OPEN MEETING ITEM

ORIGINAL

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COMMISSIONERS
SUSAN BITTER SMITH - Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

2015 JUN 22 AM 11 46

DATE: JUNE 22, 2015

DOCKET NOS.: W-01557A-15-0079 and W-01557A-15-0080

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Sarah Harpring. The recommendation has been filed in the form of an Opinion and Order on:

LAKE VERDE WATER COMPANY, INC.
(EMERGENCY 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 thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JULY 1, 2015

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 Open Meeting to be held on:

JULY 7, 2015 and JULY 8, 2015

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED
JUN 22 2015
DOCKETED BY
RATL

JODI JERICH
EXECUTIVE DIRECTOR

This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH - Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

IN THE MATTER OF THE APPLICATION OF LAKE VERDE WATER COMPANY, INC. FOR APPROVAL OF AN EMERGENCY RATE INCREASE.	DOCKET NO. W-01557A-15-0079
IN THE MATTER OF THE APPLICATION OF LAKE VERDE WATER COMPANY, INC. FOR APPROVAL OF AN ORDER AUTHORIZING THE COMPANY TO ISSUE $500,000.00 OF DEBT.	DOCKET NO. W-01557A-15-0080 DECISION NO. _____ **OPINION AND ORDER**

DATE OF HEARING:	May 18, 2015
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Sarah N. Harpring
APPEARANCES:	Dugan McDonald, President, and Alan Williams, Certified Operator, on behalf of Lake Verde Water Company, Inc.; and Matthew Laudone, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

This case concerns emergency rate and financing applications filed with the Arizona Corporation Commission ("Commission") by Lake Verde Water Company, Inc. ("LVWC"), which provides water utility service to approximately 68 homes in Camp Verde, Yavapai County, Arizona. LVWC filed the applications because it needs to come into compliance with the current U.S. Environmental Protection Agency ("EPA") and Arizona Department of Environmental Quality ("ADEQ") standard for arsenic and ADEQ's standard for minimum water storage capacity. LVWC's current rates and charges were established in 1994.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the

Commission finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On March 4, 2015, in Docket No. W-01557A-15-0079 ("Emergency Rate Docket"), LVWC filed with the Commission an application for an emergency rate increase. LVWC stated that the emergency rate increase was necessary to provide the funds to enable LVWC to make the improvements necessary to operate the system properly and deliver safe drinking water.

2. On the same date, in Docket No. W-01557A-15-0080 ("Financing Docket"), LVWC filed with the Commission a financing application requesting approval to incur long-term debt in the form of a $500,000 loan from the Arizona Water Infrastructure Finance Authority ("WIFA"), for the purpose of financing the engineering, procurement, installation, and operation of treatment plant to reduce nitrates[1] and arsenic below the maximum contaminant level ("MCL") prescribed by the U.S. EPA and ADEQ. (Ex. A-1.)

3. On March 19, 2015, in the Emergency Rate Docket and Financing Docket, the Commission's Utilities Division ("Staff") filed a Motion for Consolidation and Request for Procedural Order.

4. On March 23, 2015, a Procedural Order was issued consolidating the Emergency Rate Docket and Financing Docket for all purposes going forward; scheduling a hearing to commence in this matter on April 24, 2015; and establishing other procedural requirements and deadlines, including a requirement for LVWC to provide specific notice to its customers by April 7, 2015, and to file its certification of notice as well as any response to the Staff Report by April 20, 2015.

5. On April 10, 2015, Staff filed its Staff Report, recommending approval of interim emergency rates and approval of authority to obtain a WIFA loan in an amount not to exceed $126,000.

6. Prior to April 24, 2015, LVWC did not make any filing regarding the provision of notice to its customers or its response to the Staff Report.

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[1] According to its Certified Operator, LVWC's water supply does not have excess levels of nitrates. (Tr. at 59.) Additionally, ADEQ informed Staff that LVWC has no record of nitrate exceedances. (Ex. S-1 at Att. A at 4.) It is unclear why nitrates were mentioned in the financing application.

7. On April 24, 2015, the evidentiary hearing convened as scheduled, with LVWC appearing through Dugan McDonald, its President, and Staff appearing through counsel. At the outset, it was determined that LVWC had not provided notice to its customers as required by the Procedural Order[2] and also had not provided notice to its customers as required for a financing application. After some discussion, it was determined that the evidentiary hearing would reconvene on May 18, 2015; that a Procedural Order would be issued and sent to LVWC via email on April 24, 2015; and that LVWC would provide customer notice by posting the notices on its customer's doors, in a prominent location at its office, and at the local community pool. Public comment was provided by Rick Zeise, Assistant Arizona Attorney General ("AG") and ADEQ's counsel, who emphasized the importance of having LVWC's water system come into compliance with federal and state safe drinking water standards and of having adequate notice provided to LVWC and its customers before any hearing.

8. Also on April 24, 2015, a Procedural Order was issued scheduling the hearing for May 18, 2015, and establishing other requirements and deadlines, including a requirement for LVWC to provide prescribed notice by April 27, 2015.

9. On May 5, 2015, LVWC filed a letter stating that public notice of the hearing had been hand delivered to each residence on April 28, 2015, and prominently posted on the wall of LVWC's office location and at the swimming pool for Lake Verde subdivision. LVWC included a copy of the notice, taken directly from the Procedural Order of April 24, 2015.

10. On May 18, 2015, a full evidentiary hearing was held before a duly authorized Administrative Law Judge of the Commission, at the Commission's offices in Phoenix, Arizona. LVWC was represented by Mr. McDonald and Alan Williams, its Certified Operator,[3] and Staff was represented by counsel. LVWC presented documentary evidence and the testimony of Mr. McDonald and Mr. Williams. Staff presented documentary evidence and the testimony of Frank Smaila, Staff Water and Wastewater Engineer, and Teresa Hunsaker, Staff Public Utilities Analyst.

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[2] Mr. McDonald verified that the two mailing addresses used for LVWC were valid, but stated that he had not seen the Procedural Order.

[3] Mr. McDonald and Mr. Williams asserted that Mr. Williams is an employee of LVWC, that he was also specifically authorized to represent LVWC, that such representation was not his primary duty to LVWC, and that he was not receiving any additional compensation for such representation. (*See* Tr. at 5-6.)

Oral public comment was received from five individuals, all owners of property served by LVWC and all opposed to Staff's recommendations for arsenic remediation to be accomplished through point of use reverse osmosis ("POU RO") systems.[4] At the conclusion of the hearing, LVWC and Staff were both directed to file late-filed exhibits ("LFEs"). The same day, two of the five public commenters filed their own written comments along with a petition signed by 35 LVWC customers (including the five public commenters). The petition expressed opposition to POU RO systems.

11. Also on May 18, 2015, LVWC filed a Letter of Response to the Staff Report, disagreeing with Staff's recommendations for POU RO systems, for salaries and wages expense, and for office space rental expense.[5]

12. On May 18, 2015, Staff filed, as LFEs, copies of LVWC's Annual Report for Year Ending December 31, 2013, and Annual Report for Year Ending December 31, 2014.

