

7-20-94 OM Book



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MARCIA WEEKS
CHAIRMAN

JAMES MATTHEWS
EXECUTIVE SECRETARY

RENZ D. JENNINGS
COMMISSIONER

DALE H. MORGAN
COMMISSIONER

ARIZONA CORPORATION COMMISSION

DATE: JULY 6, 1994

DOCKET NO: U-1536-94-074

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer
MARC E. STERN . The recommendation has been filed in the
form of an Order on:

LAZY C WATER SERVICE

(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to
the recommendation of the Hearing Officer by filing an original
and ten (10) copies of the exceptions with the Commission's
Docket Control at the address listed below by 5:00 p.m. on or
before:

JULY 18, 1994

The enclosed is NOT an order of the Commission, but a
recommendation of the Hearing Officer to the Commissioners.
Consideration of this matter has tentatively been scheduled for
the Commission's Working Session and Open Meeting to be held
on:

JULY 19, 1994 and JULY 20, 1994

For more information, you may contact Docket Control at
(602)542-3477 or the Hearing Division at (602)542-4250.

James Matthews
James Matthews
EXECUTIVE SECRETARY

JM:lll
Enc.
cc: ALL PARTIES

1 4. Lazy C served an average of 89 metered customers during the
2 test year ("TY") ended December 31, 1993, of which 81 customers were
3 served by 5/8" x 3/4" meters.

4 5. Average and median usage during the TY for 5/8" x 3/4"
5 customers was 11,491 gallons and 7,777 gallons per month,
6 respectively.

7 6. On February 12, 1994, Lazy C mailed notice of its proposed
8 rates and charges by first class U.S. mail and, in response thereto,
9 the Commission has received approximately 20 letters primarily
10 protesting the Applicant's proposed rate increase.

11 7. The Commission's Utilities Division ("Staff") conducted an
12 investigation of the Applicant's proposed rates and charges, and in
13 the Staff Report filed on May 23, 1994, recommended that Staff's
14 proposed rates and charges be approved without a hearing.

15 8. In order to address the concerns of Lazy C's customers,
16 Staff conducted a public comment meeting on April 19, 1994 in Tucson,
17 Arizona which was attended by 26 customers protesting the proposed
18 rate increase, outages, high water pressure, and problems with water
19 quality.

20 9. The rates and charges for the Applicant at present, as
21 proposed in the application, and as recommended by Staff are as
22 follows:

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	Present Rates	Proposed Rates	
		Company	Staff
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$12.00	\$36.00	\$ 16.00
3/4" Meter	12.00	36.00	21.00
1" Meter	12.00	36.00	21.00
1 1/2" Meter	12.00	36.00	26.00
2" Meter	12.00	36.00	112.00
3" Meter	0.00	00.00	210.00
4" Meter	0.00	00.00	350.00
6" Meter	0.00	00.00	700.00

Excess of minimum -			
per 1,000 gallons			
1,000 to 10000 Gallons	\$1.75	\$3.00	\$2.25
Over 10,000 Gallons	1.75	6.00	4.25
Gallons included in minimum	2,000	1,000	1,000

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

5/8" x 3/4" Meter	\$100.00	\$250.00	\$ 290.00
3/4" Meter	120.00	300.00	325.00
1" Meter	160.00	450.00	430.00
1 1/2" Meter	300.00	650.00	625.00
2" Meter	400.00	900.00	970.00
3" Meter	0.00	0.00	1,350.00
4" Meter	0.00	0.00	2,155.00
6" Meter	0.00	0.00	4,165.00

SERVICE CHARGES:

Establishment	\$0.00	\$ 25.00	\$15.00
Establishment (After Hours)	\$0.00	\$ 40.00	\$25.00
Reconnection (Delinquent)	\$5.00	\$ 60.00	\$15.00
Meter Test (If Correct)	\$0.00	\$120.00	\$25.00
Deposit	0.00	0.00	*
Deposit Interest	0.00%	0.00%	*
Reestablishment			
(Within 12 Months)	\$25.00	\$100.00	**
NSF Check	\$ 0.00	\$ 35.00	\$15.00
Meter Reread (If Correct)	\$ 2.50	\$ 7.50	\$ 5.00

* Per Commission Rule A.A.C. R14-2-403(B).
** Number of months off system times the monthly minimum per A.A.C. R14-2-403(D).

