. Tipton
27 to be fair. (Tr. at 114.) Ms. Rowell also explained that Mt. Tipton's being a nonprofit community-
28 owned water company presented additional constraints on her recommendations not generally present

⁴⁶ Mt. Tipton Closing Brief at Final Scheds. A-1, C-1, D-1. In its final schedules, Mt. Tipton adopted Staff's position on the appropriate treatment of the \$4,450 that Mt. Tipton had originally included as nonrefundable hook-up fees, but which Staff determined to be service line and meter installation charges and thus appropriately treated as AIAC. (See Staff Closing Brief; Tr. at 120-21, 182.) To accommodate this change, Mt. Tipton revised a number of other figures, including its required revenue increase and its higher tier commodity rates.

⁴⁷ Ex. S-5 at BAB-1. Mr. Baxter noted that the required rate of return figure was established based on Mt. Tipton's debt service coverage ratio and cash flow needs rather than based on a cost of capital analysis. (See Tr. at 177, 192.)

1 in a rate case because Mt. Tipton's leadership emphasized the need to retain affordability for its
2 customers.⁴⁸ (Tr. at 114.)

3 106. Staff asserted that its recommended revenue requirement, \$364,007, was established to
4 meet a DSC of 1.25, which Mr. Baxter testified would be sufficient to meet the WIFA loan DSC
5 requirement of 1.2, while providing a little additional revenue, roughly \$1,262, for expenses that may
6 arise. (Tr. at 177-78, 192-94.) Staff's recommended rate of return was the fall-out result of Staff's
7 DSC calculation. (Ex. S-5 at Rev. Surr. Sched. BAB-1.)

8 107. The Commission recognizes "that rate of return on rate base is less relevant with a
9 nonprofit entity and that, while [FVRB] is to be considered in our analysis, cash flow and financial
10 ratios can be a better method of determining a reasonable revenue requirement for a nonprofit entity."
11 (Decision No. 71505 (March 17, 2010) (citing Decision No. 70311 (April 24, 2008).)

12 108. When the figures advocated by Mt. Tipton and Staff are adjusted to reflect the FVRB
13 and operating expense adjustments adopted herein, and to remove from the DSC calculation the
14 estimated portion of the annual WIFA payments reflecting the Debt Service Reserve,⁴⁹ as is typical in
15 calculating DSC, the parties' revenue requirement positions reflect the following:

	Mt. Tipton	Staff
17 OCRB	\$787,207	\$787,207
18 Required Rate of Return	11.04%	9.38%
19 Required Operating Income	\$86,906	\$73,855
20 Adjusted TY Operating Income	\$45,501	\$45,501
21 Operating Income Deficiency	\$41,405	\$28,354
22 Gross Revenue Conversion Factor	1.017942	1.017942
23 Revenue Increase Required	\$42,148	\$28,863
24 Adjusted TY Revenue	\$335,144	\$335,144
25 Revenue Requirement	\$377,292	\$364,007
26 Percentage Revenue Increase Required	12.58%	8.61%
27 Cash Flow	\$30,009	\$17,196
28 DSC	1.50	1.35
Operating Margin	23.03%	20.29%

48 We note that Ms. Monzillo is not one of those customers. (Tr. at 34, 52.)

49 Mt. Tipton's WIFA Debt Service Invoice from June 10, 2013, provided the following breakdown of the \$6,916.92 WIFA payment due: Principal, \$4,093.28; Interest, \$702.04; Fee, \$1,220.94; and Debt Service Reserve, \$900.66. (See Mt. Tipton LFE at att. 1.)

1 109. Because of Mt. Tipton's nonprofit status, the lack of expected growth in its service
 2 area, the significant decline in its customer base in the past five years,⁵⁰ its need for cash flow
 3 sufficient to ensure its ability to make repairs as needed, and its need to be able to fund expenses
 4 associated with efforts to gain control over its excessive water loss, we adopt the following, which we
 5 find to be just and reasonable and in the public interest:

6	OCRB	\$787,207
7	Required Rate of Return	11.04%
8	Required Operating Income	\$86,906
9	Adjusted TY Operating Income	\$45,501
10	Operating Income Deficiency	\$41,405
11	Gross Revenue Conversion Factor	1.017942
12	Revenue Increase Required	\$42,148
13	Adjusted TY Revenue	\$335,144
14	Revenue Requirement	\$377,292
15	Percentage Revenue Increase Required	12.58%
16	Cash Flow	\$30,009
17	DSC	1.50
18	Operating Margin	23.03%

14 Rate Design

15 110. The water rates and charges for Mt. Tipton at present, as proposed by Mt. Tipton, and
 16 as recommended by Staff are as follows:

17		Present	Company	Staff
18	<u>MONTHLY USAGE CHARGE:</u>	<u>Rates</u>	<u>Proposed</u>	<u>Recommended</u>
19	5/8" x 3/4" Meter	\$ 22.25	\$ 24.00	\$ 23.00
20	3/4" Meter	33.38	36.00	34.13
21	1" Meter	55.63	60.00	56.38
22	1½" Meter	111.25	120.00	112.00
23	2" Meter	178.00	192.00	178.75
24	3" Meter	356.00	384.00	356.75
25	4" Meter	556.25	600.00	557.00
26	6" Meter	1,112.50	1,200.00	1,112.50
27	8" Meter	1,780.00	1,800.00	1,780.00
28	...			
	...			

⁵⁰ As noted previously, Mt. Tipton had approximately 720 customers in June 2009 and had approximately 660 customers during the TY, a reduction of 60 customers or 8.33 percent. Assuming that each customer lost was served by a 5/8" x 3/4" meter, and had usage at the TY average, this loss of customers would decrease revenues by \$24,048. If median usage is assumed instead, the decrease would be \$21,211. Even when no usage is assumed, this loss of customers would decrease revenues by \$16,020 annually.

