

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER



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BRIAN C. McNEIL
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: October 11, 2000
DOCKET NO.: W-02368A-00-0461
TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane Rodda. The recommendation has been filed in the form of an Order on:

MIRABELL WATER COMPANY, INC.
(RATES/FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

OCTOBER 20, 2000

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

OCTOBER 24, 2000 AND OCTOBER 25, 2000

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


BRIAN C. McNEIL
EXECUTIVE SECRETARY

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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
MIRABELL WATER COMPANY, INC. FOR A
PERMANENT RATE INCREASE AND FOR
APPROVAL TO INCUR LONG-TERM DEBT.

DOCKET NO. W-02368A-00-0461

DECISION NO. _____

ORDER

Open Meeting
October 24 and 25, 2000
Phoenix, Arizona

BY THE COMMISSION:

On July 3, 2000, Mirabell Water Company, Inc. ("Mirabell" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase and a request for authority to borrow \$15,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA"). On August 2, 2000, the Commission's Utilities Division Staff ("Staff") notified the Company that its application was sufficient and classified the Company as a Class E utility. Staff filed its Staff Report on October 2, 2000, and recommended that the finance request be approved, but that the Company's rates not be increased.

During the test year ended December 31, 1999 ("TY"), Mirabell served 55 customers in an area approximately 23 miles southwest of Tucson. In the TY, after Staff adjusted revenue and expenses, the Company had total operating revenue of \$32,967 and operating income of \$4,955, a 13.7 percent rate of return on an adjusted original cost rate base ("OCRB") of \$36,156. In its application, the Company requested total operating revenue of \$43,262, which based on adjusted expenses of \$28,011, would result in operating income of \$15,956, a rate of return of 44.1 percent on adjusted OCRB. After Staff audited and adjusted the Company-reported revenue and expenses for the TY, Staff determined that the Company's current rates should remain in effect.

Mirabell requested Commission approval to borrow \$15,000 from WIFA to repair the Company's existing 25,000 gallon storage tank and to install an additional 10,000 storage tank. The

1 repairs are needed to stop small leaks in the 25,000 tank and the 10,000 gallon tank is needed to add
2 more storage for growth and to allow the Company to take one tank out of service for maintenance
3 without affecting the operations of the Company. Staff determined that the annual cost of the WIFA
4 loan, including principal, interest and reserve requirements would be \$2,475.25 under the expected
5 interest rate of 6.26 percent annually and a 10 year term. Staff believed that the Company's current
6 rates and revenue level will meet WIFA funding requirements and provide adequate coverage for
7 debt service. Current rates result in a Debt Service Coverage ratio ("DSC") of 3.82.

8 Staff's adjustments to rate base, revenue and expenses, as reflected in the Staff Report are
9 reasonable. Staff decreased the Company's proposed rate base by \$10,116, from \$46,271 to \$36,156.
10 Staff's adjustments to plant resulted in a net decrease of \$8,361. Staff's adjustments reflect plant
11 additions and retirements since the prior TY and reclassification of plant to and from operating
12 expenses.

13 On the revenue side, Staff increased metered sales by \$791 to reflect the actual bill count for
14 the TY. Staff's 16 adjustments to expense accounts decreased expenses by \$9,906. The majority of
15 these adjustments consisted of misclassification of expenses; adjustments based on audit findings;
16 disallowance of prior period expenses and unsubstantiated expenses.

17 Staff reported that the Company appears to be using the National Association of Regulatory
18 Utility Commissioners ("NARUC") system of accounts, but as demonstrated by the large number of
19 adjustments, the Company needs to re-familiarize itself with the NARUC instructions, in particular
20 the classification of disbursements for plant items versus operating expenses.

21 Mirabell is not in compliance with Arizona Department of Environmental Quality ("ADEQ")
22 regulations for monitoring deficiencies, and consequently, ADEQ could not determine if Mirabell is
23 providing water that meets the quality standards of the Safe Drinking Water Act. The Company is
24 current on its Property Taxes and Transaction Privilege Taxes.

25 While we believe Staff's recommended rates and charges are not unreasonable, we believe
26 that to provide the Company with sufficient cash flow to become compliant with ADEQ regulations,
27 for plant improvements and contingencies, the monthly rates for the meters up to 1 inch should be
28 increased by \$2.00 per month. Consequently, the rates we approve herein would produce revenues of

1 \$34,287, operating income of \$6,276, and a return on OCRB of 17.35 percent.

2 * * * * *

3 Having considered the entire record herein and being fully advised in the premises, the
4 Commission finds, concludes, and orders that:

6 **FINDINGS OF FACT**

7 1. On July 3, 2000, Mirabell filed with the Commission an application for a permanent
8 rate increase and a request to for authority to borrow \$15,000 from WIFA.

