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CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

BRIAN C. McNEIL
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: AUGUST 31, 1999

DOCKET NO: W-02104A-99-0026

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Jane Rodda. The recommendation has been filed in the form of an Order on:

VOYAGER WATER COMPANY
(RATE INCREASE)

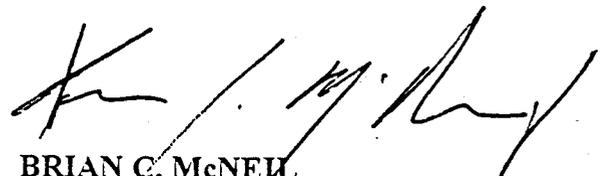
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

SEPTEMBER 9, 1999

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:

SEPTEMBER 14, 1999 and SEPTEMBER 15, 1999

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

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 CARL J. KUNASEK
CHAIRMAN

3 JIM IRVIN
COMMISSIONER

4 WILLIAM A. MUNDELL
COMMISSIONER

5

6 IN THE MATTER OF THE APPLIATION OF
VOYAGER WATER CO. FOR A PERMANENT
7 RATE INCREASE

DOCKET NO. W-02104A-99-0026

DECISION NO. _____

8

ORDER

9 Open Meeting
September 14 and 15, 1999
10 Phoenix, Arizona

11 **BY THE COMMISSION:**

12 On December 31, 1998, Voyager Water Co. ("Voyager" or "Company") filed with the
13 Arizona Corporation Commission ("Commission") an application for a rate increase. On January 29,
14 1999, the Commission's Utilities Division Staff ("Staff") notified the Company that its rate
15 application met sufficiency requirements and classified the utility as Class D. The Commission
16 granted intervention to Trails Associates LLC, a customer of Voyager, on February 10, 1999. On
17 April 14, 1999, Staff filed its Staff Report, recommending a total revenue increase different than that
18 requested by the Company be approved without a hearing. On June 29, 1999, Staff filed an Amended
19 Staff Report that replaced the earlier Report, and recommended approval of a total revenue level
20 lower than that sought by the Company. In comments filed on July 23, 1999, Voyager accepted the
21 proposed rates in Staff's Amended Staff Report. On August 18, 1999, Staff filed corrections to its
22 Amended Staff Report, but did not alter its recommended rates and charges.

23 Background

24 Voyager is located in south Tucson, near I-10 and Kolb Road, Pima County, Arizona. In the
25 Test Year ended September 30, 1998 ("TY"), Voyager served approximately 140 customers. The
26 Company's last rate increase was granted in Decision No. 60794 (July 13, 1998).

27 Voyager is in compliance with the regulations of the Arizona Department of Environmental
28 Quality ("ADEQ") and the Pima County Department of Environmental Quality ("PCDEQ") has

1 determined that the system has no maximum contaminant level violations and is delivering water that
2 meets Safe Drinking Water Act quality standards. The Company is current with its property and
3 transaction privilege taxes and with the filing requirements of the Commission's Corporations
4 Division.

5 Rate Base

6 Staff's adjustments to Rate Base resulted in a negligible decrease of \$333, from \$370,626 to
7 \$370,294. Staff included Well # 4, a 5,000 gallon pressure tank and a 200,000 gallon storage tank in
8 rate base. These items were not in service when the application was made, but Staff Engineering had
9 determined that they would be in service within a year of the TY and were necessary to serve the
10 Company's existing customers. The Company later reported that Well #4 and the related tanks went
11 into service on June 1, 1999. The Company does not currently have Commission approved
12 depreciation rates. The Company had been using a 5 percent composite rate for all depreciable
13 assets. Staff's proposed composite rate of 4.5 percent is based upon a statewide survey of water
14 companies' equipment lives.