Commodity Rates (Per 1,000 Gallons)All Meter Sizes

0 to 4,000 Gallons	\$3.05
4,001 to 9,000 Gallons	4.60
In excess of 9,000 Gallons	5.50

0 to 3,000 Gallons	\$3.50
3,001 to 8,000 Gallons	5.50
Over 8,000 Gallons	6.36

5/8" x 3/4" & 3/4" Meters

First 3,000 Gallons	\$3.05
3,001 to 8,000 Gallons	5.50
Over 8,000 Gallons	6.94

1" Meter

First 20,000 Gallons	\$5.50
Over 20,000 Gallons	6.94

1 1/2" Meter

First 50,000 Gallons	\$5.50
Over 50,000 Gallons	6.94

2" Meter

First 80,000 Gallons	\$5.50
Over 80,000 Gallons	6.94

3" Meter

First 150,000 Gallons	\$5.50
Over 150,000 Gallons	6.94

4" Meter

First 300,000 Gallons	\$5.50
Over 300,000 Gallons	6.94

6" Meter

First 500,000 Gallons	\$5.50
Over 500,000 Gallons	6.94

8" Meter

First 600,000 Gallons	\$5.50
Over 600,000 Gallons	6.94

Standpipe Water

Bulk Sales (Per 1,000 Gallons)	\$5.50	\$6.36	\$6.05
Vending Rate per 40 Gallons	0.25	0.25	0.25

...

...

SERVICE LINE AND METER INSTALLATION CHARGES:

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

**PRESENT, COMPANY PROPOSED, & STAFF
RECOMMENDED**

	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>
5/8" x 3/4" Meter	\$ 445.00	\$ 155.00	\$ 600.00
3/4" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1 1/2" Meter	550.00	525.00	1,075.00
2" Turbine Meter	830.00	1,045.00	1,875.00
2" Compound Meter	830.00	1,890.00	2,720.00
3" Turbine Meter	1,045.00	1,670.00	2,715.00
3" Compound Meter	1,165.00	2,545.00	3,710.00
4" Turbine Meter	1,490.00	2,670.00	4,160.00
4" Compound Meter	1,670.00	3,645.00	5,315.00
6" Turbine Meter	2,210.00	5,025.00	7,235.00
6" Compound Meter	2,330.00	6,920.00	9,250.00
8" Turbine Meter	3,000.00	7,500.00	10,500.00
8" Compound Meter	3,200.00	8,000.00	11,200.00

SERVICE CHARGES:

	<u>Present</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
Establishment	\$25.00	\$30.00	\$30.00
Establishment (After Hours)	40.00	N/A	N/A
Reconnection (Delinquent)	40.00	40.00	30.00
Reconnection (After Hours)	40.00	N/A	N/A
Meter Test (If Correct)	40.00	40.00	20.00
NSF Check	25.00	25.00	25.00
Meter Re-Read (If Correct)	15.00	15.00	15.00
Deposit	*	*	*
Deposit Interest (Per Month)	**	**	**
Deferred Payment (Per Month)	***	***	***
Late Charge (Per Month)	***	***	***
Reestablishment (Within 12 Months)	****	****	****
Main Extension	Cost	N/A	N/A
After Hours Charge	N/A	50.00	50.00
Monthly Service Charge for Fire Sprinkler (All Sizes)	*****	*****	*****

* Per Commission Rule A.A.C. R14-2-403(B)(7)

** Per Commission Rule A.A.C. R14-2-403(B)(3)

*** 1.50% of unpaid monthly balance

**** Months off system times the monthly minimum per 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

1 applicable to service lines separate and distinct from the primary water service
2 line.

3 In addition to the collection of regular rates, the utility shall collect from its customers a
4 proportionate share of any privilege, sales, use, and franchise tax, per Commission Rule
5 A.A.C. R14-2-409(D)(5).

6 111. Mt. Tipton's proposed rates and Staff's recommended rates⁵¹ would have the
7 following impacts on monthly bills for customers served by 5/8" x 3/4" meters with average and
8 median water usage:

Mt. Tipton				
Monthly Usage	Current Bill	Proposed Bill	Dollar Increase	Percent Increase
Average (3,657 gal.)	\$33.40	\$38.11	\$4.71	14.10%
Median (2,364 gal.)	\$29.46	\$32.27	\$2.81	9.55%
Staff				
Monthly Usage	Current Bill	Proposed Bill	Dollar Increase	Percent Increase
Average (3,657 gal.)	\$33.40	\$35.76	\$2.36	7.07%
Median (2,364 gal.)	\$29.46	\$30.21	\$0.75	2.55%

14 112. Mt. Tipton proposes a rate design intended to generate more revenue through base
15 rates because Mt. Tipton wants more consistent and stable revenues to support system improvements
16 such as valve caps and locks. (Tr. at 83-84.) Ms. Rowell testified that small rural water companies
17 that have completed rate cases in recent years almost never reach their revenue requirements,
18 something that she attributed both to downward adjustments made to TY expenses and to
19 conservation-oriented tiered rates. (See Tr. at 78-81.) Ms. Rowell said that after the first year under
20 new, higher tiered rates, customers conserve and cut back on use or move. (Tr. at 81.) Ms. Rowell
21 also asserted that Staff's rate design would jeopardize Mt. Tipton's ability to maintain the 1.20 DSC
22 required by WIFA under its loan agreements. (Tr. at 88-90.)

23 113. Mt. Tipton is not proposing an increase to its rate for coin machine water sales
24 because it believes that its water sales are higher due to its price (40 gallons for a quarter), which is
25 quite a bit lower than competitors' rates (approximately 20 to 28 gallons for a quarter), and that a
26 price increase would cause people to purchase from competitors that are closer to where the people
27

28 ⁵¹ See Mt. Tipton Closing Brief at att. 1 at Sched. H-3; Staff LFE at Sched. BAB-18, Sched. BAB-19.

