

JIM IRVIN
COMMISSIONER - CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER



JACK ROSE
EXECUTIVE SECRETARY

0000158838

ARIZONA CORPORATION COMMISSION

DATE: DECEMBER 30, 1997

DOCKET NO. W-01689A-97-0524

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:

CLEAR SPRINGS UTILITY 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:

JANUARY 8, 1998

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:

JANUARY 13, 1998 and JANUARY 14, 1998

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


JACK ROSE
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM IRVIN
3 COMMISSIONER - CHAIRMAN
4 RENZ D. JENNINGS
5 COMMISSIONER
6 CARL J. KUNASEK
7 COMMISSIONER

8 IN THE MATTER OF THE APPLICATION OF)
9 CLEAR SPRINGS UTILITY COMPANY FOR A)
10 PERMANENT RATE INCREASE.)
11 _____)

DOCKET NO. W-01689A-97-0524

DECISION NO. _____

ORDER

12 Open Meeting
13 January 13 and 14, 1998
14 Phoenix Arizona

15 **BY THE COMMISSION:**

16 On August 25, 1997, Clear Springs Utility Company - Water Division ("Clear Springs" or
17 "Company") filed an application with the Arizona Corporation Commission ("Commission") for a
18 permanent rate increase. On September 24, 1997, the Commission's Utilities Division Staff ("Staff")
19 filed a notice that the rate application had met the sufficiency requirement of A.A.C. R14-2-103 and
20 classified Clear Springs as a Class D Utility. On December 9, 1997, Staff filed its Staff Report,
21 recommending rates different than those proposed by the Company be approved without a hearing.

22 **DISCUSSION**

23 **BACKGROUND**

24 The Company provides water service to approximately 456 customers in the community of
25 Sunsites, approximately 26 miles south of Wilcox, Cochise County, Arizona. The Commission issued
26 the Company its Certificate of Convenience and Necessity in Decision No. 33803 (May 22, 1963). The
27 Company's last rate case was in 1995 (Decision No. 59308). The Company is comprised of five water
28 systems. The main system, Sunsites Village, has three wells and serves the majority of customers. The
other four systems are considered semi-public and serve from two to ten customers.¹

The Company is in full compliance with the Arizona Department of Environmental Quality

¹ One of the semi-public systems has recently reached the threshold to become a public water system and the Company has applied for reclassification.

1 (“ADEQ”) and is serving water that ADEQ has determined meets the Safe Drinking Water Act quality
2 standards. The Company is current with its property taxes and has been making the required Transaction
3 Privilege Tax payments to the Arizona Department of Revenue.

4 Following customer notification of the application, Staff received six complaints about the rate
5 application. Customer interest prompted Staff to conduct a public comment meeting on October 28,
6 1997, in Sunsites, Arizona. The main issues concerning those present were the adverse affect on those
7 customers on fixed incomes if the 1,000 gallons included in the monthly minimum were removed and
8 the problem of leaks in the system.

9 RATE APPLICATION

10 Based on test year results for the year ended December 31, 1996 (“TY”) as adjusted by Staff,
11 Clear Springs experienced an operating loss of \$2,657 on an adjusted Original Cost Rate Base (“OCRB”)
12 of \$50,572. The Company proposed revenues of \$136,926, which based on Staff’s adjusted expenses
13 of \$117,156, would produce operating income of \$19,770, for a rate of return of 39.09 percent. The
14 Company’s proposal would increase the typical 5/8 x 3/4 inch meter bill, with a median usage of 3,979
15 gallons, from \$13.86 to \$17.21, or 24.1 percent.

16 Staff recommended a revenue level of \$125,233 which would provide the Company with
17 operating income of \$8,077, a 15.97 percent rate of return on OCRB. Under Staff’s recommendation,
18 the median 5/8 x 3/4 inch meter bill would increase from \$13.86 to \$15.66, or 13.0 percent.

19 Rate Base

20 Staff increased OCRB by a net \$7,858, from \$42,714 to \$50,572. Staff decreased Plant In Service
21 by \$8,296 to account for a pump the Company retired in the TY and to capitalize \$5,248 in Repairs and
22 Maintenance expenses. Staff also reduced Accumulated Depreciation to reflect adjusted plant balances
23 and reduced the Cash Working Capital Allowance to reflect Staff’s recommended TY operating
24 expenses.

25 Revenues and Expenses

26 Staff accepted the Company’s reported Total Operating Revenue.

27 Staff decreased Operating Expenses by a net \$7,845, from \$125,001 to \$117,156. Staff increased
28 Purchase Pumping Power expense by \$95 to reflect TY invoices. Staff decreased Repairs and

1 Maintenance expense by \$5,248 as a result of capitalizing various plant expenditures, and increased
2 Water Testing expense by \$6,224 to reflect Staff Engineering's projected annualized costs under Phases
3 II and V testing requirements. Staff decreased Outside Services by \$7,027 to remove management and
4 accounting services incurred outside the TY. Finally, Staff reduced Depreciation expense \$1,889 based
5 on adjusted plant balances.