13. On May 28, 2015, LVWC filed, as an LFE, a copy of a Bid Proposal—Arsenic Removal System for Lake Verde Water Co., prepared by Global Water Renewal, LLC and dated May 4, 2015.

14. On June 9, 2015, LVWC filed several additional documents providing estimates for the items requested in the emergency rate application, the arsenic treatment system, and annual media-related costs.[6]

LVWC

Background

15. LVWC is an S corporation and a Class E utility providing water utility service to approximately 68 households in Camp Verde, Yavapai County, Arizona. (Ex. S-1 at 1; LFE S-2 at 3.) All of LVWC's customers are served by 5/8" x 3/4" meters. (LFE S-2 at 11.)

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[4] One commenter raised concerns about the notice provided by LVWC because LVWC had provided the notice one day late and had failed to indicate on the notice where a copy of the application could be obtained from LVWC during regular business hours. The commenter also asserted that the notice was inadequate because it did not specifically mention POU RO treatment. LVWC stated that there was nowhere the application could be obtained from LVWC and that LVWC had provided notice late because Mr. McDonald was out of town. LVWC and Staff both asserted that the notice provided had been adequate. In light of this and the fact that comments had been received from approximately 51.5 percent of LVWC's customers (including those who signed the petition), it was determined that the notice provided had been adequate, and the hearing was permitted to proceed. The Commission notes that the AG has opined that no customer notice is required in an interim emergency rate case. (AG Opinion No. 71-17 (May 25, 1971).)

[5] This was also admitted as an exhibit at hearing.

[6] Official notice is taken of these documents, which are viewed as an assertion of LVWC's current position.

16. LVWC's Certificate of Convenience and Necessity ("CC&N") to provide water utility service was granted in Decision No. 30705 (January 6, 1958) and revoked in Decision No. 69180 (December 5, 2006) for failure to file an annual report for 2002.[7]

17. LVWC's current rates and charges were established in Decision No. 58638 (May 27, 1994).[8]

18. Mr. McDonald became responsible for operating LVWC approximately 8 to 10 years ago, after his father, who had purchased the stock of LVWC with a partner, became unable to do so.[9] (Tr. at 33, 36-37.)

19. LVWC has no full-time personnel and no customer service personnel. (Tr. at 26, 32.) The secretary for Mr. McDonald's civil engineering company has been performing some administrative duties for LVWC, without additional compensation. (Tr. at 31.) The bulk of the work for LVWC appears to be handled by Mr. Williams, who serves as Certified Operator; reads the meters; takes calls from customers; and takes care of major problems or emergencies by completing repairs himself or, if he cannot, hiring someone else to do the repairs. (Tr. at 56.) Mr. Williams has taken on management duties for LVWC "as an interim deal to keep them viable with the law." (Tr. at 60.) Mr. Williams is compensated $350 per month and additionally bills a small amount per call, service call, or test performed. (*See* Tr. at 39, 56.)

20. Mr. Williams has worked part time as LVWC's Certified Operator for the past three years, as a favor to Mr. McDonald. (*See* Tr. at 56-57, 59.) Mr. Williams also runs Verde Lakes Water Company full time.[10]

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[7] Official notice is taken of these Decisions. Prior to the hearing in this matter, LVWC was not aware that its CC&N had been revoked.

[8] Official notice is taken of this Decision. At the time of the last rate case, LVWC's President was Jack Harbeson, from whom Mr. McDonald's father purchased LVWC. (*See* Decision No. 58638 (May 27, 1994) (service list); Tr. at 36.)

[9] LVWC's Corporation Annual Report & Certificate of Disclosure filed in June 2004 shows Vance L. McDonald as a shareholder (with the Tommy Nadine Trust) and as the sole officer and director of LVWC, further showing that he had taken office in 1997. Official notice is taken of this Report, available on the Commission's website (www.azcc.gov) using the eCorp function. LVWC's Corporation Annual Report & Certificate of Disclosure filed on January 5, 2015, shows Dugan L. McDonald as a shareholder (with the Tommy Nadine Trust) and as President and sole director of LVWC, further showing that he took office on April 1, 2007. Official notice is taken of this Report, available on the Commission's website (www.azcc.gov) using the eCorp function.

[10] Mr. Williams also runs a water system at Montezuma Heights Water and Airpark in Camp Verde. (Tr. at 79.) Official notice is taken of Decision No. 58251 (April 7, 1993), in which Montezuma Heights Water and Airport Co., Inc. was adjudicated not a public service corporation.

21. Mr. McDonald does not receive a salary or wages for any work he may perform for LVWC. (*See* Tr. at 39.)

22. LVWC has been operating at a loss ever since it was purchased by Mr. McDonald's father. (Tr. at 41.) Mr. McDonald and his father were not bothered by LVWC's losses because of their own financial stability, but Mr. McDonald cannot afford to make the system improvements necessary to bring LVWC's system into compliance with safe drinking water standards and ensure adequate service. (Tr. at 41-42.) Mr. McDonald considers LVWC to be insolvent. (Tr. at 42.) One of the reasons LVWC has not applied for a rate increase since Mr. McDonald acquired it is because of concerns that higher rates might create financial hardship for LVWC's customers, some of whom Mr. McDonald believes to have trouble affording the current rates. (*See* Tr. at 41-42.)

23. LVWC operates out of approximately 150 square feet of office space located in a building owned by Mr. McDonald and primarily used as the offices for Mr. McDonald's civil engineering company, Heritage Land Survey and Engineering Company ("Heritage"). (Tr. at 26, 31, 33.) For the past two years, Mr. McDonald has been collecting rent from LVWC at a rate of $2,100 to $2,950 per year,[11] which he characterizes as "basically volunteer[ing] that space."[12] (Tr. at 31.)

24. Heritage has a branch office in Colorado, and Mr. McDonald established his permanent residence in Colorado in May 2015. (Tr. at 33.) Mr. McDonald expects to focus all of his attention on Heritage's Colorado branch office and generally not to be available to perform any duties related to LVWC. (*See* Tr. at 33-34.) Mr. McDonald stated the following regarding the operations of LVWC:

> And if I was here or not, sir -- just a side note -- if I was here or not -- I mean, one of the biggest downfalls of the property, or of the company that is, is that there is not staff available to steer the ship, if you will. So there's not someone to take phone calls, to address concerns of our users. There's not an everyday person to go out and do maintenance. You know, we're in a situation now where we don't even pay attention to the water company, basically, unless something breaks as far as maintenance is concerned. If we had somebody on staff that could basically provide services and do routine maintenance so we could avoid the collapses that happen within

[11] *See* LFE S-2; LFE S-3.

[12] Mr. McDonald asserts that the going rate to rent office space in Camp Verde is $5 to $8 per square foot. (Tr. at 26.)

our water company, that would be the situation that is most favorable to us.[13]

25. Mr. McDonald has tried to give LVWC to several relatively nearby water utilities,[14] but none has been willing to acquire or operate LVWC. (Tr. at 43.) Mr. McDonald has also tried unsuccessfully to give LVWC to the local property owners association. (*Id.*)

26. Currently, Mr. McDonald desires to remain in the water business, as long as LVWC can provide adequate service to its customers. (Tr. at 38.)