1 live rather than driving all the way to Mt. Tipton. (Tr. at 29-30, 52.)

2 114. Mt. Tipton asserts that its proposed monthly minimum charges were set using the
3 meter multipliers frequently used by Staff in its rate designs and that its proposed commodity rates
4 were set in an attempt to distribute the increase evenly among customers. (Tr. at 123-24.) Ms.
5 Rowell asserted that Staff's recommended rate design relies too heavily on the second two tiers for
6 the 5/8" meter customer, *i.e.*, high-end users, to generate increased revenues, which may not
7 materialize because high-end users can respond by cutting their usage through conservation. (Tr. at
8 124-25.)

9 115. Ms. Monzillo believes that the uniform commodity rate design for all meter sizes
10 makes things simpler and less confusing for customers and Mt. Tipton. (Tr. at 53.)

11 116. Staff's rate design is intended to promote water conservation, with higher rate
12 increases occurring at the top tiers, so as to encourage reduced water usage. (Staff Closing Brief at 7-
13 8.) In response to Mt. Tipton's assertions that Staff's rate design places too much of the increase on
14 Mt. Tipton's highest use customers, Staff stated that Mt. Tipton has five large water user customers,
15 who account for only 5 percent of Mt. Tipton's revenues. (*Id.*) Staff asserts that its rate design
16 would generate 87 percent of the revenue increase from 5/8" x 3/4" water users, the largest portion of
17 Mt. Tipton's customer base. (*Id.*) Staff states that its recommended rate design would generate
18 adequate revenue to meet Mt. Tipton's operating expenses and cash flow requirements, promote
19 water conservation, and be equitable for all of Mt. Tipton's customers. (*Id.*)

20 117. Most of Mt. Tipton's customers have very low water consumption, as evidenced by
21 the average and median consumption levels for 5/8" x 3/4" meter customers during the TY. In Mt.
22 Tipton's last rate case, the Commission adopted the current simplified uniform commodity rate
23 design as a replacement to a more typical and more complicated conservation-oriented commodity
24 rate design, stating the following:

25 The parties have agreed to change Mt. Tipton's commodity rate structure
26 to include the same three-tiered commodity rate structure for all
27 customers, regardless of meter size, instead of having a three-tiered
28 commodity rate structure for small meter sizes and then a two-tiered
commodity rate structure, with increasingly higher second-tier thresholds,
for larger meter sizes. Mr. Igwe explained that the recommended

1 commodity rate structure is appropriate because Mt. Tipton's current
 2 commodity rate thresholds have little relationship to its customer
 3 consumption patterns and thus do not encourage efficient use of water.
 4 Although we generally adopt a commodity rate structure similar to Mt.
 5 Tipton's current commodity rate structure, it is apparent that the second-
 6 tier thresholds for the larger meter sizes in Mt. Tipton's current rate design
 7 are far too high to encourage Mt. Tipton's customers to conserve water.
 8 We also see a benefit in simplifying Mt. Tipton's rate structure so that it is
 9 easier to implement and follow. Thus, we will adopt the three-tiered
 10 commodity rate structure on which Staff and Mt. Tipton have agreed for
 11 all meter sizes.⁵²

12 118. During the TY for this matter, Mt. Tipton's average customer had virtually the same
 13 monthly consumption levels as during the test year for Mt. Tipton's last rate case: 3,657 gallons this
 14 TY versus 3,552 the last test year, and 2,364 gallons versus 2,305 gallons the last test year. The
 15 minimal increases in water consumption appear to confirm that Mt. Tipton's customers need little
 16 encouragement to conserve. As a result, there is little to be gained from again requiring Mt. Tipton to
 17 adopt a significantly more complicated commodity rate structure, with the additional burden that
 18 would impose upon Mt. Tipton itself and upon its customers.⁵³ We note that Mt. Tipton's proposed
 19 rate design does encourage water conservation to some extent by reducing the threshold between
 20 commodity rate tiers. We find that it is just and reasonable to adopt the single three-tiered
 21 commodity rate structure proposed by Mt. Tipton.

22 119. Mt. Tipton and Staff did not reach agreement on two existing service charges,
 23 specifically the reconnection charge, which Staff proposes to decrease from \$40 to \$30, and the meter
 24 test charge, which Staff proposes to decrease from \$40 to \$20. Staff did not explain its rationale for
 25 recommending that these existing service charges be reduced. (*See, e.g.*, Ex. S-3 at 23-24.) Because
 26 we have approved these service charges previously, and there is no evidence provided to explain why
 27 they should be reduced, we find that they should remain at the levels currently established.

28 120. Mt. Tipton also proposes to eliminate its establishment (after hours) and reconnection
 (after hours) charges and instead to adopt a separate after hours service charge (at customer request),
 set at \$50. Staff initially opposed the \$50 after hours service charge as higher than other companies

⁵² Decision No. 72001 at 29-30 (citation omitted).

⁵³ For example, the more complicated commodity rate structure would necessitate more programming changes for Mt. Tipton's billing system and would likely result in additional customer inquiries.

1 of a similar size and location, but subsequently has recommended that the \$50 charge be approved.
 2 (See Ex. S-3 at 24; Staff LFE at Final Surr. Sched. BAB-18.) We find that these service charge
 3 revisions are just and reasonable, and we will adopt them.

4 121. Mt. Tipton proposes and Staff recommends that Mt. Tipton be authorized to continue
 5 charging its existing service line and meter installation charges. We find that this is just and
 6 reasonable and will approve the continuation of those charges.

