

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



BRIAN C. McNEIL
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: October 11, 2000
DOCKET NO: W-02498A-00-0334
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:

TIERRA MESA ESTATES WATER COMPANY, INC.
(RATES)

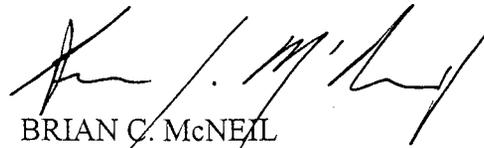
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

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

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 APPLICATION OF
TIERRA MESA ESTATES WATER COMPANY
7 INC.'S APPLICATION FOR A PERMANENT
RATE INCREASE.

DOCKET NO. W-02498A-00-0334

DECISION NO. _____

8 **ORDER**

9 Open Meeting
October 24 and 25, 2000
10 Phoenix, Arizona

11 **BY THE COMMISSION:**

12 Tierra Mesa Estates Water Company, Inc. ("Tierra Mesa" or "Company") provides water
13 utility service to approximately 223 customers located three miles southeast of Yuma, in Yuma
14 County, Arizona. On May 12, 2000, Tierra Mesa filed an application for a rate increase. On May 10,
15 2000, the Company mailed notice of the application to its customers. On June 12, 2000, the Arizona
16 Corporation Commission ("Commission") Utilities Division Staff ("Staff") notified the Company
17 that its application did not meet the sufficiency requirements of A.A.C. R14-2-103. On July 11,
18 2000, Staff notified the Company that its application was sufficient and classified the Company as a
19 Class D utility. On September 25, 2000, Staff filed its Staff Report, recommending rates different
20 than those proposed by the Company.

21 Tierra Mesa's current rates and charges produced revenues of \$79,656 in the test year ended
22 December 31, 1999 ("TY"), resulting in an operating loss of \$22,778. In its application, Tierra Mesa
23 requested total revenues of \$146,161, resulting in an operating income of \$33,874, for a rate of return
24 of 13.26 percent on the adjusted Original Cost Rate Base ("OCRB") of \$255,526. Staff
25 recommended a revenue level of \$143,969, which would provide the Company with operating
26 income of \$32,519, for a rate of return of 12.73 percent on adjusted OCRB.

27 Staff's adjustments decreased rate base by \$68,894, from \$324,420 to \$255,526. The major
28 adjustments resulted from excluding Well Nos. 3, 4 and 5 because they were not used and useful in

1 the TY. Staff also increased accumulated depreciation by \$23,465. Other adjustments corrected the
2 accumulated amortization of Contributions in Aid of Construction ("CIAC"), capitalized expenses
3 associated with a computer and software, and adjusted working capital to reflect Staff's
4 recommended operating expenses.

5 Staff increased TY revenues by \$4,874, from \$74,782 to \$79,656, to conform to the TY bill
6 count. Staff decreased total operating expenses by a net of \$9,853, from \$112,287 to \$102,434. The
7 major adjustments included reclassifying \$8,190 from water testing expense to repair and
8 maintenance; and disallowing \$4,809 in water testing expense based on Engineering Staff's estimates
9 of water testing expense; decreasing depreciation and amortization to comport with adjustments to
10 plant and CIAC; reclassifying \$1,277 of telephone expense from miscellaneous to office supplies and
11 expense; and disallowing \$2,020 in miscellaneous expenses for lack of substantiation.

12 Staff adjustments to rate base and operating expenses are reasonable.

13 Staff recommended a revenue level of \$143,969, which would result in operating income of
14 \$32,519, a rate of return of 12.73 percent on adjusted OCRB. Staff believed the recommended
15 revenue level is justified because of the Company's high risk of water contamination, limited growth
16 potential and deteriorating state of some of its plant. Staff believed it's recommended rate of return
17 would permit the Company sufficient cash flow to upgrade plant and meet contingencies. Because
18 we believe it important to provide this Company with sufficient revenue to make needed plant
19 upgrades to continue providing adequate service to customers, we approve Staff's recommended rates
20 and charges. Because the authorized rate of return was recommended to provide sufficient cash flow
21 to upgrade plant, we believe that this Company should submit to a rate review to be filed between 24
22 and 30 months following the effective date of this Decision.