1 10. Pursuant to the Staff Report, Applicant's fair value rate
2 base ("FVRB") is determined to be \$63,016, which is the same as its
3 original cost rate base ("OCRB")².

4 11. In order to determine Lazy C's FVRB, Staff decreased the
5 Applicant's net plant by \$49,802, and deducted \$13,240 for advances,
6 contributions and the amortization of contributions in aid of
7 construction, and then increased the Applicant's working capital by
8 \$2,618 using the "formula method" to reflect Lazy C's adjusted
9 operating and maintenance expenses.

10 12. Staff determined that Lazy C has not developed policies with
11 regard to advances or refunds as required by the Commission's Rules,
12 and it found that the Applicant does not have the funds necessary to
13 begin the retroactive refunding of these monies.

14 13. Applicant's present rates and charges produced adjusted
15 operating revenues of \$29,930 and adjusted operating expenses of
16 \$50,691, which resulted in an operating loss \$20,761 for the TY.

17 14. In its report, Staff recommended reducing the Applicant's
18 claimed TY operating expenses by \$9,176 in the following manner:

- 19 ♦ increase purchased pumping power by \$6.00 due to
20 a math error;
- 21 ♦ increase salaries and wages expense from \$0 to
22 \$6,060 by transferring \$5,920 from the repairs,
23 office, and outside services expense accounts and
24 making a pro forma adjustment of \$140 to
25 annualize the bookkeeper's salary;

26 ² In Decision No. 56606, the Commission indicated that it
27 would determine any acquisition adjustment during Lazy C's next
28 general rate case. Staff has determined that the correct
acquisition adjustment with regard to the sale of Lazy C to Box One
in 1989 should be \$77,396 which represents the value of the utility
plant at original cost on December 31, 1988 of \$136,964 less
accumulated depreciation of \$59,568.

- 1 ♦ disallow \$5,576 claimed for repairs and
2 maintenance and transfer the amount to other
 accounts;
- 3 ♦ increase the water testing expense by \$597 by
4 means of a pro forma adjustment reflecting
5 Staff's estimate of annual testing costs required
6 under new laws;
- 7 ♦ remove \$3,491 claimed for office supplies and
8 expenses transferring the vast majority of this
9 expense to the salaries and wages account;
- 10 ♦ disallow \$4,337 of claimed expenses for outside
11 services transferring a portion to the salaries
12 and wages account and removing the majority
13 because it was unsubstantiated or outside the TY;
- 14 ♦ disallow \$1,945 of depreciation expense as a
15 result of Staff's adjustment to the plant
16 account;
- 17 ♦ increase property tax expenses by \$2,360 to
18 reflect the 1993 tax bill;
- 19 ♦ remove \$1,659 erroneously claimed as a sales tax
20 expense; and
- 21 ♦ disallow \$1,011 claimed for miscellaneous
22 expenses, the majority of which was transferred
23 to the office expense account.

24 15. Staff has also expressed concern with other areas of Lazy
25 C's business operations as follows:

- 26 ♦ Box One's Articles of Incorporation were revoked
27 on December 10, 1993, because it failed to file
28 its Annual Report ("Report") and although it had
 until June 10, 1994 to actually file the
 delinquent Report, Box One did not do so and now
 must re-incorporate or advise the Commission if
 it is going to be operated as a sole
 proprietorship and will file an application to
 transfer the assets from Box One to Mr. Robert
 Canfield;
- ♦ Staff has learned that, since incorporation
 (1989), Box One was obligated to file federal and
 state income tax returns even though it had no
 operating income, but did not do so;
- ♦ Staff believes that the Applicant should comply
 with governmental tax filing requirements;

1 ♦ Staff has learned that Lazy C has a personal
2 property tax delinquency with Pima County of
3 \$25,576 and believes that the Applicant should be
4 ordered to begin negotiations with Pima County to
5 resolve this situation as soon as possible;