27. Mr. McDonald was unaware that the Commission sometimes recommends interim managers and has not contacted any management companies to inquire into what the cost would be to have LVWC run by a management company. (Tr. at 47.)

28. LVWC is in good standing with the Commission's Corporations Division; has no outstanding compliance issues with the Commission; and was not the subject of any complaints, inquiries, or opinions between January 1, 2012, and March 11, 2015. (Ex. S-1 at 1-2.)

29. Mr. McDonald believes that LVWC is a fit and proper entity to operate as a public service corporation. (Tr. at 43.)

30. Staff is uncertain whether LVWC is a fit and proper entity. Staff specifically expressed concern regarding Mr. McDonald's having moved his permanent residence to Colorado. (Tr. at 110.)

Water System

31. LVWC's system consists of one active well (Well No. 2, the upper well) with a three horsepower pump and a pump yield of 40 gallons per minute,[15] one active pressure tank with a capacity of approximately 5,000 gallons,[16] one chlorination metering pump, one chlorination storage tank, and a distribution system consisting of two-inch steel main lines that LVWC believes will soon need to be replaced due to corrosion and galvanic action.[17] (Tr. at 52-55, 61-62; Ex. S-1 at Att. A at

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[13] Tr. at 34-35.

[14] These were Verdes Lake Water Company, Camp Verde Water, and "Rimrock Water." (Tr. at 43.)

[15] This pump was installed last year. (Tr. at 52-53.)

[16] Staff did not include this pressure tank in its system analysis, but identified a 112-gallon bladder tank used to maintain system pressure. (Ex. S-1 at Att. A at 2.)

[17] Over the past three years, there have been approximately 12 waterline breaks that needed repair. (Ex. S-1 at Att. A at 2.)

7.) LVWC's second well (Well No. 1, the lower well) has been abandoned because it collapsed. (Tr. at 50.) LVWC does not currently intend to bring Well No. 1 back online because LVWC instead desires to drill a new well at the upper well site so that only one centralized arsenic treatment plant is needed. (Tr. at 50-51.) LVWC also desires to put in a storage tank and a couple of pumps to improve service to customers. (Tr. at 51.)

32. LVWC has adequate production to serve its existing customers and reasonable growth, but needs to add approximately 30,000 gallons of storage capacity. (Ex. S-1 at Att. A at 2.)

33. Staff concluded from its inspection that LVWC's well sites are not maintained in a clean and professional manner because old tanks, an old booster pump, and debris were present; LVWC's chlorination storage tank was located on the ground and unsecured to a foundation; and LVWC's chlorinator metering pump was located on concrete block, unsecured to a foundation, and powered by an extension cord. (Ex. S-1 at Att. A at 2.)

34. Staff determined that LVWC has two pressure tanks, one storage tank, and one booster pump that are corroded and no longer used or useful and that Well No. 1 is no longer used or useful because its casing has collapsed. (Ex. S-1 at Att. A at 7.)

35. LVWC is not located in an Arizona Department of Water Resources ("ADWR") Active Management Area and is not subject to any ADWR reporting and conservation requirements, but is out of compliance with ADWR because it has not timely filed its Annual Report and System Water Plan. (Ex. S-1 at 2.)

36. LVWC's well water meter is functioning properly, and LVWC's annual water loss is below Staff's recommended maximum water loss limit of 10 percent. (Ex. S-1 at Att. A at 2, 7.)

ADEQ Non-Compliance

37. LVWC's water system produces water with an arsenic level of approximately 0.023 to 0.027 mg/L,[18] which exceeds the current MCL of 0.010 mg/L established by the EPA and enforced by ADEQ.[19]

38. LVWC has not implemented treatment to remediate its arsenic exceedance and has not

[18] Tr. at 59.

[19] Official notice is taken of this standard, contained in 40 CFR 141, Subpart G, which is incorporated by reference in A.A.C. R18-4-109.

established any alternate means to provide its customers safe drinking water. (Tr. at 40.)

39. In May 2010, LVWC entered into a Consent Order with ADEQ requiring, *inter alia*, that LVWC complete construction of an approved arsenic treatment system within approximately one year. (*See* Ex. S-1 at Att. A at 3.) LVWC has not accomplished the tasks required by the Consent Order. (Ex. A-2.) Mr. McDonald attributes this to a lack of funds caused by LVWC's operating at a loss for many years. (*Id.*)

40. In July 2010, ADEQ issued a Notice of Violation ("NOV") concerning LVWC's failure to provide required minimum storage capacity and failure to maintain and provide effective chlorine contact time for disinfection. (Ex. S-1 at Att. A at 3.) The storage capacity issue has not yet been resolved. (Ex. S-1 at Att. A at 3.)

41. In approximately November 2014, LVWC attended a November 2014 Maricopa County Superior Court proceeding in which ADEQ and the AG's Office were involved. (*See* Ex. A-2; Tr. at 44.) Mr. McDonald's understanding of the outcome of the proceeding is that LVWC will be ordered to cease and desist operations if LVWC fails to bring its water system into compliance.[20] (*Id.*)

42. LVWC is not in compliance with ADEQ requirements because it lacks adequate storage capacity to serve its existing customers and is delivering water that does not meet water quality standards. (Ex. S-1 at 2.)

Emergency Rates

43. In its emergency rate application, LVWC asserted that there is no money generated from the distribution of water; that the average monthly customer bill is approximately $15.00; that the rates have not been increased for approximately 40 years; that the revenue is not sufficient to cover general maintenance of the facilities, administrative tasks, and testing requirements; and that LVWC must make plant improvements necessary to bring LVWC and its water supply into compliance with safe drinking water standards. (Ex. A-2.) LVWC included the following list of improvements that need to be made, with single asterisks indicating improvements needed

[20] At the time, Mr. McDonald was amenable to ceasing LVWC's operations so that he could turn off the electricity, take the electricity out of his name, hand the keys to the local property owners association, and walk away. (Tr. at 44.)

immediately and double asterisks indicating necessary future improvements:

> 1. * Arsenic removal systems, for each of the two well locations, including engineering design and installation cost. [100,000.00 dollars]
> 2. * Construction of a new buildings to house and protect the arsenic removal systems and equipment. [50,000.00 dollars]
> 3. * New water storage tanks for each of the existing well locations. [120,000.00 dollars for two tanks]
> 4. * New pressure tanks at each of the two well locations. [20,000.00 dollars for two tanks]
> 5. * Funds to rebuild the lower well, as it is not operational, [10,000.00 dollars]
> 6. * New fencing around each of the two well site locations to protect the equipment from vandalism. [5,000.00 dollars]
> 7. ** Up Grades to the system so fire protection may be available to the residents. [500,000 dollars]
> 8. * An increase in rates efficient [sic] enough in scope that the operator, the manager, and the maintenance workers of and for the system can be paid for their work. [30,000 dollars a year for each to be above the national poverty rate][21]

LVWC further stated that, with the exception of item 7, all of the items listed "should be considered fundamental to . . . provide a safe and reliable source of water." (Ex. A-2 at 3.)