9 2. On August 2, 2000, Staff notified the Company that its application was sufficient and
10 classified the Company as a Class E utility.

11 3. Staff filed its Staff Report on October 2, 2000, and recommended that the finance
12 request be approved, but that the Company's rates not be increased.

13 4. Mirabell's current rates and charges were established in Decision No. 59451 (February
14 21, 1996).

15 5. During the TY Mirabell served 55 customers in an area approximately 23 miles
16 southwest of Tucson.

17 6. In the TY, the Company had total operating revenue of \$32,967 and operating income
18 of \$4,955, a 13.7 percent rate of return on an OCRB of \$36,156.

19 7. In its application, Mirabell requested total operating revenue of \$43,262, which based
20 on adjusted expenses of \$28,011, would result in operating income of \$15,956, a rate of return of
21 44.1 percent on adjusted OCRB.

22 8. After Staff audited and adjusted the Company-reported revenue and expenses for the
23 TY, Staff determined that the Company's current rates should remain in effect, which would result in
24 a rate of return of 13.7 percent on OCRB.

25 9. Following notification of the rate application, the Commission received two customer
26 comments against the proposed rate increase.

27 10. Mirabell's present and proposed rates and charges, as well as Staff's recommended
28 rates and charges are as follows:

	Present Rates	Proposed Rates	
		Company	Staff
1	<u>Monthly Usage Charges</u>		
2	5/8" x 3/4" Meter	\$0.00	\$18.00
3	3/4" Meter	18.00	18.00
4	1" Meter	30.00	30.00
5	1 1/2" Meter	0.00	60.00
6	2" Meter	0.00	100.00
7	3" Meter	0.00	140.00
8	4" Meter	0.00	200.00
9	6" Meter	0.00	300.00
10	<u>Commodity Rate</u>		
11	per 1,000 gallons		
12	O to 8,000 gallons	\$2.25	\$2.25
13	8,001 to 10,000 gallons	\$2.25	\$2.25
14	In excess of 10,000 gallons	\$3.21	\$3.21
15	<u>Service Line and Meter Installation Charges</u> (Refundable pursuant to A.A.C. R14-2-405)		
16	5/8" x 3/4" Meter	\$0.00	\$400.00
17	3/4" Meter	200.00	400.00
18	1" Meter	240.00	470.00
19	1 1/2" Meter	0.00	780.00
20	2" Meter	0.00	1,340.00
21	3" Meter	0.00	0.00
22	4" Meter	0.00	0.00
23	6" Meter	0.00	0.00
24	<u>Service Charges</u>		
25	Establishment	\$25.00	\$25.00
26	Establishment (After Hours)	35.00	35.00
27	Reconnection (Delinquent)	25.00	25.00
28	Meter Test (If Correct)	35.00	40.00
29	Deposit	0.00	0.00
30	Deposit Interest - Per Annum	0.0%	0.0%
31	Re-Establishment (Within 12 Months)	0.00	**
32	NSF Check	15.00	20.00
33	Deferred Payment - Per Month	0.0%	1.0%
34	Meter Re-Read (If Correct)	10.00	15.00
35	<u>Monthly Service Charge for Fire Sprinkler</u>		
36	4" or smaller	\$0.00	***
37	6"	0.00	***
38	8"	0.00	***
39	10"	0.00	***
40	Larger than 10"	0.00	***

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

** Months off system times the minimum (R14-2-403.D)

1 *** 1.0% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than
2 \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service
3 lines separate and distinct from the primary water service line.

4 11. Mirabell's Fair Value Rate Base ("FVRB") is determined to be \$36,156. The
5 Company's FVRB is the same as its OCRB.

6 12. Staff's adjustments to rate base and expenses, as reflected in the Staff Report, are
7 reasonable.

8 13. The Company's proposed rates would increase the median 1 inch monthly bill by 35.8
9 percent from \$50.68 to \$68.85, and the average 1 inch meter bill by 35.2 percent, from \$56.40 to
10 \$76.23.

11 14. Staff's recommended rates would not increase the median or average monthly bill.

12 15. Staff recommended its proposed rates and charges be granted without a hearing.

13 16. The Company sought approval to borrow \$15,000 from WIFA to renovate its 25,000
14 gallon storage tank and to install a new 10,000 gallon storage tank.

15 17. At current WIFA rates, the proposed loan is expected to have an interest rate of 6.26
16 percent and a term of 10 years.

17 18. Engineering Staff reviewed the proposed project to be financed and found it and its
18 estimated cost to be reasonable.

19 19. Staff believed that Mirabell's current rates and revenue level will provide sufficient
20 coverage to make the necessary payments on the proposed debt.

21 20. Staff recommended approval of the WIFA loan.