15 Staff's adjustments to rate base and depreciation rates appear reasonable and should be
16 adopted.

17 Operating Expenses

18 Staff made several adjustments to operating expenses, which increased operating expenses by
19 \$5,362, from \$173,687 to \$179,049. Staff reduced Depreciation Expense by \$2,713, from \$37,206 to
20 \$34,493 to reflect Staff's proposed composite depreciation rate. Staff also decreased Water Testing
21 Expense by \$2,677, from \$4,960 to \$2,283 to reflect Staff Engineering's estimated annual water
22 testing costs. Finally, Staff increased the Income Tax Expense by \$10,752 from \$299 to \$11,051 to
23 reflect the applicable federal and state income tax rates.

24 We find that Staff's adjustments to operating expenses are reasonable and we adopt them.

25 Revenue Requirement

26 Staff made no adjustments to operating revenue, accepting the Company's reported TY
27 revenues of \$187,559. Based on Staff's adjustments, Voyager experienced operating income of
28

1 \$18,009 in the TY, a rate of return of 4.86 percent on adjusted rate base. The Company requested a
2 revenue level of \$226,176, which based on its proposed adjusted expenses, would have resulted in
3 operating income of \$42,786, a 11.55 percent rate of return on adjusted rate base.¹ Staff
4 recommended total operating revenue of \$218,692, which based on its adjusted operating expenses of
5 \$179,049, would result in operating income of \$39,643, a 10.71 percent rate of return on adjusted rate
6 base. Staff believed that its recommended revenue level would provide the Company with positive
7 cash flow and allow it to set aside funds for contingencies. The Company agreed to Staff's proposed
8 revenues and we find Staff's recommendations are reasonable.

9 Rate Design

10 Voyager currently includes 2,000 gallons of water in its monthly residential minimum charges
11 and imposes a commodity charge of \$1.50 per 1,000 gallons for usage over the minimum. The
12 Company proposed a rate design that included 1,000 gallons in the residential monthly minimum and
13 a commodity rate of \$1.60 per 1,000 gallons for all water over the minimum. For its commercial
14 customers with larger meter sizes, Voyager currently includes 200,000 gallons in the monthly rate,
15 with a commodity rate of \$1.50 per 1,000 gallons for additional usage. The monthly minimum rates
16 are \$830 for 2-inch meters and \$3,600 for 6-inch meters. The Company proposed to lower its
17 monthly minimum charge for 2-inch meters to \$408 and for 6-inch meters to \$2,200 per month. The
18 Company informed Staff that the 2-inch meter customer agreed to change its connection from two
19 two-inch meters to one six-inch meter, which will have a small, but positive effect on future
20 revenues.

21 Two of the commercial customers had a usage per month over 1.5 million gallons. Because
22 of the enormous usage by the commercial customers, Staff opposed including any gallonage in the
23 monthly minimum charges. Staff believed, and we concur, that customers, especially high usage
24 customers should pay for the water they use because it provides incentives for conservation and
25 allows them to better control their monthly bills.

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27
28 ¹ In its notice to its customers, Voyager stated that it was requesting total revenues of \$226,176, however, the rates proposed in the application only yielded revenue of \$192,726.

1 Staff adopted the Company's proposed monthly minimum charges up to and including the 1
2 ½ inch meter. To determine the appropriate monthly minimum rate for the 2-, 3- and 4-inch meter
3 sizes, Staff used a multiplier based on the capacity of line. For the 6-inch meter customer, Staff
4 proposed a small decrease to the Company's proposed rates, with no gallons included in the
5 minimum.

6 We concur with Staff's rate design and find that it is reasonable and equitable.

7 * * * * *

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

10 **FINDINGS OF FACT**

- 11 1. On December 31, 1998, Voyager filed with the Commission an application for a rate
12 increase.
- 13 2. On January 29, 1999, Staff notified the Company that its rate application met
14 sufficiency requirements and classified the utility as Class D.
- 15 3. The Commission granted intervention to Trails Associates LLC, a customer of
16 Voyager, on February 10, 1999.
- 17 4. On April 14, 1999, Staff filed a Staff Report, recommending approval without a
18 hearing of total revenues higher than that requested by the Company.
- 19 5. On June 29, 1999, based on additional discussion with the Company, Staff filed an
20 Amended Staff Report that replaced the earlier version, and recommended total revenues lower than
21 requested by the Company be approved without a hearing.
- 22 6. By Procedural Order dated July 2, 1999, the Commission determined that the filing of
23 the Amended Staff Report at such a late date was an extraordinary event that warranted extending the
24 deadline for issuing a final order as provided in A.A.C. R14-2-103(B).
- 25 7. On July 23, 1999, Voyager filed comments to the Amended Staff report and accepted
26 Staff's proposed rates contained therein.
- 27
28

1 8. On August 18, 1999, Staff filed corrections to its Amended Staff Report, but did not
2 alter its recommended rates and charges.

