

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



JACK ROSE
EXECUTIVE SECRETARY

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ARIZONA CORPORATION COMMISSION

DATE: JULY 22, 1998

DOCKET NOS: W-02527A-98-0731

TO ALL PARTIES:

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

GRAHAM COUNTY UTILITIES, INC. (WATER DIVISION)
(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 4:00 p.m. on or before:

JULY 31, 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:

AUGUST 4, 1998 and AUGUST 5, 1998

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

A handwritten signature in black ink that reads "Jack Rose".
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 GRAHAM COUNTY UTILITIES, INC.)
10 WATER DIVISION FOR A RATE INCREASE.)

DOCKET NO. W-02527A-97-0731

11 DECISION NO. _____

12 **OPINION AND ORDER**

13 DATE OF HEARING: June 23, 1998

14 PLACE OF HEARING: Tucson, Arizona

15 PRESIDING OFFICER: Jane L. Rodda

16 APPEARANCES: Mr. Nelson Peck, General Manager of Graham County Utilities, Inc., on
17 behalf of the Applicant;

18 Mr. Peter Breen, Staff Attorney, Legal Division, on behalf of the Arizona
19 Corporation Commission Staff.

20 **BY THE COMMISSION:**

21 On November 18, 1997, Graham County Utilities, Inc., Water Division ("GCU" or
22 "Cooperative") filed with the Arizona Corporation Commission ("Commission") a rate application. On
23 December 18, 1997, the Utilities Division Staff ("Staff") of the Commission filed a letter indicating the
24 Cooperative's rate application was sufficient and classifying the utility as a Class C utility. On January
25 2, 1998, the Hearing Division issued a Procedural Order scheduling the matter for a hearing in Tucson,
26 Arizona on June 23, 1998, and establishing dates for the filing of testimony. On May 1, 1998, Staff filed
27 a Staff Report recommending the same revenue level as was requested by the GCU. The hearing
28 convened as scheduled with Mr. Norman Peck, GCU's General Manager, testifying for GCU and Claudio
Fernandez testifying on behalf of Staff.

DISCUSSION

GCU, a membership cooperative, serves 878 water customers in and around the communities of
Fort Thomas and Pima, in Graham County, Arizona. The Cooperative also operates a gas division,
however, this application relates solely to its water system. In Decision No. 60423, (December 18, 1997),

1 the Commission authorized GCU to borrow \$220,000 from Arizona Electric Power Cooperative, Inc.
2 ("AEPSCO") in long-term debt for the purpose of financing capital improvements to GCU's water
3 distribution system.¹ The approved debt resulted in inadequate financial ratios, and in Decision No.
4 60523 the Commission ordered the Cooperative to file an application for rate increase.

5 In its application, GCU proposed a revenue level of \$452,270 and operating income of \$139,211,
6 for a 12.46 percent rate of return on an Original Cost Rate Base ("OCRB") of \$1,117,146. Staff
7 recommended the same revenue level of \$452,270, and an operating income of \$167,102, for a 17.14
8 percent rate of return on Staff's adjusted OCRB of \$974,949.

9 At the end of the test year ended June 30, 1997 ("TY"), Staff calculated that GCU had a Times
10 Interest Earned Ratio ("TIER") of 0.66 and Debt Service Coverage ("DSC") ratio of 0.90. A TIER of
11 less than 1.00 indicates that net income is not sufficient to cover interest payments. A DSC below 1.0
12 indicates that cash flow will not cover debt service requirements. Because GCU is a non-profit
13 cooperative, Staff based its analysis of revenue requirements on the organization's financial ratios rather
14 than the rate of return. GCU's primary lender, the Cooperative Finance Corporation ("CFC"), requires
15 that it maintain a TIER and DSC of at least 1.25. Under the rates recommended by Staff, GCU has a
16 projected TIER of 1.48 and DSC of 1.29.

17 Staff made a few adjustments to rate base and operating expenses. Staff adjusted rate base by
18 \$155,695, from \$1,117,146 to \$947,949. Staff's major adjustments were: to increase plant to reconcile
19 with the ending balances at the end of the last rate case; to reclassify Construction Work in Progress to
20 allow new plant that had been put into service after the application; and to increase Accumulated
21 Depreciation to reflect the previously approved 5.0 composite depreciation rate.

22 Staff also adjusted operating expenses by \$27,891, from \$313,059 to \$285,168. Most of the
23 decrease resulted from Staff's recommended depreciation rates. In Decision No. 58437 (October 18,
24 1993), the Commission ordered the Cooperative to file with this rate case a request to change
25 depreciation rates supported by a depreciation study. GCU, however, could not provide a depreciation
26 study due to incomplete plant records received from the previous owner. Consequently, Staff

27
28 ¹ AEPSCO received a grant from the Rural Development Section of the United States
Department of Agriculture and is lending a portion of the funds to GCU interest free.

1 recommended a 3.61 percent composite depreciation rate based on its own analysis.

2 The Association agreed to all of Staff's adjustments and recommendations. We agree that Staff's
3 adjustments to rate base and operating expenses, as reflected in the Staff Report, are reasonable and
4 should be adopted.