44. LVWC did not request a specific total revenue increase amount and did not propose a specific emergency rate design. (*See* Ex. A-2.)

45. Mr. McDonald testified that LVWC is insolvent. (Tr. at 42.)

46. LVWC's current rates and charges[22] for customers served by 5/8" x 3/4" meters are as follows:

Monthly usage charge:	$10.50
Gallons included in minimum:	1,000
Charge per 1,000 gallons over minimum:	$2.00

47. LVWC's estimated average monthly usage per customer is 6,505 gallons. (Ex. S-1 at 2.) This results in an average monthly customer bill of $21.50. (*Id.*)

48. LVWC's 2013 annual report shows total revenues of $16,709, total operating expenses of $27,056, and an operating loss of $10,347. (LFE S-3 at 8.) LVWC's 2014 annual report shows total revenues of $18,265, total operating expenses of $24,295, and an operating loss of $6,030. (LFE S-2 at 8.) Neither annual report shows any salaries and wages expense. (LFE S-2 at 8; LFE S-3 at 8.)

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[21] Ex. A-2 at 2.
[22] Decision No. 58638 (May 27, 1994).

Standard for Approval

49. As described in AG Opinion No. 71-17 (May 25, 1971), it is appropriate for the Commission to grant interim rates as an emergency measure when (1) sudden change brings hardship to a company, (2) the company is insolvent, (3) the condition of the company is such that its ability to maintain service pending a formal rate determination is in serious doubt, or (4) the Commission will be unable to grant permanent rate relief within a reasonable time. In *Scates v. Arizona Corporation Commission*, the Arizona Court of Appeals recognized this standard and, additionally, that (1) a bond must be posted to protect the company's customers and allow for refund in the event that the interim rates are excessive, and (2) the granting of interim rates must be followed by a full rate case in which just and reasonable rates are established after the fair value of the company's property is determined.[23] The *Scates* test was cited with approval in *Residential Utility Consumer Office v. Arizona Corporation Commission*, 20 P.3d 1169, 1173 (Ariz. App. 2001) ("*Rio Verde*").

Staff Recommendations

50. Based upon Staff's analysis of LVWC's application and 2013 annual report,[24] Staff concluded that LVWC meets the second and third criteria for emergency rates because LVWC is insolvent and because there is no reasonable expectation that LVWC may begin to provide and then maintain adequate service without an increase in revenue, since LVWC already is not providing adequate service to its customers. (*See* Ex. S-1 at 3; Tr. at 94.) Staff asserted that implementation of emergency rates may prevent further deterioration of LVWC's system. (*Id.*)

51. Staff recommends that:

(a) The Commission approve emergency rates to produce a revenue increase of $26,267, total operating revenue of $42,976, an operating income of $4,640, and an operating margin of 10.80 percent;[25]

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[23] 578 P.2d 612, 616 (Ariz. App. 1978).

[24] Because LVWC's emergency rate application did not include sufficient financial information to establish emergency rates, Staff used LVWC's 2013 annual report and information obtained through discussions with Mr. McDonald and his wife. (Ex. S-1 at 3-4.) LVWC's 2014 annual report was not submitted to the Commission until after the Staff Report had been filed.

[25] Staff used operating expenses of $38,336, which include the operating expenses from the 2013 annual report, increased to include salaries and wages expense of $10,000 and property tax and income tax increases resulting from the additional revenue.

(b) LVWC's current rates for customers served by 5/8" x 3/4" meters be replaced with emergency rates consisting of a monthly minimum charge of $26.00, which includes 1,000 gallons, and a charge of $5.00 per 1,000 gallons for additional water used per month;

(c) LVWC be required to file a full rate case application no later than June 30, 2017, using a test year ending December 31, 2016;

(d) LVWC be required to provide the Commission a cashier's check in the amount of $100 before commencing its billing of emergency rates;

(e) The interim rates be subject to true-up and refund pending the Decision resulting from the permanent rate case required to be filed in this proceeding;

(f) LVWC be required to file with Docket Control, within 30 days after a Decision approving emergency rates, as a compliance item in this docket, a revised tariff reflecting the approved rates associated with the emergency rate increase; and

(g) LVWC be required, within 30 days after a Decision approving emergency rates, to notify LVWC's customers of the revised rates and their effective date, in a form acceptable to Staff, by means of an insert in LVWC's next regularly scheduled billing.

LVWC Response

52. LVWC objects to Staff's allowance of $10,000 for salaries and wages, asserting that LVWC needs a staff of three people, at a cost of approximately $78,000 or more, to ensure the safe operation of the water system and provide proper services to customers: (1) one full-time person to provide customer service, accounting service, and "to deal with the mountain of paperwork required by the [Commission, ADEQ, and others]," at a pay rate between $20 and $25 per hour; (2) one part-time person to deal with all customer service calls, provide maintenance services, and monitor the water facilities, at a pay rate between $15 and $20 per hour; and (3) one part-time Certified Operator, as required by the state for testing and to oversee the proper operation of the water system, at a pay rate of $40 per test or per site visit or $40 per hour.[26] (Ex. A-3 at 2.) LVWC asserts that it has been

[26] One full-time person paid $20 per hour for 2,080 hours would earn annual wages of $41,600. Assuming half time hours, a part-time person handling service calls and maintenance services, paid $15 per hour for 1,040 hours per year, would earn annual wages of $15,600. Assuming quarter time hours, a part-time Certified Operator, paid $40 per hour for 520 hours per year, would earn annual wages of $20,800.

operating without proper staffing for too long, which it asserts has led to the "problems with record keeping and maintenance that have so often plagued this company." (*Id.*)

53. LVWC also objects to Staff's allowance of $2,100 per year for office space rental, asserting that the 150 square feet used by LVWC should be paid for at a rate between $5 and $8 per square foot, which would result in at least $750 per month and $9,000 per year. (Ex. A-3 at 2.)

Discussion and Resolution

54. Staff's conclusion that LVWC is eligible for interim emergency rates based upon both its insolvency and its inability to provide adequate service without a revenue increase is just and reasonable and should be adopted.

55. The bulk of the items listed by LVWC as justification for its emergency rate application are plant improvements, not operating expense items. The exception is the $90,000 initially requested to hire three separate employees, subsequently reduced to a request for approximately $78,000. LVWC has not supported its assertion that it must hire three employees at a minimum annual cost of approximately $78,000, which would result in a monthly cost to each customer of approximately $96. LVWC has not provided any documentation to establish that the asserted pay ranges are in keeping with the job market in Camp Verde and, further, has not provided any documentation to establish that the operation and maintenance of LVWC, which is a very small utility with only 68 customers, would necessitate this level of staffing. It is evident, however, that LVWC has failed to staff its operations adequately and that LVWC needs to have someone available to serve as a customer service contact for routine matters and to perform administrative functions such as billing and book-keeping. There is not sufficient evidence to establish that these tasks would necessitate the hiring of any employee, versus use of a management company, or to establish the number of hours per week that these tasks would reasonably require if an employee were hired. However, as LVWC has asserted, the $10,000 recommended by Staff is less than would be needed to hire one full-time staff person at Arizona's minimum wage of $8.05 per hour.[27] (*See* Tr. at 32.) We

[27] Official notice is taken of the Industrial Commission of Arizona's Resolution of October 16, 2014, establishing a minimum wage of $8.05 for the 2015 calendar year.

note that it is also less than the 2015 poverty level for a one-person household ($11,770[28]) and less than the level of pay offered to entry-level employees by employers such as Walmart, McDonald's, and Target.[29] In light of these considerations, a salaries and wages expense of $20,800, representing the amount needed to pay a full-time worker a wage of $10 per hour or to pay a part-time worker (approximately 27 hours per week) a wage of $15 per hour, should be authorized.[30] We note that Mr. Williams's compensation for 2013 must have been categorized as an outside services expense or in another manner, as the 2013 annual report includes no salaries and wages expense whatsoever.