3 9. In the TY Voyager provided water service to approximately 140 customers in an area
4 located in south Tucson, Pima County, Arizona.

5 10. In its rate application, Voyager proposed a revenue level of \$226,176, which based on
6 the Company's reported expenses, would yield operating income of \$42,786, a rate of return of 11.55
7 percent on Staff's adjusted Original Cost Rate Base ("OCRB") of \$370,294.

8 11. In its corrected Amended Staff Report Staff recommended a revenue level of
9 \$218,692, which based on adjusted operating expenses of \$179,049, yields operating income of
10 \$39,643, a rate of return of 10.71 percent on adjusted OCRB.

11 12. Following notification of the application, one customer filed written comments with
12 the Commission opposing the rate increase.

13 13. Voyager's present and proposed rates and charges, as well as Staff's proposed rates
14 and charges are as follows:

| | Present Rates | Proposed Rates Company | Staff |
|--|------------------|---------------------------|----------|
| <u>Monthly Usage Charges</u> | | | |
| 5/8" x 3/4" Meter | \$9.00 | \$11.00 | \$11.00 |
| 3/4" Meter | 0.00 | 16.50 | 16.50 |
| 1" Meter | 0.00 | 27.50 | 27.50 |
| 1 1/2" Meter | 0.00 | 55.00 | 55.00 |
| 2" Meter | *830.00 | *408.00 | 137.00 |
| 3" Meter | 0.00 | 176.00 | 275.00 |
| 4" Meter | 0.00 | 275.00 | 550.00 |
| 6" Meter | *3,600.00 | *2,200.00 | 2,000.00 |
| Excess of Minimum – per 1,000 gallons | \$1.50 | \$1.60 | \$2.00 |
| Gallons included in Minimum – residential | 2,000 | 1,000 | 0 |
| * including 200,000 gal. In Minimum | | | |
| <u>Service Line and Meter Installation Charges</u> | | | |
| 5/8" x 3/4" Meter | \$200.00 | \$330.00 | \$350.00 |
| 3/4" Meter | 0.00 | 375.00 | 400.00 |
| 1" Meter | 0.00 | 440.00 | 470.00 |
| 1 1/2" Meter | 0.00 | 660.00 | 695.00 |
| 2" Meter | 525.00 | 1,500.00 | 1,820.00 |
| 3" Meter | 0.00 | 2,000.00 | 2,410.00 |
| 4" Meter | 0.00 | 3,000.00 | 3,455.00 |
| 6" Meter | 2,850.00 | 6,000.00 | 6,650.00 |

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Service Charges

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|-------------------------------------|---------|---------|---------|
| Establishment | \$15.00 | \$25.00 | \$25.00 |
| Establishment (After Hours) | 25.00 | 35.00 | 35.00 |
| Reconnection (Delinquent) | 15.00 | 25.00 | 25.00 |
| Meter Test (If Correct) | 25.00 | 25.00 | 25.00 |
| Deposit | * | * | * |
| Deposit Interest – Per Annum | 6.0% | 6.0% | 6.0% |
| Re-Establishment (Within 12 Months) | ** | ** | ** |
| NSF Check | 10.00 | 15.00 | 15.00 |
| Deferred Payment – Per Annum | 18.0% | 18.0% | 18.0% |
| Meter Re-Read (If Correct) | 10.00 | 10.00 | 10.00 |