7 122. We find that Mt. Tipton should be authorized to implement the following rates and
 8 charges, which are just and reasonable and in the public interest:

9 **MONTHLY USAGE CHARGE:**

10	5/8" x 3/4" Meter	\$ 24.00
11	3/4" Meter	36.00
12	1" Meter	60.00
13	1½" Meter	120.00
14	2" Meter	192.00
15	3" Meter	384.00
	4" Meter	600.00
	6" Meter	1,200.00
	8" Meter	1,800.00

16 **COMMODITY RATES:**

17 (Per 1,000 Gallons)

18 All Meters

18	1 to 3,000 Gallons	\$3.50
19	3,001 to 8,000 Gallons	5.50
20	Over 8,000 Gallons	6.36

21 Standpipe Water

21	Bulk Sales (Per 1,000 Gallons)	\$6.36
22	Vending Rate per 40 Gallons	0.25

23 **SERVICE LINE AND METER INSTALLATION CHARGES:**

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

	<u>Service</u>	<u>Meter</u>	<u>Total</u>
	<u>Line</u>	<u>Installation</u>	
24	\$ 445.00	\$ 155.00	\$ 600.00
25	445.00	255.00	700.00
26	495.00	315.00	810.00
27	550.00	525.00	1,075.00
28	830.00	1,045.00	1,875.00
	830.00	1,890.00	2,720.00

1	3" Turbine Meter	1,045.00	1,670.00	2,715.00
	3" Compound Meter	1,165.00	2,545.00	3,710.00
2	4" Turbine Meter	1,490.00	2,670.00	4,160.00
	4" Compound Meter	1,670.00	3,645.00	5,315.00
3	6" Turbine Meter	2,210.00	5,025.00	7,235.00
	6" Compound Meter	2,330.00	6,920.00	9,250.00
4	8" Turbine Meter	3,000.00	7,500.00	10,500.00
5	8" Compound Meter	3,200.00	8,000.00	11,200.00

SERVICE CHARGES:

6	Establishment	\$30.00
7	Reconnection (Delinquent)	\$40.00
	Meter Test (If Correct)	\$40.00
8	NSF Check	\$25.00
9	Meter Re-Read (If Correct)	\$15.00
	Deposit	*
10	Deposit Interest (Per Month)	**
	Deferred Payment (Per Month)	***
11	Late Charge (Per Month)	***
	Reestablishment (Within 12 Months)	****
12	After Hours Charge	\$50.00
13	Monthly Service Charge for Fire Sprinkler (All Sizes)	*****

* Per Commission Rule A.A.C. R14-2-403(B)(7)

** Per Commission Rule A.A.C. R14-2-403(B)(3)

*** 1.50% of unpaid monthly balance

**** Months off system times the monthly minimum per 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 to service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility shall collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per Commission Rule A.A.C. R14-2-409(D)(5).

123. The rates and charges adopted herein will have the following estimated bill impacts for customers served by 5/8" x 3/4" meters with average and median usage:

Monthly Usage	Current Bill	New Bill	Dollar Increase	Percent Increase
Average (3,657 gal.)	\$33.40	\$38.11	\$4.71	14.10%
Median (2,364 gal.)	\$29.46	\$32.27	\$2.81	9.55%

124. Staff recommends that Mt. Tipton be required to use the depreciation rates by individual NARUC category as delineated in Figure 5 of Staff's Engineering Report, and we find that it is just and reasonable and in the public interest for Mt. Tipton to continue using those depreciation rates.

CONCLUSIONS OF LAW

1
2 1. Mt. Tipton is a public service corporation within the meaning of Article XV of the
3 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

4 2. The Commission has jurisdiction over Mt. Tipton and the subject matter of the
5 application.

6 3. Notice of the proceeding was provided in accordance with the law.

7 4. Mt. Tipton's FVRB is \$787,207.

8 5. The rates and charges and terms and conditions of service approved herein are just and
9 reasonable and in the public interest.

10 6. It is just and reasonable and in the public interest for the Commission to take the
11 actions and impose the requirements described in Findings of Fact Nos. 60, 63 through 65, 74
12 through 76, 80, 81, 86, 92 through 95, 99 through 102, 109, 118 through 122, and 124.

ORDER

13
14 IT IS THEREFORE ORDERED that Mt. Tipton Water Company, Inc. shall file with Docket
15 Control, as a compliance item in this docket, before October 1, 2014, revised rate schedules setting
16 forth the following rates and charges:

MONTHLY USAGE CHARGE:

17	5/8" x 3/4" Meter	\$ 24.00
18	3/4" Meter	36.00
19	1" Meter	60.00
20	1½" Meter	120.00
21	2" Meter	192.00
22	3" Meter	384.00
23	4" Meter	600.00
24	6" Meter	1,200.00
25	8" Meter	1,800.00

COMMODITY RATES:**(Per 1,000 Gallons)****All Meters**

26	1 to 3,000 Gallons	\$3.50
27	3,001 to 8,000 Gallons	5.50
28	Over 8,000 Gallons	6.36

Standpipe Water

Bulk Sales (Per 1,000 Gallons)	\$6.36
Vending Rate per 40 Gallons	0.25

SERVICE LINE AND METER INSTALLATION CHARGES:

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

	Service Line	Meter Installation	Total
5/8" x 3/4" Meter	\$ 445.00	\$ 155.00	\$ 600.00
3/4" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1 1/2" Meter	550.00	525.00	1,075.00
2" Turbine Meter	830.00	1,045.00	1,875.00
2" Compound Meter	830.00	1,890.00	2,720.00
3" Turbine Meter	1,045.00	1,670.00	2,715.00
3" Compound Meter	1,165.00	2,545.00	3,710.00
4" Turbine Meter	1,490.00	2,670.00	4,160.00
4" Compound Meter	1,670.00	3,645.00	5,315.00
6" Turbine Meter	2,210.00	5,025.00	7,235.00
6" Compound Meter	2,330.00	6,920.00	9,250.00
8" Turbine Meter	3,000.00	7,500.00	10,500.00
8" Compound Meter	3,200.00	8,000.00	11,200.00

SERVICE CHARGES:

Establishment	\$30.00
Reconnection (Delinquent)	\$40.00
Meter Test (If Correct)	\$40.00
NSF Check	\$25.00
Meter Re-Read (If Correct)	\$15.00
Deposit	*
Deposit Interest (Per Month)	**
Deferred Payment (Per Month)	***
Late Charge (Per Month)	***
Reestablishment (Within 12 Months)	****
After Hours Charge	\$50.00
Monthly Service Charge for Fire Sprinkler (All Sizes)	*****

* Per Commission Rule A.A.C. R14-2-403(B)(7)

** Per Commission Rule A.A.C. R14-2-403(B)(3)

*** 1.50% of unpaid monthly balance

**** Months off system times the monthly minimum per 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 to service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility shall collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per Commission Rule A.A.C. R14-2-409(D)(5).