5 * * * * *

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

8 **FINDINGS OF FACT**

9 1. GCU is a rural Arizona non-profit membership cooperative providing water service for
10 public purposes to approximately 878 customers in and around Fort Thomas and Pima, in Graham
11 County, Arizona.

12 2. On November 18, 1997, GCU filed with the Commission a rate application.

13 3. On December 18, 1997, Staff filed a letter indicating the Cooperative's rate application
14 was sufficient and classifying the utility as a Class C utility.

15 4. On January 2, 1998, the Hearing Division issued a Procedural Order scheduling the matter
16 for a hearing in Tucson, Arizona on June 23, 1998, and establishing dates for the filing of testimony.

17 5. On May 1, 1998, Staff filed a Staff Report recommending the same revenue level as
18 requested by GCU.

19 6. In Decision No. 60423, (December 18, 1997), the Commission authorized GCU to borrow
20 \$220,000 from AEPCO in long-term debt for the purpose of financing capital improvements to GCU's
21 water distribution system.

22 7. At the end of the TY, GCU had a TIER of 0.66 and a DSC of 0.90.

23 8. CFC, the Cooperative's primary lender, requires a TIER and DSC of 1.25.

24 9. GCU's present and proposed rates and charges, as well as Staff's proposed rates and
25 charges are as follows:

26 ...
27 ...
28 ...

| | <u>Present Rates</u> | <u>Company</u> | <u>Proposed Rates Staff</u> | |
|----|--|----------------|-----------------------------|-----------|
| 1 | | | | |
| 2 | <u>MONTHLY USAGE CHARGE:</u> | | | |
| 3 | 5/8" x 3/4" Meter | \$14.80 | \$17.00 | \$16.80 |
| 4 | 3/4" Meter | 15.70 | 18.00 | 18.00 |
| 5 | 1" Meter | 17.00 | 19.50 | 23.00 |
| 6 | 1 1/2" Meter | 20.00 | 24.00 | 30.00 |
| 7 | 2" Meter | 23.00 | 30.00 | 35.00 |
| 8 | 3" Meter | N/A | N/A | N/A |
| 9 | 4" Meter | 50.00 | 50.00 | 50.00 |
| 10 | 6" Meter | N/A | N/A | N/A |
| 11 | Gallons Included in Minimum charge | 1,000 | 0 | 0 |
| 12 | Commodity Charge | | | |
| 13 | Excess of minimum - | | | |
| 14 | Per 1,000 gallons | \$2.40 | \$2.55 | \$2.55 |
| 15 | <u>RESALE BULK WATER SALES - EDEN WATER CO.</u> | | | |
| 16 | Monthly Usage Charge | | | |
| 17 | 2" Meter | \$23.00 | \$30.00 | \$30.00 |
| 18 | Gallons included in minimum | 0 | 0 | 0 |
| 19 | Commodity Charge (Per 1,000 gallons) | \$1.35 | \$1.35 | \$1.35 |
| 20 | <u>SERVICE LINE AND METER INSTALLATION CHARGES:</u> (Refundable pursuant to A.A.C. R14-2-405) | | | |
| 21 | 5/8" x 3/4" Meter | \$ 100.00 | \$ 100.00 | \$ 200.00 |
| 22 | 3/4" Meter | 100.00 | 100.00 | 225.00 |
| 23 | 1" Meter | 125.00 | 125.00 | 260.00 |
| 24 | 1 1/2" Meter | 250.00 | 250.00 | 435.00 |
| 25 | 2" Meter | 325.00 | 325.00 | 570.00 |
| 26 | 3" Meter | 400.00 | 400.00 | 800.00 |
| 27 | 4" Meter | 750.00 | 750.00 | 1,400.00 |
| 28 | 6" Meter | N/A | N/A | 3,000.00 |
| 29 | <u>SERVICE CHARGES:</u> | | | |
| 30 | Establishment | \$15.00 | \$10.00 | \$15.00 |
| 31 | Establishment (After Hours) | N/A | N/A | \$22.50 |
| 32 | Reconnection (Delinquent) | \$20.00 | \$10.00 | \$20.00 |
| 33 | Meter Test (If Correct) | \$10.00 | \$10.00 | \$20.00 |
| 34 | Deposit | * | * | * |
| 35 | Deposit Interest | * | * | * |
| 36 | Reestablishment | | | |
| 37 | (Within 12 Months) | N/A | ** | ** |
| 38 | NSF Check | \$15.00 | \$20.00 | \$20.00 |
| 39 | Meter Reread (If Correct) | \$10.00 | \$10.00 | \$10.00 |
| 40 | Late Payment Penalty *** | 1.5% | 1.5% | 1.5% |
| 41 | Service Call After Hours | 50.00 | 70.00 | 70.00 |
| 42 | Field Collection - Delinquent Account | N/A | 20.00 | 15.00 |

- * Per Commission rule A.A.C. R14-2-403(B).
- ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).
- *** 1.50% of monthly outstanding balance.