Monthly Service Charges for Fire Sprinkler

| | | | |
|-----------------|--------|--------|-----|
| 4" or Smaller | \$0.00 | \$0.00 | *** |
| 6" | 0.00 | 0.00 | *** |
| 8" | 0.00 | 0.00 | *** |
| 10" | 0.00 | 0.00 | *** |
| Larger Than 10" | 0.00 | 0.00 | *** |

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

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

*** 1 percent of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

14. Voyager's fair value rate base ("FVRB") is determined to be \$370,294. The Company's FVRB is the same as its OCRB.

15. Voyager's current rates and charges produced revenues of \$187,559 in the TY and, based on adjusted operating expenses, resulted in operating income of \$18,009, a 4.86 percent rate of return on adjusted OCRB.

16. Staff's adjustments to expenses, as reflected in the corrected Amended Staff Report, are reasonable.

17. Voyager's proposed rates would increase the median 5/8" x 3/4" meter bill by 32.3 percent from \$11.69 to \$15.47, and the average bill by 29.0 percent from \$13.44 to \$17.33.

18. Staff's recommended rates would increase the median 5/8" x 3/4" meter bill by 59.0 percent from \$11.69 to \$18.59, and the average bill by 55.7 percent from \$13.44 to \$20.92.

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

20. Staff's recommended Rates and Service Charges are reasonable.

1 21. Voyager is current with its property and privilege taxes and its filings with the
 2 Commission's Corporations Division.

3 22. PCDEQ reports that Voyager is providing water that meets the quality standards of the
 4 Safe Drinking Water Act.

5 **CONCLUSIONS OF LAW**

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

8 2. The Commission has jurisdiction over Voyager and of the subject matter of the
 9 application.

10 3. Notice of the application was provided in the manner prescribed by law.

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

13 **ORDER**

14 IT IS THEREFORE ORDERED that Voyager Water Company shall file on or before
 15 September 30, 1999, the following schedule of rates and charges:

16 **Monthly Usage Charges**

| | |
|----------------------|----------|
| 17 5/8" x 3/4" Meter | \$11.00 |
| 18 3/4" Meter | 16.50 |
| 1" Meter | 27.50 |
| 1 1/2" Meter | 55.00 |
| 19 2" Meter | 137.00 |
| 3" Meter | 275.00 |
| 20 4" Meter | 550.00 |
| 6" Meter | 2,000.00 |

21 Commodity Charge – per 1,000 gallons \$2.00

22
 23 **Service Line and Meter Installation Charges**

| | |
|----------------------|----------|
| 24 5/8" x 3/4" Meter | \$350.00 |
| 3/4" Meter | 400.00 |
| 25 1" Meter | 470.00 |
| 1 1/2" Meter | 695.00 |
| 26 2" Meter | 1,820.00 |
| 3" Meter | 2,410.00 |
| 27 4" Meter | 3,455.00 |
| 6" Meter | 6,650.00 |

| | | |
|---|-------------------------------------|---------|
| 1 | <u>Service Charges</u> | |
| | Establishment | \$25.00 |
| 2 | Establishment (After Hours) | 35.00 |
| | Reconnection (Delinquent) | 25.00 |
| 3 | Meter Test (If Correct) | 25.00 |
| | Deposit | * |
| 4 | Deposit Interest - Per Annum | 6.0% |
| | Re-Establishment (Within 12 Months) | ** |
| 5 | NSF Check | 15.00 |
| | Deferred Payment - Per Annum | 18.0% |
| 6 | Meter Re-Read (If Correct) | 10.00 |

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Monthly Service Charges for Fire Sprinkler

| | | |
|----|-----------------|-----|
| 9 | 4" or Smaller | |
| | 6" | *** |
| 10 | 8" | *** |
| | 10" | *** |
| 11 | Larger Than 10" | *** |
| | | *** |

12

* Per A.A.C. R14-2-403.D

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

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*** 1 percent of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

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IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service

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provided on and after October 1, 1999.

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

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 _____, 1999.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT
JR:dap

1 SERVICE LIST FOR:

VOYAGER WATER COMPANY

2 DOCKET NO.

W-02104A-99-0026

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