56. While the $20,800 expense is authorized as a salaries and wages expense, LVWC is not constrained to use these funds for salaries and wages, but instead is encouraged to investigate and determine whether it is possible, and would make more economic sense, for LVWC to arrange to have its operations overseen by a reputable management company experienced in the operation of water utilities. If LVWC is able to do so, and the cost for the management company's services are reasonable for a utility of LVWC's size, LVWC may determine that payment for such outside services is more appropriate than hiring a staff person or persons would be. In the permanent rate case required by this Decision, the Commission will examine in more detail LVWC's labor and other operating expenses.

57. LVWC has not supported its assertion that a $9,000 rental expense ($750 monthly) is reasonable to cover the office space used by LVWC, which is located in the offices of Mr. McDonald's engineering firm, in a building owned by Mr. McDonald. LVWC has asserted that the market rate for office space in Camp Verde is at least $5 per square foot, but has not provided any supporting documentation to establish this. Additionally, LVWC cannot establish that the rental arrangement between Mr. McDonald and LVWC was the product of an arm's length negotiation influenced by market forces. In light of this, it is not reasonable to adopt LVWC's requested $9,000 rent expense. Rather, it is just and reasonable to adopt Staff's recommended rent expense of $2,100,

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[28] Official notice is taken of the 2015 Poverty Guidelines for the 48 Contiguous States and the District of Columbia, adopted by the Department of Health and Human Services, published at 80 Fed. Reg. 3236, 3237 (2015).

[29] Official notice is taken that Walmart, McDonald's, and Target each have raised or will imminently raise starting pay for entry-level employees to at least $9 per hour. (*See, e.g.*, Doug G. Ware, *90K McDonald's employees to get pay increase in July* (April 1, 2015), available at www.upi.com.)

[30] This is slightly higher than the poverty level for a three-person household, which is $20,090. (80 Fed. Reg. 3236, 3237 (2015).)

which Staff took directly from LVWC's 2013 annual report.

58. To accommodate the increase to the authorized salaries and wages expense, while maintaining Staff's recommended net income level, LVWC should be authorized total operating revenues of $54,162, resulting in net income of $4,640 and an operating margin of approximately 8.57 percent. LVWC's projected cash flow, $8,943, also is unchanged from Staff's recommendation.

59. Staff recommends that the emergency interim rates and charges replace LVWC's currently authorized rates and charges, rather than being implemented as a surcharge to be assessed in addition to LVWC's currently authorized rates and charges. Staff's rationale was that this would be simpler for LVWC to implement. (Tr. at 107.)

60. While it may be simpler now for LVWC to replace its current rates and charges with emergency interim rates and charges, this manner of collecting the additional revenues could result in complications later should it be necessary for LVWC to refund any of the interim rates and charges collected. LVWC acknowledges a history of bookkeeping and recordkeeping problems, and these types of problems should be more easily avoided if each customer is required to pay a specific flat monthly emergency surcharge rather than having customers pay different amounts based upon their water usage. Additionally, it is appropriate to collect the additional revenues from customers equally because all customers are served by the same meter size, and LVWC has not provided bill count data necessary to predict the revenue that would be collected using Staff's recommended method. Thus, a flat emergency interim surcharge of $45.90 per customer per month should be adopted.

61. Staff's recommendations set forth in Findings of Fact No. 51(c) through (g) are just and reasonable and will be adopted. Additionally, it is just and reasonable to take the actions described in Findings of Fact Nos. 55, 57, 58, and 60. LVWC will also be required to file a notice in this docket when its permanent rate case application has been filed.

Financing

62. In its financing application, LVWC requested authority to obtain a loan from WIFA in the amount of $500,000, payable over 20 years, at a rate of 4.5 percent or the prevailing rate prescribed by the Drinking Water Revolving Fund at the time of commitment. (Ex. A-1 at 1.) LVWC stated that the purpose of the loan is to finance the engineering, procurement, installation, and

operation of treatment plant to reduce nitrates[31] and arsenic below the MCL prescribed by the EPA and ADEQ. (*Id.*)

63. With its financing application, LVWC included pages from its 2013 annual report and excerpts from an Arsenic Treatment Evaluation Report prepared in 2010 by Narasimhan Consulting Services, Inc. ("NCS"), in which NCS concluded that the total construction cost for the arsenic treatment facility project would be approximately $447,000 and the annual operation and maintenance costs for the arsenic treatment facility would be approximately $24,000. (Ex. A-1 at 1, 8-9.) The NCS estimated construction costs included, in addition to an arsenic adsorption system at an aggregate cost of approximately $90,000, a $20,000 water storage tank; a $9,000 building (15' by 15'); 5,280 feet of 2" transmission line at a cost of $158,400; a $5,000 booster station; and $20,000 of electrical and instrumentation and controls. (*Id.*) NCS also included $75,000 for the engineering design fee, construction administrative support, startup, and permitting and more than $60,000 combined for contingencies, taxes, insurance, and bonds. (*Id.*)

64. With its financing application, LVWC also included a copy of a WIFA Financial Assistance Project Priority List Application, dated February 23, 2015,[32] in which LVWC requested a $500,000 loan to cover $100,000 for design and $400,000 for construction of an arsenic treatment system to treat the water for LVWC's two wells to remedy MCL violations for arsenic and nitrates.[33] (Ex. A-1 at 10-12.)

65. At hearing, LVWC, through Mr. Williams, provided much lower estimated costs for an adsorption arsenic treatment system, with media, stating that the plant with media could be completed for approximately $30,000; that a building to house the arsenic treatment system would cost approximately $5,000; and that a security fence would cost approximately $5,000. (Tr. at 50, 57-59.) Mr. Williams also stated that the annual budget for media replacement would be approximately $3,000 to $4,000. (Tr. at 80-81.) These estimates are based upon Mr. Williams's own

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[31] It is unclear why the financing application referenced nitrates. LVWC does not have, and appears never to have had, a problem with nitrate exceedances. (Tr. at 59; Ex. S-1 at Att. A at 4.)

[32] Mr. McDonald testified that he has had no contact with WIFA to secure a loan. (Tr. at 35.) However, it appears that Mr. McDonald signed the WIFA application. (*See* Ex. A-1.)

[33] See note 31.

experiences installing adsorption arsenic treatment systems for other water systems and a bid proposal for an arsenic treatment system obtained by Mr. Williams for LVWC. (Tr. at 82-83.)

