

OPEN MEETING ITEM



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



ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

DATE: JUNE 23, 2015 2015 JUN 23 AM 9 27

DOCKET NO.: SW-02326A-14-0321

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Scott M. Hesla. The recommendation has been filed in the form of an Order on:

GREENHAVEN SEWER COMPANY, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and 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 2, 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 23 2015

DOCKETED BY
Btu

JODI JERICH
EXECUTIVE DIRECTOR

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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
GREENEHAVEN SEWER COMPANY, INC. FOR
A PERMANENT RATE INCREASE.

DOCKET NO. SW-02326A-14-0321

DECISION NO. _____

ORDER

Open Meeting
July 7 and 8, 2015
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

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 September 3, 2014, Grenehaven Sewer Company, Inc. ("Grenehaven Sewer" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for a determination of the current fair value of its utility plants and property and for increases in its rates and charges for wastewater utility service provided to customers in the Company's service area in Coconino County, Arizona.

2. On September 29, 2014, the Company filed Additional Schedules to its application.

3. On October 2, 2014, the Commission's Utilities Division ("Staff") issued a Letter of Deficiency stating that the Company's application did not meet the sufficiency requirements outlined in the Arizona Administrative Code ("A.A.C.") R14-2-103.

4. On October 31, 2014, the Company filed a Response to Deficiency Letter.

...

1 5. On November 14, 2014, Staff issued a Second Letter of Deficiency requesting further
2 information from the Company.

3 6. On December 19, 2014, the Company filed a Response to Second Deficiency Letter.

4 7. On December 31, 2014, Staff filed a Letter of Sufficiency indicating the Company's
5 application had met the sufficiency requirements outlined in A.A.C. R14-2-103 and classifying
6 Grenehaven Sewer as a Class D Utility.

7 8. On January 20, 2015, Grenehaven Sewer filed a Notice of Change of Authorized
8 Representative.

9 9. On March 10, 2015, Grenehaven Sewer filed Revised Current and Proposed Service
10 Charges.

11 10. On March 16, 2015, Staff filed its Staff Report recommending approval of the
12 application using Staff's recommended rates and charges.

13 11. On March 20, 2015, the Company filed a Motion for Extension of Time requesting
14 that the deadline for filing comments to the Staff Report be extended to April 7, 2015.

15 12. On March 26, 2015, a Procedural Order was issued granting the Company's Motion
16 for Extension of Time.

17 13. On April 7, 2015, the Company filed its Response to Staff Report.

18 **Background**

19 14. Grenehaven Sewer is a public service corporation providing wastewater service to
20 approximately 315 connections in the Grenehaven Development, adjacent to the Lake Powell
21 National Recreation Area located in Coconino County, approximately six miles northeast of Page,
22 Arizona. The Commission approved the Company's present rates and charges in Decision No. 56056
23 (July 13, 1988).

24 15. Grenehaven Sewer is registered as an Arizona C Corporation and is in good standing
25 with the Commission's Corporations Division.

26 16. The Company's wastewater system consists of an aerated lined lagoon for an influent
27 capacity of 250,000 gallons per day for storage, equalization, and pretreatment of domestic sewage
28 prior to pumping to the City of Page for treatment. The lagoon has a total storage volume of

1 approximately 5.2 million gallons. The wastewater system utilizes three lift stations, six pumps,
 2 force mains, collection mains, cleanouts, customer meters, and backup generators. During the test
 3 year ending December 31, 2013, the Company experienced a high monthly wastewater flow of 106
 4 gallons per day ("GPD") per customer connection in August, and a low wastewater flow of 71 GPD
 5 per connection in November. The average flow during the test year was 84 GPD per connection.

6 17. Staff concludes that the Company's wastewater system has adequate capacity to serve
 7 its existing customer base and reasonable growth. The Company estimates its service area will
 8 experience minimal growth.

9 18. Staff's Consumer Services Section database for the period beginning January 1, 2012
 10 to March 1, 2015, shows zero complaints filed against the Company. Staff notes that 12 opinions
 11 were filed opposing the Company's requested rate increase.

12 19. Staff's Compliance Section database shows no outstanding compliance issues for the
 13 Company.

14 20. According to a Department of Environmental Quality ("ADEQ") Wastewater
 15 Compliance Status Report dated September 9, 2014, Greenthaven Sewer is in compliance with
 16 ADEQ regulations for the review period of April 1, 2013 through March 31, 2014.