23 * * * * *

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

26 **FINDINGS OF FACT**

27 1. Tierra Mesa provides water utility service to approximately 223 customers located
28 three miles southeast of Yuma, in Yuma County, Arizona.

2. On May 12, 2000, Tierra Mesa filed an application for a rate increase.

3. On May 10, 2000, the Company mailed notice of the application to its customers.

4. On June 12, 2000, Staff notified the Company that its application did not meet the sufficiency requirements of A.A.C. R14-2-103.

5. On July 11, 2000, Staff notified the Company that its application was sufficient and classified the Company as a Class D utility.

6. On September 25, 2000, Staff filed its Staff Report, recommending rates different than those proposed by the Company.

7. All of Tierra Mesa's customers have 5/8 x 3/4 inch meters, with an average and median monthly usage of 27,482 and 20,866 gallons, respectively.

8. Tierra Mesa's current rates and charges were established in Decision No. 57952 (July 22, 1992).

9. In its application, Tierra Mesa requested total revenues of \$146,161, resulting in an operating income of \$33,874, for a rate of return of 13.26 percent on the adjusted OCRB of \$255,526.

10. Staff recommended a revenue level of \$143,969, which would provide the Company with operating income of \$32,519, for a rate of return of 12.73 percent on adjusted OCRB.

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

12. Tierra Mesa's present and proposed rates and charges, as well as Staff's recommended rates and charges are as follows:

	Present Rates	Proposed Rates Company	Staff
<u>Monthly Usage Charges</u>			
5/8" x 3/4" Meter	\$9.50	\$13.50	\$13.25
3/4" Meter	9.50	13.50	13.50
1" Meter	44.00	50.00	50.00
1 1/2" Meter	89.00	100.00	100.00
2" Meter	142.00	170.00	170.00
3" Meter	0.00	0.00	200.00
4" Meter	0.00	0.00	250.00
6" Meter	0.00	0.00	500.00

Commodity Rate

1	Excess of Minimum – per 1,000 gallons			
	1 to 25,000 gallons	\$0.60	\$1.40	\$1.30
2	Over 25,000 gallons	\$1.00	\$2.00	\$2.00
3	Gallons included in Minimum	1,000	1,000	0

Service Line and Meter Installation Charges

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

6	5/8" x 3/4" Meter	\$220.00	\$350.00	\$375.00
	3/4" Meter	220.00	375.00	435.00
7	1" Meter	250.00	410.00	510.00
	1 1/2" Meter	375.00	595.00	740.00
8	2" Meter Turbo	500.00	750.00	1,300.00
	2" Meter Compound Turbo	0.00	0.00	1,930.00
9	3" Meter Turbo	0.00	0.00	1,855.00
	3" Meter Compound Turbo	0.00	0.00	2,570.00
10	4" Meter Turbo	0.00	0.00	2,870.00
	4" Meter Compound Turbo	0.00	0.00	3,685.00
11	6" Meter Turbo	0.00	0.00	5,375.00
12	6" Meter Compound Turbo	0.00	0.00	6,970.00

Service Charges

13	Establishment	\$15.00	\$20.00	\$20.00
14	Establishment (After Hours)	20.00	30.00	30.00
	Reconnection (Delinquent)	25.00	35.00	35.00
15	Meter Test (If Correct)	30.00	30.50	30.00
	Deposit	30.00	30.00	*
16	Deposit Interest – Per Annum	6.0%	6.0%	*
	Re-Establishment (Within 12 Months)	**	**	**
17	NSF Check	10.00	25.00	25.00
	Deferred Payment – Per Month	1.5%	1.5%	1.5%
18	Meter Re-Read (If Correct)	10.00	20.00	20.00

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

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

13. Tierra Mesa's Fair Value Rate Base ("FVRB") is determined to be \$255,526, as reflected in the Staff Report. The Company's FVRB is the same as its OCRB.

14. Tierra Mesa's current rates and charges produced revenues of \$79,656 in the TY, resulting in an operating loss of \$22,778.

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

16. The Company's proposed rates would increase the median monthly bill by 92.9

1 percent from \$21.42 to \$41.31, and the average bill by 97.3 percent, from \$26.38 to \$52.06.

2 17. Staff's recommended rates would increase the median monthly bill by 88.5 percent
3 from \$21.42 to \$40.38, and the average bill by 92.2 percent, from \$26.38 to \$50.71.