66. The Bid Proposal—Arsenic Removal System for Lake Verde Water Co.,[34] completed by Global Water Renewal, LLC, and dated May 4, 2015, shows the following costs for the arsenic treatment system and media:

Equipment Cost	$16,500	
Delivery/Installation	$ 3,500	
Equipment Design Engineering	$ 3,500	
TOTAL EQUIPMENT COST		$23,500
ADEQ Permit Fee		$ 1,500
Media/Freight Cost (cu.	$ 4,000	
Installation/backwash	$ 1,000	
TOTAL MEDIA COST		$ 5,000
TOTAL PROJECT COST		$30,000

67. Because LVWC had not provided the Bid Proposal or information related thereto prior to the hearing, Staff's analysis of the financing application was completed using the estimated cost figures and the plant descriptions from the NCS Report, as well as the plant descriptions and cost estimates provided by LVWC in its emergency rate application, which are set forth in Findings of Fact No. 43. Regarding the plant descriptions and cost estimates provided in the emergency rate application, Staff determined that providing duplicate arsenic treatment systems at both the upper and lower well sites is not necessary at this time and that rehabilitation of Well No. 1 likewise is not necessary at this time, as Well No. 2 has sufficient capacity to meet water system needs during peak month usage. (Ex. S-1 at Att. A at 4.) Regarding the plant descriptions and cost estimates from the NCS Report, Staff determined that the existing pressure tank could not be used in the manner proposed, that the proposed transmission line is not needed at this time, and that the 20,000-gallon storage tank proposed would not resolve LVWC's noncompliance with ADEQ's minimum storage capacity requirements. (*Id.*)

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[34] LFE A-4.

Staff Recommendations

68. Because LVWC has only 68 customers, and the plant improvements proposed by LVWC in its financing application and emergency rate application were estimated to cost between $305,000 and $447,000, Staff determined that the proposed plant improvements were unreasonable. (Ex. S-1 at Att. A at 5.) Staff recommended that the Commission find unnecessary LVWC's requested financing of $500,000 (for the engineering and installation of centralized treatment, storage tanks, pressure tanks, booster pumps, and transmission line, and renovation of Well No. 1). (*See* Ex. S-1 at Att. A at 8.) Instead, Staff recommended that the Commission approve a reduced amount of financing necessary to install a POU RO treatment device in each customer's home. (*Id.*) Staff also recommended installation of one 30,000-gallon water storage tank; two variable frequency drive ("VFD") controlled booster pumps, each capable of delivering approximately 20 GPM; a new pump house; and perimeter fencing. (Ex. S-1 at Att. A at 6.) Further, Staff recommended that the lower well site and the non-functional pressure tank be abandoned. (*Id.*) Staff estimated the costs associated with its plant recommendations as follows:

NARUC[35] Account	Plant Description	Unit(s)	Unit Cost	Total Cost
304	Pump house building (10' x 10'), metal, with lighting and heat; upper site fencing; foundation and installation; grading and clearing	1 lot	$5,500	$5,500
311	VFD controlled booster pump, purchase and installation, including foundation, power and switching equipment, and all required valves and gauges	2	$5,000	$10,000
320	Under sink POU RO arsenic treatment unit, purchase and installation, verification testing, labor, and equipment	68	$450	$30,600
330	30,000 gallon storage tank, purchase, shipping, and installation, including foundation, instrumentation and control, and yard piping	1 lot	$59,000	$59,000
			Staff Estimate Subtotal	$105,100
			Contingency @ 10%	$10,500
			Engineering and Permitting	$10,400
			Staff Estimated Equipment and Construction Total	**$126,000**

[35] National Association of Regulatory Utility Commissioners.

Operation and Maintenance Cost Summary, POU Treatment	
POU Filter Replacement Cost--$70 per unit for 68 units, with replacement annually or as specified by manufacturer	$4,760
Verification Testing Equipment—ADEQ-approved Industrial Test Systems, Inc., Arsenic Quick II Field Testing Kit, Part No. 481303	$300
Labor Cost for POU Filter Replacement and Water Quality Testing—0.5 hours/unit for 68 units at $30/hour	$1,020
Laboratory Testing--$25/test for 23 POU units per year (annual laboratory testing of 1/3 of installed POU devices or following ADEQ protocol to determine proper operation of POU devices)	$1,700
Annual Operation and Maintenance Costs	**$7,780**

69. Staff made the recommendation for POU treatment based solely upon the costs involved, not because of any preference for POU treatment versus centralized treatment, both of which Staff considers to be effective. (Tr. at 70.) As a result of Staff's recommendation for POU treatment devices to be installed in customer homes, Staff further recommended:

(a) That LVWC be required to file with Docket Control, as a compliance item in this docket, a copy of the POU Treatment Device Tariff included as Exhibit 2 to Staff's Engineering Memorandum, which was Attachment A to the Staff Report;[36]

(b) That LVWC be required to notify its customers, in a form acceptable to Staff, of the POU Tariff approved by the Commission and its effective date, by means of either an insert in the next regularly scheduled billing or by separate mailing, and to provide copies of the POU Tariff to customers upon request;[37]

(c) That LVWC be required to file with Docket Control, by December 31, 2015, as a compliance item in this docket, a copy of the ADEQ Approval to Install certificate ("ATI") for the POU devices; and

(d) That LVWC be required to file with Docket Control, by April 29, 2016, as a compliance item in this docket, a copy of the ADEQ Approval of Installation certificate ("AOI") for the POU devices.

70. Distinct from its recommendations related to POUs, Staff recommended the following:

[36] The POU Treatment Device Tariff was attached to the Staff Report.

[37] Staff stated that Staff would file a letter in the docket confirming that LVWC's tariffs have been updated with the POU Tariff, which would go into effect 30 days after the date notice is sent to LVWC customers. (Ex. S-1 at 9.)

(a) That LVWC be authorized to incur a loan with an 18- to 22-year amortization period, in an amount not to exceed $126,000, at an interest rate not to exceed that available from WIFA;

(b) That a WIFA Loan Surcharge mechanism be approved for LVWC, to result in a surcharge of up to $17.52 per month for a customer served by a 5/8" x 3/4" meter, using the methodology included in Schedule TBH-2 to the Staff Report in this matter, and to be implemented only after Commission approval following the closing of the WIFA loan;

(c) That LVWC be required to file with Docket Control, within 30 days after the execution of any financing transactions authorized herein, as a compliance item in this docket, a notice confirming that execution of the financing transaction has occurred and a certification, made by an authorized LVWC representative, that the terms of the financing transaction fully comply with the authorizations granted by the Commission in this matter;

(d) That LVWC be required to submit to Staff a complete copy of the executed financing transaction documents;[38]

(e) That LVWC be required to file with Docket Control, upon filing of the loan closing notice and upon providing the loan documents to Staff, an application requesting implementation of the WIFA Loan Surcharge;

(f) That Staff be required, within 60 days after LVWC has filed the application requesting implementation of the WIFA Loan Surcharge and provided Staff a copy of the executed financing transaction documents, to prepare and file for Commission consideration a recommended order in which Staff includes its calculation of the appropriate WIFA Loan Surcharge based on the actual loan debt service (principal and interest), debt reserve, and additional income tax obligation and made using the methodology included in Schedule TBH-2 to the Staff Report in this matter;

(g) That LVWC's authorization to obtain the loan from WIFA and the approval of the WIFA Loan Surcharge mechanism be rescinded if LVWC has not drawn funds from the loan within one year after the effective date of the Decision resulting from this proceeding;

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[38] Staff inadvertently omitted this recommendation from the Staff Report, although it was implied by the next recommendation.