17 Ratemaking

18 21. The Company's present rates and charges, as proposed by Greenthaven in its
 19 application, and as recommended by Staff in its Staff Report, are as follows:

	<u>Current</u> <u>Rates</u>	<u>Company</u> <u>Proposed</u>	<u>Staff</u> <u>Recommended</u> <u>Phase 1</u>	<u>Staff</u> <u>Recommended</u> <u>Phase 2</u>
<u>Flat Rates</u>				
Residential Units	\$12.25	\$37.45	\$22.45	\$32.65
Condo Units	\$6.10	37.45	\$19.38	\$32.65
Recreational Vehicles and Trailers	\$6.10	18.70	\$11.05	\$16.00
Motels (Per Room)	\$6.10	18.70	\$11.05	\$16.00
Restaurants (Per Seat)	\$6.10	18.70	\$11.05	\$16.00
Other Structures (Per Restroom)	\$12.25	\$37.45	\$22.45	\$32.65
			<u>Company</u> <u>Proposed</u>	<u>Staff</u> <u>Recommended</u>
<u>Service Lateral Installation Charges</u>				
4-inch lateral		N/A	At Cost	At Cost
6-inch lateral		N/A	At Cost	At Cost

1	8- inch lateral	N/A	At Cost	At Cost
2	12- inch lateral	N/A	At Cost	At Cost

		<u>Current Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
3	<u>SERVICE CHARGES:</u>			
4	Establishment	N/A	\$25.00	\$25.00
5	Re-Establishment (Within 12 Months)	N/A	(a)	(a)
6	Reconnection (Delinquent)	N/A	\$35.00	\$30.00
7	Deposit	N/A	(b)	(b)
8	Deposit Interest	N/A	(b)	(b)
9	NSF Check	N/A	\$25.00	\$25.00 (c)
10	Deferred Payment (Per Month)	N/A	1.5% per month	1.5% per month
11	Late Fee (Per Month)	N/A	1.5% per month	1.5% per month
12	After Hours Service Charge (at customers request)	N/A	\$35.00	\$35.00

- (a) Number of months off the system times the monthly minimum per A.A.C. R14-2-603(D).
- (b) Per A.A.C. R14-2-603(B).
- (c) The Company may only charge one NSF fee when customers are billed for water and sewer on one bill.

22. Greenthaven Sewer proposed an original cost rate base ("OCRB") of \$42,042 and has waived the right to reconstruction cost new rate base.

23. Staff determined the Company's OCRB to be \$51,923, due to Staff's increases of \$189,345 to accumulated depreciation; \$187,843 to amortization of Contributions-in-Aid-of-Construction ("CIAC"); and \$11,383 to cash working capital. Staff's increases to accumulated depreciation and amortization of CIAC were the result of Staff's adjustment of the depreciation and amortization rates.

24. In its Response to the Staff Report, the Company accepts Staff's adjustments to the Company's proposed OCRB. The Company indicates that Staff's recommended OCRB contains a typographical error and should be \$52,923. Staff did not object to the Company's correction.

25. We find that Staff's adjustments to Greenthaven Sewer's OCRB, as corrected by the Company, are reasonable and appropriate and we will adopt them. We further find that the Company's fair value rate base ("FVRB") is equivalent to its OCRB and is \$52,923.

26. Staff did not make any adjustments to the Company's proposed test year operating revenues. We find that the Company's test year operating revenues are reasonable and appropriate, and we adopt a test year revenue figure of \$40,519.

1 27. Staff made several adjustments to the Company's proposed test year operating
2 expenses, resulting in a decrease of \$25,521, from \$118,010 to \$92,489. The decrease to the
3 Company's operating expenses is due to Staff's adjustments to wastewater testing expense, insurance
4 expense, rate case expense, depreciation expense, and income tax expense.

5 28. During the test year, the Company's insurance expense was shared among
6 Greenthaven Development Company, Greenthaven Water Company, and Greenthaven Sewer. Staff
7 allocated one-third of the expense to Greenthaven Development Company, and employed a four-
8 factor cost methodology to allocate the remaining insurance expense between Greenthaven Water
9 Company and Greenthaven Sewer. The four factors considered by Staff are: (1) operating revenue;
10 (2) number of connections; (3) net plant; and (4) purchased power. Based on Staff's analysis, the
11 allocation percentage of insurance expense to Greenthaven Sewer was 56.38 percent.

12 29. In its Response to the Staff Report, the Company indicates that it accepts Staff's
13 proposed adjustments to wastewater testing expense, insurance expense, rate case expense, and
14 depreciation expense. The Company proposes an adjusted operating expense of \$116,373. The
15 Company indicates that its adjusted operating expense remains higher than Staff's because the
16 Company is requesting a larger revenue requirement which has a corresponding effect to property tax
17 expense and income tax expense.

18 30. We find that Staff's adjustments to the Company's proposed operating expenses are
19 reasonable and appropriate, and we adopt Staff's adjusted test year expense figure of \$92,489.

20 31. Based on Staff's analysis, the Company's present rates and charges produced
21 operating revenues of \$40,519 and adjusted test year operating expenses of \$92,489, resulting in test
22 year operating loss of \$51,970 for no rate of return on the Company's FVRB.