6 Staff's adjustments to expenses, as reflected in the Staff Report are reasonable.

7 Revenue Requirement and Rate Design

8 Staff recommended an increase in revenue of \$10,734, or 9.4 percent over TY revenues of
9 \$114,499. Staff's recommended revenue level would yield a positive cash flow of approximately
10 \$14,685. Staff did not identify any significant capital requirement beyond normal repairs and
11 maintenance.

12 The Company proposed to increase the monthly minimum charge for 5/8 x 3/4 inch meters from
13 \$8.50 to \$9.25 and to eliminate the 1,000 gallons included in the monthly minimum charge. The
14 Company wanted to increase the commodity rate from \$1.80 to \$2.00 per 1,000 gallons. Staff
15 recommended no change in current rates except for removal of the 1,000 gallons included in the
16 minimum charge. Staff believed this would provide the Company with the necessary revenue to reverse
17 operating losses, give the customer more control over the bill and promote conservation. The
18 Commission is aware that customers were concerned about losing the 1,000 gallons included in the
19 monthly minimum, however, it must be recognized that any water included in the monthly minimum is
20 not "free." Staff's proposed modification should minimize the impact of higher rates on the typical
21 consumer. Staff agreed with the Company's proposal to increase the bulk water rate from \$2.70 per
22 1,000 gallons to \$3.00 for 1,000 gallons. We agree that Staff's proposed rates and charges are reasonable
23 and fair.

24 * * * * *

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

27 FINDINGS OF FACT

- 28 1. Clear Springs provides water service to approximately 456 customers in Sunsites, Arizona

1 approximately 26 miles south of Wilcox, Cochise County, Arizona.

2 2. On August 25, 1997, Clear Springs filed an application with the Commission for a rate
3 increase.

4 3. On September 24, 1997, Staff filed a notice that the rate application had met the
5 sufficiency requirement of A.A.C. R14-2-103 and classified Clear Springs as a Class D Utility.

6 4. On October 28, 1997, in response to customer interest, Staff conducted a public comment
7 session in Sunsites, Arizona.

8 5. On December 9, 1997, Staff filed its Staff Report, recommending rates different than those
9 proposed by the Company.

10 6. Clear Springs' present and proposed rates and charges, as well as Staff's proposed rates
11 and charges are as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8"x 3/4" Meter	\$8.50	\$9.25	\$8.50
3/4" Meter	12.00	12.50	12.00
1" Meter	20.00	20.50	20.00
1 1/2" Meter	40.00	40.50	40.00
2" Meter	64.00	64.40	64.00
3" Meter	120.00	120.00	120.00
4" Meter	200.00	200.00	200.00
6" Meter	400.00	400.00	400.00
Gallons included in minimum	1,000	0	0
<u>Commodity Charge:</u>			
Excess of Minimum			
- Per 1,000 Gallons	\$1.80	\$2.00	\$1.80
Bulk Water Sales-			
- Per 1,000 Gallons	\$2.70	\$3.00	\$3.00
<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
(Refundable pursuant to A.A.C. R14-2-405)			
5/8" x 3/4" Meter	\$ 325.00	\$ 400.00	\$ 400.00
3/4" Meter	360.00	450.00	450.00
1" Meter	410.00	575.00	520.00
1 1/2" Meter	610.00	680.00	680.00
2" Meter	1,025.00	1,025.00	1,025.00
3" Meter	1,405.00	1,405.00	1,405.00
4" Meter	2,240.00	2,240.00	2,240.00
6" Meter	4,345.00	4,345.00	4,345.00

SERVICE CHARGES:

Establishment	\$15.00	\$20.00	\$20.00
Establishment (After Hours)	30.00	35.00	35.00
Reconnection (Delinquent)	15.00	20.00	20.00
Meter Test (If Correct)	30.00	35.00	35.00
Deposit	*	*	*
Deposit Interest	*	**	**
Reestablishment			
(Within 12 Months)	**	***	***
NSF Check	15.00	15.00	15.00
Deferred Payment - per month	0.00%	0.00%	0.00%
Meter Reread (If Correct)	10.00	15.00	15.00
Late Payment Charge	0.00%	1.50%	1.50%

Monthly service Charge for Fire Sprinkler

4" or Smaller	\$0.00	\$0.00	***
6"	\$0.00	\$0.00	***
10"	\$0.00	\$0.00	***
Larger than 10"	\$0.00	\$0.00	***

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

** Months off system times the minimum charge pursuant to A.A.C. R14-2-403(D).

*** 1% 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 in lines separate and distinct from the primary water service line.

7. Clear Springs' fair value rate base ("FVRB") is determined to be \$50,572 which is the same as its OCRB.

8. Clear Springs' present rates and charges produced adjusted revenues for the TY of \$114,499 and adjusted operating expenses of \$117,156, resulting in an operating loss of \$2,657, for no rate of return on FVRB.