22 21. Staff's recommended rates and service charges are reasonable, except that to provide
23 the Company with sufficient cash flow to become compliant with ADEQ regulations, for plant
24 improvements and contingencies, the monthly rates for the meters up to 1 inch should be increased by
25 \$2.00 per month. The rates approved herein would produce revenues of \$34,287, operating income
26 of \$6,276, and a return on OCRB of 17.35 percent.

27 22. The rates approved herein would increase the median 1 inch meter bill 3.9 percent
28 from \$50.68 to \$52.68 and the average 1 inch meter bill 3.5 percent, from \$56.40 to \$58.40.

23. Mirabell is current on all property and sales taxes.

1 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
2 chargeable to operating expenses or to income.

3 7. The recommendations set forth in Findings of Fact Nos. 20, 21, 25 and 26 are
4 reasonable and should be adopted.

5 **ORDER**

6 IT IS THEREFORE ORDERED that Mirabell Water Company, Inc. shall file on or before
7 October 31, 2000, the following schedule of rates and charges:

8

9 Monthly Usage Charges

10	5/8" x 3/4" Meter	\$20.00
	3/4" Meter	20.00
	1" Meter	32.00
	1 1/2" Meter	60.00
	2" Meter	100.00

12 Commodity Rate

13	Per 1,000 gallons	
	0 to 10,000 gallons	\$2.25
	In excess of 10,000 gallons	\$3.21

15 Service Line and Meter Installation Charges

16	(Refundable pursuant to A.A.C. R14-2-405)	
	5/8" x 3/4" Meter	\$400.00
	3/4" Meter	400.00
	1" Meter	470.00
	1 1/2" Meter	780.00
	2" Meter	1,340.00

19 Service Charges

20	Establishment	\$25.00
	Establishment (After Hours)	35.00
	Reconnection (Delinquent)	25.00
	Meter Test (If Correct)	40.00
	Deposit	*
	Deposit Interest - Per Annum	*
	Re-Establishment (Within 12 Months)	**
	NSF Check	25.00
	Meter Re-Read (If Correct)	15.00

25 Monthly Service Charge for Fire Sprinkler

26	4" or smaller	***
	6"	***
	8"	***
	10"	***
	Larger than 10"	***

28

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

2 ** Months off system times the minimum (R14-2-403.D)

3 *** 1.0% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than
4 \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service
5 lines separate and distinct from the primary water service line.

6 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
7 provided on and after the first day of the month following Mirabell Water Company, Inc. filing
8 written documentation from the Arizona Department of Environmental Quality with the Director of
9 the Utilities Division that it is providing water with no maximum contaminant level violations and
10 that meets the quality standards of the Safe Drinking Water Act.

11 IT IS FURTHER ORDERED that Mirabell Water Company, Inc. shall notify its customers of
12 the rates and charges authorized herein and the effective date of same by means of an insert in its next
13 regular monthly billing.

14 IT IS FURTHER ORDERED that Mirabell Water Company, Inc. shall file with the
15 Commission within 60 days from the effective date of this Decision, a copy of the notice it provides
16 its customers of the new rates and charges.

17 IT IS FURTHER ORDERED that Mirabell Water Company, Inc.'s request for authority to
18 borrow \$15,000 for a period of 10 years from the Water Infrastructure Finance Authority of Arizona
19 is granted.

20 IT IS FURTHER ORDERED that Mirabell Water Company, Inc. is hereby authorized to
21 engage in any transactions and to execute any documents necessary to effectuate the authorization
22 granted hereinabove.

23 IT IS FURTHER ORDERED that such authority is expressly contingent upon Mirabell Water
24 Company, Inc. use of the proceeds for the purposes set forth in its application.

25 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
26 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
27 proceeds derived thereby for purposes of establishing just and reasonable rates.

28 IT IS FURTHER ORDERED that Mirabell Water Company, Inc. shall file copies of all
executed financing documents setting forth the terms of the financing, within 30 days of obtaining
such financing.

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IT IS FURTHER ORDERED that Mirabell Water Company, Inc. shall comply with the recommendations set forth in Findings of Fact No. 25.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2000.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____
JR:bbs

1 SERVICE LIST FOR: MIRABELL WATER COMPANY, INC.

2 DOCKET NO. W-02368A-00-0461

3
4 Mort Freedman, President
5 Mirabell Water Company, Inc.
6 1037 South Alvernon, Suite #250
7 Tucson, Arizona 85711

8
9 Lyn Farmer, Chief Counsel
10 ARIZONA CORPORATION COMMISSION
11 1200 W. Washington Street
12 Phoenix, Arizona 85007

13
14 Deborah Scott, Director
15 Utilities Division
16 ARIZONA CORPORATION COMMISSION
17 1200 W. Washington Street
18 Phoenix, Arizona 85007
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