6 ♦ Staff has learned that Lazy C is failing to
7 utilize the NARUC Uniform System of Accounts in
8 maintaining its books and records and should be
9 ordered to do so;

10 ♦ Staff has learned that Lazy C is experiencing
11 excessive water losses and should reduce its
12 "non-account water level"; and

13 ♦ Staff has also learned that Lazy C's books
14 reflect a debt of \$140,860 as of December 31,
15 1993, owed to Robert J. Canfield Enterprises (the
16 owner's development company) which provides
17 various services for Lazy C. Although Staff did
18 not find the charges for these services to be
19 unreasonable, Staff believes that this debt
20 should be reflected as equity in the form of paid
21 in capital on the Applicant's books rather than
22 carrying it as a note payable on its balance
23 sheet.

24 16. The rates and charges that Applicant proposed would produce
25 operating revenues of \$71,656 and operating expenses of \$59,867,
26 resulting in operating income of \$11,789 or a 9.55 percent return on
27 Applicant's claimed FVRB of \$123,440.³

28 17. The rates and charges that Staff recommended would produce
29 operating revenues of \$50,761 and adjusted operating expenses of
30 \$50,691, resulting in operating income of \$70 or a .11 percent rate of
31 return on FVRB.

32 18. Staff's proposed operating income, together with
33 depreciation expense of \$6,676, will provide the Applicant with a
34 sufficient cash flow for emergencies and contingencies.

35 ³ Utilizing Staff's adjusted expense level, Lazy C's
36 proposed rates will produce a 33.3 percent rate of return on Staff's
37 adjusted FVRB.

1 19. Additionally, Staff believes that Lazy C's financial health
2 will continue to improve because new customers are moving into the
3 Applicant's certificated service area and its operating expenses may
4 be substantially reduced in the near future when a second well is
5 brought on line and Lazy C no longer is required to incur significant
6 expenditures for purchased water as it did during the TY when it spent
7 \$22,639 with the City of Tucson.

8 20. Applicant's proposed rates would increase the average
9 residential customer's monthly bill by 151.5 percent, from \$28.61 to
10 \$71.94, and the median residential customer's monthly bill by 154.8
11 percent, from \$22.11 to \$56.33.

12 21. Staff's proposed rates would increase the average
13 residential customer's monthly bill by 48.9 percent, from \$28.61 to
14 \$42.58, and the median residential customer's monthly bill by 41.3
15 percent, from \$22.11 to \$31.25.

16 22. Staff determined that the Applicant is in substantial
17 compliance with the Rules of the Pima County Department of
18 Environmental Quality and is in compliance with the Rules of the
19 Arizona Department of Water Resources.

20 23. Staff has also recommended that the Commission order Lazy C
21 to:

22 ● include in its tariff a provision to allow for
23 the flow-through of any proportionate state and
24 local taxes in accordance with A.A.C. R14-2-
409(D) (5);

25 ● submit to the Director of the Commission's
26 Utilities Division ("Director") a tariff in
27 compliance with the Commission's Rules and the
28 Arizona Department of Environmental Quality,
A.A.C. R14-2-405(B) (6) and A.A.C. R18-4-232,
respectively, relating to back-flow prevention;

- 1 ♦ advise, within 30 days of the effective date of
2 this Decision, the Director whether the utility
3 intends to conduct further business either as a
4 sole proprietorship or whether it intends to re-
5 incorporate so that a determination can be made
6 whether an application will have to be filed
7 requesting the Commission's approval for the
8 transfer of the utility assets including its
9 Certificate of Convenience and Necessity to the
10 operating entity;
- 11 ♦ file, no later than 24 months from the effective
12 date of this Decision, a new rate application
13 subject to the provision that the application may
14 be dismissed upon mutual agreement of Staff and
15 Lazy C;
- 16 ♦ submit, within six months of the effective date
17 of this Decision, a plan for reducing its
18 excessive water losses;
- 19 ♦ utilize a composite depreciation rate of 5
20 percent in the future until further order by the
21 Commission;
- 22 ♦ begin refunding advances received in 1993 and
23 future years pursuant to A.A.C. R14-2-406(D) on
24 an annual basis;
- 25 ♦ comply with all governmental agencies' filing
26 requirements including those of the Internal
27 Revenue Service and the Arizona Department of
28 Revenue;
- 29 ♦ begin negotiations with the Pima County
30 Department of Revenue to resolve its delinquent
31 personal property tax liability and thereafter
32 advise the Director with regards to the results
33 of the negotiations as well as provide a copy of
34 any agreements reached;
- 35 ♦ pay current personal property taxes and future
36 personal property taxes in a timely fashion and
37 provide the Director with copies of "paid in
38 full" tax statements for current property taxes;
39 and
- 40 ♦ maintain its books and records in accordance with
41 the NARUC Uniform System of Accounts.
- 42 24. Under the circumstances describe hereinabove, the rates and
43 charges recommended by Staff will enable Lazy C to operate in a viable