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

5 19. Staff's recommended rates and service charges are reasonable.

6 20. Tierra Mesa is current on all property and sales taxes.

7 21. Tierra Mesa is not in compliance with Arizona Department of Environmental Quality
8 ("ADEQ") for failing to report analyses for asbestos, lead and copper.

9 22. Staff recommended that any rate increase not become effective until the first day of
10 the month following the Company filing with the Director of the Utilities Division written
11 documentation from ADEQ stating that the water system has no maximum contamination level
12 violations and that it is serving water which meets the water quality standards of the Safe Drinking
13 Water Act.

14 23. It is reasonable to require this Company to file for a rate review within 24 to 30
15 months of the effective date of this Decision.

16 CONCLUSIONS OF LAW

17 1. Tierra Mesa is a public service corporation within the meaning of Article XV of the
18 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

19 2. The Commission has jurisdiction over Tierra Mesa and of the subject matter of the
20 application.

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

22 4. The rates and charges authorized herein are just and reasonable and should be
23 approved without a hearing.

24 5. The recommendations set forth in Findings of Fact Nos. 22 and 23 are reasonable and
25 should be adopted.

26 ORDER

27 IT IS THEREFORE ORDERED that Tierra Mesa Estates Water Company, Inc. shall file on
28 or before October 31, 2000, the following schedule of rates and charges:

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Monthly Usage Charges

5/8" x 3/4" Meter	\$13.25
3/4" Meter	13.50
1" Meter	50.00
1 1/2" Meter	100.00
2" Meter	170.00
3" Meter	200.00
4" Meter	250.00
6" Meter	500.00

Commodity Rate

Per 1,000 gallons	
1 to 25,000 gallons	\$1.30
Over 25,000 gallons	\$2.00

Service Line and Meter Installation Charges
(Refundable pursuant to A.A.C. R14-2-405)

5/8" x 3/4" Meter	\$375.00
3/4" Meter	435.00
1" Meter	510.00
1 1/2" Meter	740.00
2" Meter Turbo	1,300.00
2" Meter Compound Turbo	1,930.00
3" Meter Turbo	1,855.00
3" Meter Compound Turbo	2,570.00
4" Meter Turbo	2,870.00
4" Meter Compound Turbo	3,685.00
6" Meter Turbo	5,375.00
6" Meter Compound Turbo	6,970.00

Service Charges

Establishment	\$20.00
Establishment (After Hours)	30.00
Reconnection (Delinquent)	35.00
Meter Test (If Correct)	30.00
Deposit	*
Deposit Interest - Per Annum	*
Re-Establishment (Within 12 Months)	**
NSF Check	25.00
Deferred Payment - Per Month	1.5%
Meter Re-Read (If Correct)	20.00

* Per A.A.C. R14-2-403(B)
** Months off system times the minimum (R14-2-403.D)

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after the first day of the month following Tierra Mesa Estates Water Company, Inc. filing written documentation from the Arizona Department of Environmental Quality with the

1 Director of the Utilities Division that it is providing water with no maximum contaminant level
2 violations and that meets the quality standards of the Safe Drinking Water Act.

3 IT IS FURTHER ORDERED that Tierra Mesa Estates Water Company, Inc. shall notify its
4 customers of the rates and charges authorized herein and the effective date of same by means of an
5 insert in its next regular monthly billing.

6 IT IS FURTHER ORDERED that Tierra Mesa Estates Water Company, Inc. shall file with
7 the Commission within 60 days from the effective date of this Decision, a copy of the notice it
8 provides its customers of the new rates and charges.

9 IT IS FRUTHER ORDERED that Tierra Mesa Estates Water Company, Inc. shall file for a
10 rate review within 24 to 30 months of the effective date of this Decision.

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

12 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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15 CHAIRMAN

COMMISSIONER

COMMISSIONER

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

23
24 _____
25 BRIAN C. McNEIL
26 EXECUTIVE SECRETARY

27
28
29 DISSENT _____
30 JR:dap

1 SERVICE LIST FOR: TIERRA MESA ESTATES WATER COMPANY, INC.

2 DOCKET NO. W-02498A-00-0334

3
4 Ronald Parks
5 Tierra Mesa Estates Water Company, Inc.
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7 P.O. Box 4893
8 Yuma, Arizona 85366-4893

9 Lyn Farmer, Chief Counsel
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