9. Clear Springs's proposed rates and charges would produce revenues of \$136,926, which based on Staff's adjusted operating expenses of \$117,156, would yield operating income of \$19,770, a 39.09 percent rate of return on FVRB.

10. Staff's proposed rates and charges would produce revenues of \$125,233, which based on adjusted operating expenses of \$117,156, would yield operating income of \$8,077, for a 15.97 percent rate of return on FVRB.

11. Staff's adjustments to revenues and expenses, as reflected in the Staff Report, are reasonable.

12. Clear Springs had 456 customers in the TY, 425 of whom had 5/8" x 3/4" meters with an

1 average monthly usage of 6,246 gallons and a median monthly usage of 3,979 gallons.

2 13. Clear Springs' proposed rates would increase the median 5/8"x 3/4" meter bill by 24.1
3 percent from \$13.86 to \$17.21, and the average monthly bill by 21.2 percent from \$17.94 to \$21.74.

4 14. Staff's proposed rates would increase the median 5/8"x 3/4" meter bill by 13.0 percent
5 from \$13.86 to \$15.66, and the average monthly bill by 10.0 percent from \$17.94 to \$19.74.

6 15. Staff recommended its proposed rates be granted without a hearing.

7 16. Staff's proposed rates are just and reasonable.

8 17. The Company is in total compliance with ADEQ regulations and provides water that
9 meets the standards of the Safe Drinking Water Act.

10 18. Clear Springs is current with its property taxes and is in compliance with Commission
11 filing requirements and Orders.

12 19. Staff further recommended that a provision be included in the Company's tariff to allow
13 for the flow-through of appropriate state and local taxes, as provided for in A.A.C. R14-2-409.D.

14 **CONCLUSIONS OF LAW**

15 1. Clear Springs is a public service corporation within the meaning of Article XV of the
16 Arizona Constitution and A.R.S. Sections 40-250 and 40-251.

17 2. The Commission has jurisdiction over the Company and of the subject matter of the
18 application.

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

20 4. The rates and charges authorized hereinafter are just and reasonable and should be
21 approved without a hearing.

22 5. Staff's recommendation contained in Findings of Fact No. 19 is reasonable.

23 **ORDER**

24 IT IS THEREFORE ORDERED that Clear Springs Utility Company shall file on or before
25 January 30, 1998, the following amended schedule of rates and charges:

26 ...

27 ...

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$8.50
3/4" Meter	12.00
1" Meter	20.00
1 1/2" Meter	40.00
2" Meter	64.00
3" Meter	120.00
4" Meter	200.00
6" Meter	400.00

Commodity Charge:

Per 1,000 Gallons \$1.80

Bulk Water Sales Rate

Per 1,000 Gallons \$3.00

Private Fire Protection:

Greater of \$5.00 or one percent of the monthly minimum charge for comparable sized meter connection

SERVICE LINE AND METER INSTALLATION CHARGES:

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

5/8" x 3/4" Meter	\$ 400.00
3/4" Meter	450.00
1" Meter	520.00
1 1/2" Meter	680.00
2" Meter	1,025.00
3" Meter	1,405.00
4" Meter	2,240.00
6" Meter	4,345.00

SERVICE CHARGES:

Establishment	\$20.00
Establishment (After Hours)	35.00
Reconnection (Delinquent)	20.00
Meter Test (If Correct)	35.00
Deposit	*
Deposit Interest	*
Reestablishment (Within 12 Months)	**
NSF Check	15.00
Meter Reread (If Correct)	15.00
Late Payment Charge - Per Month	1.50%

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

** Months off system times the minimum charge pursuant to A.A.C. R14-2-403(D).

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after February 1, 1998.

1 IT IS FURTHER ORDERED that Clear Springs Utility Company shall notify its customers of
2 the rates and charges authorized herein and the effective date of same by means of an insert in its next
3 regular monthly billing.

4 IT IS FURTHER ORDERED that Clear Springs Utility Company shall comply with the
5 recommendation set forth in Findings of Fact No. 19.

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

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

8
9
10 _____
COMMISSIONER - CHAIRMAN COMMISSIONER COMMISSIONER

11 IN WITNESS WHEREOF, I, JACK ROSE, Executive Secretary of the Arizona
12 Corporation Commission, have hereunto set my hand and caused the official seal
13 of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____
14 day of _____, 1998.

15 _____
16 JACK ROSE
EXECUTIVE SECRETARY

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18 DISSENT _____
JR:dap

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SERVICE LIST FOR: CLEAR SPRINGS UTILITY COMPANY

DOCKET NO.: W-01689A-97-0524

Mr. E. A. Lewis, President
Clear Springs Utility Company
P.O. Box 85160
Tucson, Arizona 85754

Paul Bullis, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007