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

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

6 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall, by no later than
7 July 31, 2015, prepare and file with the Commission's Docket Control, as a compliance item in this
8 docket, a report containing a detailed analysis and plan to reduce its potable water system's water loss
9 to 10 percent or less or, if Mt. Tipton Water Company, Inc. believes that it is not cost effective to
10 reduce the water loss to 10 percent or less, a report including a detailed cost-benefit analysis to
11 support its opinion.

12 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall file with the
13 Commission's Docket Control, as a compliance item in this docket, within 90 days after the effective
14 date of this Decision, at least five proposed Best Management Practices tariffs, substantially
15 conforming to the templates created by Staff and available on the Commission's website, for the
16 Commission's review and consideration for approval, with a maximum of two Best Management
17 Practices coming from the "Public Awareness/Public Relations" or "Education and Training"
18 categories. In selecting the five proposed Best Management Practices tariffs, Mt. Tipton Water
19 Company, Inc. shall focus particularly on Best Management Practices designed to alleviate problems
20 identified on its system, such as water theft at blow offs and elsewhere, faulty meters, and unsecured
21 meters.

22 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall include, as a cover
23 document accompanying its proposed Best Management Practices tariff filing, for each separate
24 proposed Best Management Practice tariff, an estimate of the cost initially to implement the Best
25 Management Practice, an estimate of the cost annually to maintain the implementation of the Best
26 Management Practice, a description of any benefits expected to be realized from the ongoing
27 implementation of the Best Management Practice, and any additional information that Mt. Tipton
28

1 Water Company, Inc. believes should be considered by the Commission in reference to the Best
2 Management Practice.

3 IT IS FURTHER ORDERED that the Commission's Utilities Division shall review the
4 proposed Best Management Practices tariff filing made by Mt. Tipton Water Company, Inc. and shall
5 file a Staff Report including Staff's analysis of whether the estimated costs of implementing and
6 maintaining the implementation of each Best Management Practice outweighs the benefits expected
7 to be realized from the ongoing implementation of the Best Management Practice; Staff's
8 recommendation for implementation of each proposed Best Management Practice tariff, in the form
9 of a proposed Order; and any additional information that Staff believes should be considered by the
10 Commission in reference to each proposed Best Management Practice tariff.

11 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall be permitted, in its
12 next general rate case application, to request cost recovery of the actual costs associated with any
13 Best Management Practices implemented.

14 IT IS FURTHER ORDERED that the requirement, imposed in Decision No. 72001, for Mt.
15 Tipton Water Company, Inc. to monitor and report to the Commission on the water loss for its non-
16 potable water system is hereby terminated.

17 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. is hereby authorized to
18 implement the following property tax arrearages surcharges, effective October 1, 2014, and to
19 continue collecting those surcharges, on a monthly basis, until such time as each of the liens for
20 property tax arrearages during the period from 2004 through 2009 is paid in full:

21 **MONTHLY SURCHARGE:**

22	5/8" x 3/4" Meter	\$ 10.15
23	3/4" Meter	15.23
24	1" Meter	25.38
25	1½" Meter	50.75
26	2" Meter	81.20
27	3" Meter	152.25
28	4" Meter	253.75
	6" Meter	507.50

1 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall notify its customers
2 of the property tax arrearages surcharges authorized herein and their effective date, in a form
3 acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly
4 scheduled billing.

5 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall open a separate,
6 interest bearing property tax arrearages surcharge account into which Mt. Tipton Water Company,
7 Inc. shall deposit all of the surcharge funds received.

8 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall use the surcharge
9 funds received only for purposes of paying the liens for property tax arrearages during the period
10 from 2004 through 2009.

11 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall, each time the
12 surcharge account reaches a balance sufficient to pay off a lien, pay off the lien without delay and,
13 within 30 days after the date the lien is paid off, file with the Commission's Docket Control, as a
14 compliance item in this docket, a Notice of Payment documenting the lien involved, the amount paid,
15 the date paid, and that the payment represents payment in full.

16 IT IS FURTHER ORDERED that in addition to the above Notice of Payment, Mt. Tipton
17 Water Company, Inc. shall file annual reconciliation reports detailing any and all activity in this
18 account. These reports shall be filed in July of every year, beginning in July 2015, and shall cover
19 the previous 12 months.

20 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall, within 30 days after
21 the effective date of this Decision, contact the private individual who holds the 2004 and 2005
22 property tax liens to determine whether Mt. Tipton Water Company, Inc. would be permitted to pay
23 each of these liens separately. If the lienholder agrees to permit Mt. Tipton Water Company, Inc. to
24 pay each of these liens separately, Mt. Tipton Water Company, Inc. shall pay off the 2004 lien as
25 soon as the balance in the surcharge account is sufficient to enable Mt. Tipton to do so.

26 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall, within 30 days after
27 the effective date of this Decision, transfer the entire balance of funds currently on deposit in Mt.
28

1 Tipton Water Company, Inc.'s Hook-Up Fees account into the new property tax arrearages surcharge
2 account required to be established pursuant to this Decision and close the Hook-Up Fees account.

3 IT IS FURTHER ORDERED that the requirement for Mt. Tipton Water Company, Inc. to
4 reimburse the Hook-Up Fees account in the amount of \$40,800.00, imposed in Decision No. 70837
5 (March 20, 2008), is hereby eliminated.