10. GCU's OCRB is determined to be \$974,949.

11. GCU waived the filing of a reconstruction cost new rate base, and as a result its FVRB is the same as the OCRB.

12. GCU's present rates and charges produced total revenues of \$385,770 and total adjusted expenses of \$316,896, yielding operating income of \$68,874 and a net loss of \$40,494 in the TY.

13. Staff recommended adjusted operating expenses of \$285,168.

14. Staff's recommended rates and charges and adjusted operating expenses, yield total operating revenue of \$452,270, operating income of \$167,102 and net income of \$57,734, resulting in a 17.14 percent rate of return on OCRB.

15. Under Staff's recommended revenue and expense levels, GCU would have a TIER of 1.48 and DSC of 1.29.

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

17. GCU had 878 customers in the TY, 869 of whom had 5/8 x 3/4 inch meters with an average usage of 9,003 gallons per month and a median usage of 7,027 gallons per month.

18. GCU's proposed rates would increase the median 5/8 x 3/4 inch meter bill by 19.3 percent from \$29.27 to \$34.92 and the average monthly bill by 17.5 percent from \$34.01 to \$39.96.

19. Staff's proposed rates would increase the median 5/8 x 3/4 inch meter bill by 18.6 percent from \$29.27 to \$34.72 and the average monthly bill by 16.9 percent, from \$34.01 to \$39.76.

20. Staff's recommended rates and charges are just and reasonable.

21. GCU is in full compliance with the Arizona Department of Environmental Quality regulations, current with its property taxes and in compliance with Commission filing requirements and Orders.

CONCLUSIONS OF LAW

1. GCU is a public service corporation within the meaning of Article 15 of the Arizona

1 Constitution and A.R.S. §§ 40-250 and 40-251.

2 2. The Commission has jurisdiction over GCU and the subject matter of this proceeding.

3 3. Notice was provided in the manner prescribed by law.

4 4. The rates and charges approved hereinbelow are just and reasonable and should be
5 adopted.

6 **ORDER**

7 IT IS THEREFORE ORDERED that Graham County Utilities, Inc. is hereby authorized and
8 directed to file with the Commission on or before August 31, 1998, the following revised schedule of
9 rates and charges:

10 **MONTHLY USAGE CHARGE:**

| | | |
|----|-------------------|---------|
| 11 | 5/8" x 3/4" Meter | \$16.80 |
| | 3/4" Meter | 18.00 |
| 12 | 1" Meter | 23.00 |
| | 1 1/2" Meter | 30.00 |
| 13 | 2" Meter | 35.00 |
| | 4" Meter | 50.00 |

14 Commodity Charge (Per 1,000 gallons) \$2.55

15 **RESALE BULK WATER SALES - EDEN WATER CO.**

16 Monthly Usage Charge
17 2" Meter \$30.00

18 Commodity Charge (Per 1,000 gallons) \$1.35

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

| | | |
|----|-------------------|-----------|
| 21 | 5/8" x 3/4" Meter | \$ 200.00 |
| | 3/4" Meter | 225.00 |
| 22 | 1" Meter | 260.00 |
| | 1/2" Meter | 435.00 |
| 23 | 2" Meter | 570.00 |
| | 4" Meter | 1,400.00 |

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1 SERVICE CHARGES:

| | | |
|---|---------------------------------------|---------|
| 2 | Establishment | \$15.00 |
| | Establishment (After Hours) | \$22.50 |
| 3 | Reconnection (Delinquent) | \$20.00 |
| | Meter Test (If Correct) | \$20.00 |
| 4 | Deposit | * |
| | Deposit Interest | * |
| 5 | Reestablishment | |
| | (Within 12 Months) | ** |
| 6 | NSF Check | \$20.00 |
| | Meter Reread (If Correct) | \$10.00 |
| 7 | Late Payment Penalty *** | 1.5% |
| | Service Call After Hours | \$70.00 |
| 8 | Field Collection - Delinquent Account | \$15.00 |

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

10 ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

11 *** 1.50% of monthly outstanding balance.

12 IT IS FURTHER ordered that said rates and charges shall be effective for all billings on and after

13 September 1, 1998.

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1 IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall notify its customers of the
2 increased rates and charges authorized herein and the effective date of same as part of its next regularly
3 scheduled billing.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
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8 _____
COMMISSIONER - CHAIRMAN COMMISSIONER COMMISSIONER

9
10 IN WITNESS WHEREOF, I, JACK ROSE, Executive Secretary of the Arizona
11 Corporation Commission, have hereunto set my hand and caused the official seal of
12 the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day
13 of _____, 1998.

14 _____
JACK ROSE
EXECUTIVE SECRETARY

15
16
17 DISSENT _____
JR/dap

1 SERVICE LIST FOR:

GRAHAM COUNTY UTILITIES, INC.

2 DOCKET NO.:

W-02527A-97-0731

3
4 Mr. Norman Peck, General Manager
5 Mr. Russ Barney, Finance Manager
6 Graham County Utilities, Inc.
7 Post Office Drawer B
8 Pima, AZ 85543

9 Paul Bullis, Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, Arizona 85007

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

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