(h) That any unused authorization to incur debt granted in this proceeding expire 24 months after the effective date of the Decision resulting from this proceeding;

(i) That LVWC be required to segregate the funds collected through the WIFA Loan Surcharge, less those collected as an annual income tax component, in a separate bank account from which withdrawals are restricted to payments to WIFA;

(j) That LVWC be required to file with Docket Control, by June 30, 2016, as a compliance item in this docket, a copy of the ADEQ Approval of Construction ("AOC") for the storage tank and booster pumps;

(k) That LVWC be required to file with Docket Control, by June 30, 2016, as a compliance item in this docket, documentation showing that old plant equipment no longer used or useful has been removed from both the upper and lower well sites and that both well sites have been cleaned of all debris and tripping hazards;

(l) That LVWC be required to file with Docket Control, by June 30, 2016, as a compliance item in this docket, documentation showing that the chlorination metering pump and storage tank are secured onto foundations and that power is provided to the chlorination metering pump in a professionally installed manner;

(m) That LVWC be required to file with Docket Control, by June 30, 2016, as a compliance item in this docket, documentation from ADEQ stating that LVWC is in compliance with ADEQ requirements;

(n) That LVWC be required to file with Docket Control, by June 30, 2016, as a compliance item in this docket, documentation from ADWR stating that LVWC is in compliance with ADWR requirements;

(o) That LVWC be required to file with Docket Control, by June 30, 2017, a copy of an updated water system engineering assessment report for future improvements;[39] and

(p) That LVWC be required to use the depreciation rates by individual NARUC

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[39] Staff intends for LVWC to request a WIFA grant to pay for this water engineering assessment report, which would be completed by a contractor selected by WIFA. (Tr. at 76-77.) Staff indicated that the plant descriptions in the annual reports, at least as to distribution lines, are incorrect. (*Id.* at 77.) Other errors in the plant descriptions were identified through Mr. Williams. (*See* Tr. at 52-54.)

account presented in Exhibit 3 of Staff's Engineering Memorandum, which was Attachment A to the Staff Report filed herein.[40]

LVWC Response

71. LVWC objects strongly to Staff's recommendation for POU treatment devices to be installed in its customers' homes. LVWC has expressed concern that this would place its workers in harm's way, because both installation and maintenance would take place in the customers' homes. (*See* Ex. A-3 at 3; Tr. at 26, 30, 46-47.) LVWC also asserts that ADEQ would not approve the use of POU devices because more than 20 percent of LVWC's customers object to the use of POU devices.[41] (Tr. at 80.) LVWC pointed out that more than 50 percent of its customers object to the use of POU devices. (*Id.* at 80-81.)

Discussion and Resolution

72. Staff's recommendations set forth in Findings of Fact No. 70 are just and reasonable and should be adopted. LVWC should not be required to use POU treatment devices to remedy its arsenic problem because centralized treatment can be obtained at approximately the same cost. Staff made its recommendation for POU treatment devices solely for economic reasons and considers centralized treatment to be equally effective. Centralized treatment also offers benefits to LVWC's customers who have expressed concerns both about using water with excessive arsenic levels for purposes other than drinking and about drinking RO-treated water. Thus, the Commission should authorize LVWC to use the funds from the WIFA loan to install a centralized arsenic treatment plant as described in Findings of Fact No. 66; to install the plant items described for NARUC Accounts 304, 311, and 330 in the table in Findings of Fact No. 68; and to pay for contingencies and engineering and permitting fees associated with those installations, consistent with the table in Findings of Fact No. 68. LVWC should also be required to make compliance filings to substantiate ADEQ approvals for the centralized treatment plant installation, as Staff had recommended be required for installation of the POU treatment devices.

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[40] Ex. S-1 at Att. A at 8-9.

[41] This criterion is not included in ADEQ's rule regarding POU and Point of Entry Treatment Devices, A.A.C. R18-4-218, of which official notice is taken.

Management Issues

73. We are concerned that LVWC's management is not sufficiently aware of the obligations of operating a public service corporation and may not be sufficiently committed to become aware of those obligations and fulfill them.[42] LVWC's inability to come into compliance with the arsenic MCL for approximately the past seven years, LVWC's apparent lack of attention to the other needs of its water system,[43] and LVWC's admission that there is no one "to steer the ship" cause the Commission concern. Mr. McDonald has already moved out of state and readily admits that he does not intend to be involved in LVWC's management. Mr. Williams shows commitment to bringing LVWC into compliance, but is not LVWC's President and has prior commitments to the water utilities that he manages, which could interfere with his ability to continue providing the same level of services to LVWC. LVWC's management needs to be conducted in a more proactive and responsible manner than it has been for many years. To ensure that LVWC's management improves, the Commission will consider timely compliance with the requirements of this Decision to indicate whether such improvements have been made. Thus, if LVWC fails to comply in a timely manner with any of the requirements of this Decision, we will require Staff to file an Order to Show Cause to install an interim manager and address any other appropriate remedies, such as penalties.

CONCLUSIONS OF LAW

1. LVWC is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. Title 40, Chapter 2.

2. The Commission has jurisdiction over LVWC and the subject matter of the applications.

3. Notice of the applications was provided as prescribed by law.

4. LVWC is facing an "emergency" within the definition set forth in AG Opinion No.

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[42] For example, Mr. McDonald did not see or read the initial Procedural Order filed in this case, although it was sent to the correct address; Mr. McDonald did not fill in a portion of the public notice required by the second Procedural Order, although it clearly called for information from LVWC; LVWC provided the public notice a day late because Mr. McDonald was out of town on the due date; and Mr. McDonald appeared to lack familiarity with the information reported in LVWC's annual reports, which he signed, and to be unaware that he had signed an application with WIFA.

[43] For example, LVWC has failed to ensure sufficient water storage capacity; has failed to replace or remove plant items taken out of service, instead leaving them at well sites; and has failed to file an application for a rate case in spite of operating at a loss for a number of years.

71-17, as discussed and approved in the *Scates* and *Rio Verde* cases cited herein.

5. It is just and reasonable and in the public interest to adopt Staff's recommendations set forth in Findings of Fact No. 51(c) through (g) and to take the actions described in Findings of Fact Nos. 55, 57, 58, and 60.

6. Approval of LVWC's application for emergency interim rate relief, as described herein, is consistent with the Commission's authority under the Arizona Constitution, applicable statutes, and applicable case law.

7. It is just and reasonable and in the public interest to adopt Staff's recommendations set forth in Findings of Fact No. 70 and to take the actions described in Findings of Fact Nos. 72 and 73.