6 IT IS FURTHER ORDERED that because the requirement for Mt. Tipton Water Company,
7 Inc. to reimburse the Hook-Up Fees account is eliminated, reimbursement of the Hook-Up Fees
8 account is no longer an appropriate use of the proceeds from the sale of the property at 16055 Pierce
9 Ferry Road in Dolan Springs, Arizona, should the property be sold.

10 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall adjust its regulatory
11 accounting records to reflect the plant balances allowed herein and the Original Cost Rate Base/Fair
12 Value Rate Base adopted herein.

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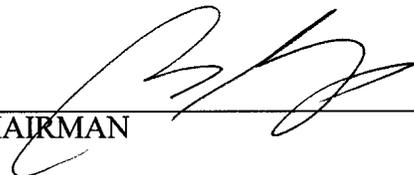
27 ...

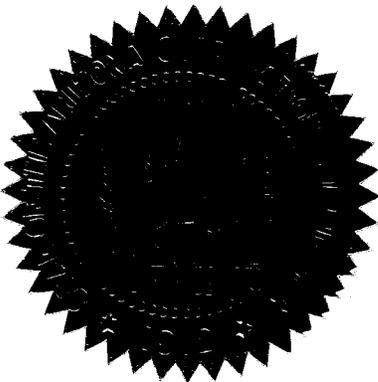
28 ...

1 IT IS FURTHER ORDERED that Mt. Tipton Water Company, Inc. shall continue using the
2 depreciation rates by individual National Association of Regulatory Utility Commissioners category
3 as delineated in Figure 5 of Staff's Engineering Report filed herein.

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  COMMISSIONER  COMMISSIONER  COMMISSIONER
10



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
Commission to be affixed at the Capitol, in the City of Phoenix,
this 15th day of September 2014.

15
16 
17 JODI JERICH
EXECUTIVE DIRECTOR

18 DISSENT _____

19
20 DISSENT _____
21 SH:ru

1 SERVICE LIST FOR: MT. TIPTON WATER COMPANY, INC.

2 DOCKET NO.: W-02105A-13-0415

3
4 Steve Wene
5 MOYES SELLERS & HENDRICKS LTD.
6 1850 North Central Avenue, Suite 1100
7 Phoenix, AZ 85004
8 Attorneys for Mt. Tipton Water Company, Inc.

9
10 Janice Alward, Chief Counsel
11 Legal Division
12 ARIZONA CORPORATION COMMISSION
13 1200 West Washington Street
14 Phoenix, AZ 85007

15
16 Steven M. Olea, Director
17 Utilities Division
18 ARIZONA CORPORATION COMMISSION
19 1200 West Washington Street
20 Phoenix, AZ 85007

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22
23
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EXHIBIT A

Mt. Tipton Water Company, Inc.
 Docket No. W-02105A-13-0415
 Test Year Ended June 30, 2013

Final Supplemental Schedule 1

DETAIL OF PROPERTY TAX SURCHARGE CALCULATION

1	New rates effective October 1, 2014 with collections beginning	November-14
2	Plus collection period in months	32
3	Projected end of surcharge collection	June-17

4 **Proof of Surcharge Revenue:**

5	Meter Size	NARUC Multiplier	Monthly Surcharge by Meter Size	Customers	Monthly Surcharge Revenue
6	5/8" x 3/4" meter	1	\$ 10.15	657	\$ 6,669
7	3/4" meter	2	15.23	0	-
8	1" meter	3	25.38	1	25
9	1 1/2" meter	5	50.75	1	51
10	2" meter	8	81.20	2	162
11	3" meter	15	152.25	0	-
12	4" meter	25	253.75	1	254
13	6" meter	50	507.50	0	-
14	Total Monthly Surcharge Revenue				\$ 7,161
15	Assessment period in Months				32
16	Collected Over Assessment Period				<u>\$ 229,146</u>

17 **Proof Surcharge Revenue Will Meet Property Tax Payment Obligations:**

18	Balance as of June 2014	\$ 200,193	
19	Additional Interest 2004 Lien	3,526	Jul 2015 projected payoff
20	Additional Interest 2005 Lien	1,348	Jul 2015 projected payoff
21	Additional Interest 2006 Lien	4,923	Jan 2016 projected payoff
22	Additional Interest 2007 Lien	6,655	Jul 2016 projected payoff
23	Additional Interest 2008 Lien	7,472	Jan 2017 projected payoff
24	Additional Interest 2009 Lien	8,599	Jun 2017 projected payoff
25	Total Projected to be Paid	<u>\$ 232,716</u>	
26	Property Tax resulting from Surcharge ¹	4,111	
27	Collected Over Assessment Period	(229,146)	
28	Hook Up Fees	(8,100)	
29	Remainder	<u>\$ (419)</u>	

30 ¹ \$4,111 = \$229,146 times GRCF for property taxes of 1.7942%

Final Supplemental Schedule 2

DETAIL OF INTEREST ACCRUAL AND SURCHARGE COLLECTION

Mt. Tipton Water Company, Inc.
 Docket No. W-02105A-13-0415
 Test Year Ended June 30, 2013

Lien Year	Annual Interest Rate	Original Lien Amount	Interest to 09-Oct-13	Balance Due 09-Oct-13	Nov-13 Interest	Dec-13 Interest	Balance Due 31-Dec-13	Balance Due 30-Jun-14
2004	16.00%	\$ 20,342.66	\$ 25,254.90	\$ 45,597.56	\$ 271.24	\$ 271.24	\$ 46,140.04	\$ 47,767.48
2005	16.00%	7,777.27	8,503.15	16,280.42	103.70	103.70	16,487.82	17,110.02
2006	16.00%	19,431.43	17,901.92	37,333.35	259.09	259.09	37,851.53	39,406.07
2007	16.00%	19,965.05	15,198.44	35,163.49	266.20	266.20	35,695.89	37,293.09
2008	16.00%	18,077.76	10,871.66	28,949.42	241.04	241.04	29,431.50	30,877.74
2009	16.00%	17,914.98	7,912.59	25,827.57	238.87	238.87	26,305.31	27,738.53
Totals		\$ 103,509.15	\$ 85,642.66	\$ 189,151.81	\$ 1,380.14	\$ 1,380.14	\$ 191,912.09	\$ 200,192.93