1 fashion and enable it to earn a just and reasonable rate of return on
2 FVRB.

3 25. We concur with Staff's additional recommendations as
4 described in Finding of Fact No. 23 hereinabove.

5 CONCLUSIONS OF LAW

6 1. Applicant is a public service corporation within the meaning
7 of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-
8 251.

9 2. The Commission has jurisdiction over Lazy C and the subject
10 matter of the application.

11 3. The rates and charges authorized hereinbelow are just and
12 reasonable and should be approved without a hearing.

13 4. Staff's recommendations as set forth in Finding of Fact No.
14 23 are reasonable and should be adopted.

15 ORDER

16 IT IS THEREFORE ORDERED that Lazy C Water Service is hereby
17 directed to file on or before July 29, 1994, a revised schedule
18 setting forth the following rates and charges:

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MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$ 16.00
3/4" Meter	21.00
1" Meter	21.00
1 1/2" Meter	26.00
2" Meter	112.00
3" Meter	210.00
4" Meter	350.00
6" Meter	700.00

Excess of minimum -

Per 1,000 Gallons

1,000 to 10,000 Gallons \$2.25

Over 10,000 Gallons \$4.25

Gallons included in minimum 1,000

SERVICE LINE AND METER INSTALLATION CHARGES:

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

5/8" x 3/4" Meter	\$ 290.00
3/4" Meter	325.00
1" Meter	430.00
1 1/2" Meter	625.00
2" Meter	970.00
3" Meter	1,350.00
4" Meter	2,155.00
6" Meter	4,165.00

SERVICE CHARGES:

Establishment	\$15.00
Establishment (After Hours)	\$25.00
Reconnection (Delinquent)	\$15.00
Meter Test (If Correct)	\$25.00
Deposit	*
Deposit Interest	*
Reestablishment	
(Within 12 Months)	**
NSF Check	\$15.00
Meter Reread (If Correct)	\$ 5.00

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

** Number of months off system times the monthly minimum per A.A.C. R14-2-403(D).

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided to customers on and after August 1, 1994.

1 IT IS FURTHER ORDERED that Lazy C Water Service shall notify its
2 customers of the rates and charges authorized hereinabove and the
3 effective date of same by means of an insert in its next regular
4 monthly billing.

5 IT IS FURTHER ORDERED that Lazy C Water Service shall comply
6 with all recommendations made by Staff in Finding of Fact No. 23
7 hereinabove.

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

10 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

11
12
13 CHAIRMAN

COMMISSIONER

COMMISSIONER

14
15 IN WITNESS WHEREOF, I, JAMES MATTHEWS, Executive
16 Secretary of the Arizona Corporation Commission, have
17 hereunto set my hand and caused the official seal of the
18 Commission to be affixed at the Capitol, in the City of
19 Phoenix, this _____ day of _____, 1994.

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22 _____
23 JAMES MATTHEWS
24 EXECUTIVE SECRETARY

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1 SERVICE LIST FOR: BOX ONE, INC. dba LAZY C WATER
2 SERVICE

3 DOCKET NO.: U-1536-94-074

4 Robert J. Canfield
5 LAZY C WATER SERVICE
6 4802 West Kay Tee Drive
7 Tucson, Arizona 85745

8 Paul A. Bullis, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Gary Yaquinto, Director
14 Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington Street
17 Phoenix, Arizona 85007

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