8. The financing approved herein is for lawful purposes which are within the corporate powers of LVWC, are compatible with the public interest, with sound financial practices, and with the proper performance by LVWC of service as a public service corporation and will not impair LVWC's ability to perform that service.

9. The financing approved herein is for the purposes stated in Findings of Fact No. 72 and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operative expenses or to income.

ORDER

IT IS THEREFORE ORDERED that Lake Verde Water Company, Inc. is authorized to assess, as a separate line item on each metered customer's monthly bill, an interim emergency surcharge of $45.90, as conditioned in the ordering paragraphs below.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, before implementing the interim emergency surcharge approved herein, provide to the Commission's Business Office the original of a cashier's check made out to the Arizona Corporation Commission in the amount of $100.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, on the same date the original cashier's check is provided to the Commission's Business Office, file with the Commission's Docket Control, as a compliance item in this docket, an original and 13 copies of a notice stating that the cashier's check has been provided to the Commission's Business Office.

IT IS FURTHER ORDERED that the emergency interim surcharge shall become effective on August 1, 2015, or on the first day of the month following Lake Verde Water Company, Inc.'s compliance with the requirements to provide the cashier's check to the Commission's Business Office and to file notice thereof, whichever is later.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, within 30 days after the effective date of this Decision, mail or deliver notice of the approved interim emergency surcharge to its customers, in a form and manner acceptable to Staff, by means of an insert in Lake Verde Water Company's next regularly scheduled billing.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, within 30 days after the effective date of this Decision, file with the Commission's Docket Control, as a compliance item in this docket, a revised tariff reflecting the approved interim emergency surcharge.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, no later than June 30, 2017, in a new docket, file with the Commission's Docket Control an original and 13 copies of a full permanent rate case application prepared using a test year ending December 31, 2016.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, on the same date that it files a full permanent rate case application in a new docket, file with the Commission's Docket Control, as a compliance item in this docket, an original and 13 copies of a notice that the full permanent rate case application has been filed.

IT IS FURTHER ORDERED that the emergency surcharge approved herein shall be interim and that funds collected through the emergency surcharge rate are subject to true-up and refund pending the Decision resulting from the permanent rate case application Lake Verde Water Company, Inc. is required to file pursuant to this Decision.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, by December 31, 2015, file with the Commission's Docket Control, as a compliance item in this docket, a copy of the ADEQ Approval to Construct certificate for the centralized arsenic treatment system.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, by April 29, 2016, file with the Commission's Docket Control, as a compliance item in this docket, a copy of the ADEQ Approval of Construction certificate for the centralized arsenic treatment system.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. is hereby authorized to incur long-term financing, in the form of an 18- to 22-year amortizing loan, in an amount not to exceed $126,000, pursuant to a loan agreement with WIFA.

IT IS FURTHER ORDERED that the financing authority granted herein is expressly contingent upon Lake Verde Water Company, Inc.'s use of the proceeds of the loan only to:

a. Install a centralized arsenic treatment plant as described in Findings of Fact No. 66;

b. Install the plant items described for NARUC Accounts 304, 311, and 330 in the table in Findings of Fact No. 68; and

c. Cover contingencies and pay engineering and permitting fees associated with (a) and (b), consistent with the table in Findings of Fact No. 68.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. is hereby authorized to pledge, mortgage, lien, and/or otherwise encumber its assets in the State of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104, in connection with the indebtedness authorized herein.

IT IS FURTHER ORDERED that a WIFA Loan Surcharge mechanism is hereby approved for Lake Verde Water Company, Inc., to result in a surcharge of up to $17.52 per month charged to each metered customer, with the actual surcharge amount to be calculated using the methodology included in Schedule TBH-2 to the Staff Report in this matter and to be implemented only after Commission approval following the closing of the WIFA loan and following Lake Verde Water Company, Inc.'s filing of an application requesting implementation of the WIFA Loan Surcharge.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, within 30 days after executing any financing transactions authorized herein:

a. File with the Commission's Docket Control, as a compliance item in this matter, a notice confirming that execution of the financing transaction has occurred and a certification, made by an authorized Lake Verde Water Company, Inc. representative, that the terms of the financing transaction comply fully with the authorizations granted by the Commission in this Decision;

b. Submit to the Commission's Utilities Division a complete copy of the executed financing transaction documents; and

c. File with the Commission's Docket Control, as a compliance item in this matter, an application requesting implementation of the WIFA Loan Surcharge.

IT IS FURTHER ORDERED that the Commission's Utilities Division shall, within 60 days after Lake Verde Water Company, Inc. files an application requesting implementation of the WIFA Loan Surcharge and provides a copy of the executed financing transaction documents, prepare and file, for Commission consideration, a recommended order in which the Utilities Division includes its calculation of the appropriate WIFA Loan Surcharge based on the actual loan debt service (principal and interest), debt reserve, and additional income tax obligation and made using the methodology included in Schedule TBH-2 to the Staff Report in this matter.

IT IS FURTHER ORDERED that the authorization for Lake Verde Water Company, Inc. to obtain a loan from WIFA and the approval of the WIFA Loan Surcharge mechanism shall be rescinded if Lake Verde Water Company, Inc. has not drawn funds from the loan within one year after the effective date of this Decision.

IT IS FURTHER ORDERED that any unused authorization to incur debt granted in this Decision shall expire 24 months after the effective date of this Decision.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall segregate in a separate bank account from which withdrawals are restricted to payments to WIFA, all of the funds collected through the WIFA Loan Surcharge, less those funds collected as an annual income tax component.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, by June 30, 2016, file each of the following items with the Commission's Docket Control, as compliance items in this docket:

a. The ADEQ Approval of Construction for the storage tank and booster pumps;

b. Documentation showing that old plant equipment no longer used or useful has been removed from both the upper and lower well sites and that both well sites have been cleaned of all debris and tripping hazards;

c. Documentation showing that the chlorination metering pump and storage tank are secured onto foundations and that power is provided to the chlorination metering

pump in a professionally installed manner;

d. Documentation from ADEQ stating that Lake Verde Water Company, Inc. is in compliance with ADEQ requirements; and

e. Documentation from ADWR stating that Lake Verde Water Company, Inc. is in compliance with ADWR requirements.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall, by June 30, 2017, file with the Commission's Docket Control, as a compliance item in this docket, a copy of an updated water system engineering assessment report for future improvements.

IT IS FURTHER ORDERED that Lake Verde Water Company, Inc. shall use the depreciation rates by individual NARUC account presented in Exhibit 3 of Staff's Engineering Memorandum, which was Attachment A to the Staff Report filed herein.

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IT IS FURTHER ORDERED that, if Lake Verde Water Company, Inc. fails to comply in a timely manner with any of the requirements of the preceding Ordering Paragraphs herein, and has not requested and obtained an extension of time to comply or a waiver of compliance with any such requirement, Staff shall file an Order to Show Cause to install an interim manager and address any other appropriate remedies, such as penalties.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director 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 _____ 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
SH/tv

SERVICE LIST FOR: LAKE VERDE WATER COMPANY, INC.

DOCKET NOS.: W-01557A-15-0079 AND W-01557A-15-0080

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