\$

Surcharge Balance

Assumptions:

- 1 - Company preferred surcharge amount is \$10.15 for a 5/8" x 3/4" meter, and is expected to generate \$7,161 per month.
- 2 - Surcharge is estimated to begin in October of 2014 with first collections in November of 2014.
- 3 - Surcharge is predicted to cease in May of 2017 with final collection and payment in June 2017. (32 months)
- 4 - Surcharge account balance of \$22,422 at 12/31/14 is \$8,100 of hook up fees plus 2 months of surcharge collection.
- 5 - Surcharge collections will accrue in bank account until the balance of a lien has accumulated, then will be paid in full.
- 6 - The 2004 and 2005 liens are owned by the same people and must be paid in full together.

Mt. Tipton Water Company, Inc.
 Docket No. W-02105A-13-0415
 Test Year Ended June 30, 2013

DETAIL OF INTEREST ACCRUAL AND SURCHARGE COLLECTION

Final Supplemental Schedule 2

Lien Year	Balance Due 31-Dec-14	Balance Due 31-Jan-15	Balance Due 28-Feb-15	Balance Due 31-Mar-15	Balance Due 30-Apr-15	Balance Due 31-May-15
2004	\$ 49,394.92	\$ 49,666.16	\$ 49,937.39	\$ 50,208.63	\$ 50,479.86	\$ 50,751.10
2005	17,732.22	17,835.92	17,939.61	18,043.31	18,147.01	18,250.70
2006	40,960.61	41,219.70	41,478.78	41,737.87	41,996.95	42,256.04
2007	38,890.29	39,156.49	39,422.69	39,688.89	39,955.09	40,221.29
2008	32,323.98	32,565.02	32,806.05	33,047.09	33,288.13	33,529.16
2009	29,171.75	29,410.62	29,649.48	29,888.35	30,127.22	30,366.08
Totals	\$208,473.77	\$209,853.89	\$211,234.01	\$212,614.14	\$213,994.26	\$215,374.38

Surcharge Balance \$ 22,422.00 \$ 29,583.00 \$ 36,744.00 \$ 43,905.00 \$ 51,066.00 \$ 58,227.00

Final Supplemental Schedule 2

DETAIL OF INTEREST ACCRUAL AND SURCHARGE COLLECTION

Mt. Tipton Water Company, Inc.
 Docket No. W-02105A-13-0415
 Test Year Ended June 30, 2013

Lien Year	Balance Due 30-Jun-15	Balance Due 31-Jul-15	Payment 1	Balance Due 31-Aug-15	Balance Due 30-Sep-15	Balance Due 31-Oct-15	Balance Due 30-Nov-15	Balance Due 31-Dec-15
2004	\$ 51,022.33	\$ 51,293.57	\$ (51,293.57)	\$ (0.00)	\$ -	\$ -	\$ -	\$ -
2005	18,354.40	18,458.10	(18,458.10)	(0.00)	-	-	-	-
2006	42,515.12	42,774.21		43,033.30	43,292.38	43,551.47	43,810.55	44,069.64
2007	40,487.49	40,753.69		41,019.90	41,286.10	41,552.30	41,818.50	42,084.70
2008	33,770.20	34,011.24		34,252.27	34,493.31	34,734.35	34,975.38	35,216.42
2009	30,604.95	30,843.81		31,082.68	31,321.55	31,560.41	31,799.28	32,038.15
Totals	\$ 216,754.50	\$ 218,134.62		\$ 149,388.14	\$ 150,393.34	\$ 151,398.53	\$ 152,403.72	\$ 153,408.91

Surcharge Balance \$ 65,388.00 \$ 72,549.00 \$ (69,751.67) \$ 9,958.33 \$ 17,119.33 \$ 24,280.33 \$ 31,441.33 \$ 38,602.33

Final Supplemental Schedule 2

DETAIL OF INTEREST ACCRUAL AND SURCHARGE COLLECTION

Mt. Tipton Water Company, Inc.
 Docket No. W-02105A-13-0415
 Test Year Ended June 30, 2013

Lien Year	Balance Due 31-Jan-16	Payment 2	Balance Due 29-Feb-16	Balance Due 31-Mar-16	Balance Due 30-Apr-16	Balance Due 31-May-16	Balance Due 30-Jun-16
2004	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2005	-	-	-	-	-	-	-
2006	44,328.72	(44,328.72)	0.00	-	-	-	-
2007	42,350.90		42,617.10	42,883.30	43,149.50	43,415.70	43,681.90
2008	35,457.46		35,698.50	35,939.53	36,180.57	36,421.61	36,662.64
2009	32,277.01		32,515.88	32,754.75	32,993.61	33,232.48	33,471.35
Totals	\$ 154,414.09		\$ 110,831.48	\$ 111,577.58	\$ 112,323.68	\$ 113,069.79	\$ 113,815.89

Surcharge Balance \$ 45,763.33 \$ (44,328.72) \$ 8,595.61 \$ 15,756.61 \$ 22,917.61 \$ 30,076.61 \$ 37,239.61

Final Supplemental Schedule 2

DETAIL OF INTEREST ACCRUAL AND SURCHARGE COLLECTION

Mt. Tipton Water Company, Inc.
 Docket No. W-02105A-13-0415
 Test Year Ended June 30, 2013

Lien Year	Balance Due 31-Jul-16	Payment 3	Balance Due 31-Aug-16	Balance Due 30-Sep-16	Balance Due 31-Oct-16	Balance Due 30-Nov-16	Balance Due 31-Dec-16
2004	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
2005	-		-	-	-	-	-
2006	-		-	-	-	-	-
2007	43,948.10	(43,948.10)	0.00	-	-	-	-
2008	36,903.68		37,144.72	37,385.75	37,626.79	37,867.83	38,108.86
2009	33,710.21		33,949.08	34,187.94	34,426.81	34,665.68	34,904.54
Totals	\$ 114,561.99		\$ 71,093.80	\$ 71,573.70	\$ 72,053.60	\$ 72,533.50	\$ 73,013.41

Surcharge Balance \$ 44,400.61 \$ (43,948.10) \$ 7,613.51 \$ 14,774.51 \$ 21,935.51 \$ 29,096.51 \$ 36,257.51

Final Supplemental Schedule 2

DETAIL OF INTEREST ACCRUAL AND SURCHARGE COLLECTION

Mt. Tipton Water Company, Inc.
 Docket No. W-02105A-13-0415
 Test Year Ended June 30, 2013

Lien Year	Balance Due 31-Jan-17	Payment 4	Balance Due 28-Feb-17	Balance Due 31-Mar-17	Balance Due 30-Apr-17	Balance Due 31-May-17	Balance Due 30-Jun-17
2004	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2005	-	-	-	-	-	-	-
2006	-	-	-	-	-	-	-
2007	-	-	-	-	-	-	-
2008	38,349.90	(38,349.90)	-	-	-	-	-
2009	35,143.41		35,382.28	35,621.14	35,860.01	36,098.88	36,337.74
Totals	\$73,493.31		\$35,382.28	\$35,621.14	\$35,860.01	\$36,098.88	\$36,337.74

Surcharge Balance	\$43,418.51	\$(38,349.90)	\$12,229.61	\$19,390.61	\$26,551.61	\$33,712.61	\$40,873.61
						Payment 5	\$(36,337.74)
						Difference	\$4,535.87
						Amount of Current Property Taxes due to Surcharge ¹	(4,111.34)
						Remainder	\$424.52

¹ This is the amount of additional current property taxes that will be due over the 32 month surcharge period as a result of the additional revenue from the surcharge.

EXHIBIT B

Mount Tipton Water Company, Inc. Revised Surrebutral Schedule BAB-16
 Docket No. W-02105A-13-0415
 Test Year Ended June 30, 2013

DELINQUENT PROPERTY TAX SURCHARGE CALCULATION

Delinquent Property Taxes dues as of 4/22/2014: \$197,433
 Monthly Interest Rate: 1.33%

Step 1 - Find the current tax bill for the delinquent property taxes

\$197,433 Total Amount of delinquent property taxes
 115.96% Annual Interest Rate
 \$228,943 Estimated Delinquent Property Tax balance as of 4/22/2015
 \$8,100 Hook-Up Fee current balance
 \$220,843 Estimated Delinquent Property Tax balance Less Hook-Up Fee monies

Step 2 - Find the Equivalent Bills

Equivalent Bills				
(A)	(B)	(C)	(D)	(E)
Meter Size	NARUC Multiplier	Number of Customers	Repayment in 18 Months	Equivalent Bills (B) x (C) x (D)
5/8" x 3/4" Meter	1	657	18	11,826
3/4" Meter	1.5	0	18	-
1" Meter	2.5	1	18	45
1 1/2" Meter	5	1	18	90
2" Meter	8	2	18	288
3" Meter	15	0	18	-
4" Meter	25	1	18	450
6" Meter	50	0	18	-
		<u>662</u>		<u>12,699</u>

Step 3 - Find the Monthly Surcharge for the 5/8" x 3/4" Meter Size Customers

\$220,843 Delinquent Property Tax balance less Hook-Up Fee monies
 12,699 Divided by: Total Number of Equivalent Bills
 \$17.39 Monthly Surcharge for 3/4" Customers

Step 4 - Find the Monthly Surcharge for the Remaining Meter Size Customers

Equivalent Bills				
(A)	(B)	(C)	(D)	(E)
Meter Size	NARUC Multiplier	Customers' Surcharge	Surcharge by Meter Size (B) x (C)	
5/8" x 3/4" Meter	1	\$17.39	\$17.39	
3/4" Meter	1.5	\$17.39	\$26.09	
1" Meter	2.5	\$17.39	\$43.48	
1 1/2" Meter	5	\$17.39	\$86.95	
2" Meter	8	\$17.39	\$139.12	
3" Meter	15	\$17.39	\$260.86	
4" Meter	25	\$17.39	\$434.76	
6" Meter	50	\$17.39	\$869.53	

Step 5 - Find the annual revenue generated by the Monthly Surcharge

Equivalent Bills				
(A)	(B)	(C)	(D)	(E)
Meter Size	Number of Customers	Surcharge by Meter Size	Annual Revenue (B) x (C) x 12	
5/8" x 3/4" Meter	657	\$17.39	\$137,107	
3/4" Meter	0	\$26.09	0	
1" Meter	2	\$43.48	1,043	
1 1/2" Meter	1	\$86.95	1,043	
2" Meter	2	\$139.12	3,339	
3" Meter	0	\$260.86	0	
4" Meter	0	\$434.76	0	
6" Meter	0	\$869.53	0	
	<u>662</u>		<u>\$142,533</u>	

Step 6 - Find the Property Tax Conversion Factor

1.00146

Step 7 - Find the Incremental Income Tax Factor

1.00146 minus 1 = 0.00146

Step 8 - Find the Annual Property Tax Component of Surcharge Revenue

0.00146 Incremental Income Tax Factor (from Step 7)
 \$142,533 Multiplied by: Annual Surcharge Revenue (from Step 5)
 \$208 Annual Income Tax Component of the Annual Surcharge Revenue