23 32. The Company's application requested a revenue increase of \$120,000 over test year
24 revenues, or 296.16 percent, for total revenues of \$160,519. In its Response to the Staff Report, the
25 Company revised its revenue increase to \$105,000 over test year revenues, or 259.13 percent, for
26 total revenues of \$145,519. The Company's proposed operating expenses of \$116,373, results in an
27 operating income of \$29,146; a rate of return of 55.07 percent; and an operating margin of 20.03
28 percent.

1 33. Staff's recommended rates and charges result in an \$84,009 increase over test year
2 revenues, or 207.33 percent, for total revenues of \$124,528. Using the adjusted operating expense
3 figure of \$92,489 adopted herein, this would result in operating income of \$13,061; a rate of return of
4 24.68 percent; and an operating margin of 10.49 percent.

5 34. The Company's proposed rates would increase the wastewater bill for residential
6 customers from \$12.25 to \$37.45, for an increase of \$25.20, or 207.76 percent.

7 35. Staff is recommending a two phase rate design with the second phase-in rates
8 occurring six months after the first phase-in rates goes into effect. Staff's recommended first phase-
9 in rates would increase the wastewater bill for residential customers from \$12.25 to \$22.45, for an
10 increase of \$10.20, or 83.27 percent over current rates. Staffs recommended second phase-in rates
11 would increase the wastewater bill for residential customers from \$22.45 to \$32.65, for an increase of
12 \$10.20, or 166.53 percent over current rates.

13 36. Staff states that its recommended increase in revenues will provide the Company with
14 sufficient cash flow to pay operating expenses and contingencies.

15 37. The Company argues that Staff's proposed revenue requirement will not provide the
16 Company with enough money to pay its expenses and maintain the system. The Company notes that
17 it has nearly seven miles of force mains and ten miles of collection mains that require ongoing repairs
18 and that inflation, rising energy costs, and other routine expenses will rise over time. The Company
19 asserts that its proposed revenue requirement will put Grenehaven Sewer in a sound financial
20 position that will enable it to meet rising costs, pay for substantial repairs, and allow the Company to
21 make system improvements.

22 38. The Company opposes Staff's two-phase rate design. The Company concedes that the
23 requested percentage increase in rates is high, but argues that the rate itself is in line with state
24 averages. The Company states that, according to a Water Infrastructure Finance Authority ("WIFA")
25 pricing survey, the median monthly bill for sewer service by a sewer with less than one thousand
26 connections is \$35.12. According to the Company, it should not be forced to phase-in rates because
27 it was able to maintain extremely low rates for over two decades.

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1 **Staff's Recommendations**

2 39. Staff recommends the following:

- 3 a) That Staff's recommended rates and charges be approved;
- 4 b) That Greenthaven Sewer file with Docket Control, as a compliance item in this
5 docket, within 30 days of the effective date of this Decision, a schedule of the rates
6 and charges approved herein;
- 7 c) That Greenthaven Sewer be ordered to keep invoices for plant assets purchased in
8 the future;
- 9 d) That Greenthaven Sewer be ordered to use the depreciation rates delineated in
10 Table B of the Engineering Report portion of the Staff Report in this matter;
- 11 e) That Greenthaven Sewer use a 4-factor cost allocation methodology to charge
12 indirect costs; and
- 13 f) That Greenthaven Sewer use a two-phase rate design. The second phase-in rates
14 would occur six months after the first phase-in goes into effect. The first six
15 months would phase in 50 percent of the revenue requirement, and the remainder
16 in the second six months.

17 **Resolution**

18 40. We find that Staff's recommended revenues will provide sufficient cash flow to allow
19 the Company to meet its ongoing expenses and fund contingencies. We further find that Staff's
20 recommended rates and charges are just and reasonable and should be adopted.

21 41. We note that the Company's current rates and charges were set by the Commission in
22 1988. We further note that the rates approved herein will increase the wastewater bill for residential
23 customers by over 160 percent. In the interest of promoting rate gradualism and to lessen rate shock
24 to customers, we find that it is reasonable and appropriate to phase-in the rates approved herein, as
25 recommended by Staff. In addition, we further find that it is reasonable and appropriate to require the
26 Company to file its next general rate case no later than August 1, 2020, with a test year ending
27 December 31, 2019.

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1 42. Because an allowance for the property tax expense is included in the Company's rates
2 and will be collected from its customers, the Commission seeks assurances from Greenthaven Sewer
3 that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has
4 come to the Commission's attention that a number of water companies have been unwilling or unable
5 to fulfill their obligation to pay the taxes that were collected from its ratepayers, some for as many as
6 twenty years. It is reasonable, therefore, that as a preventive measure Greenthaven Sewer shall file
7 annually, as part of its annual report, an affidavit with the Commission's Utilities Division attesting
8 that the Company is current in paying its Arizona property taxes.

9 43. Staff's recommendations set forth in Findings of Fact No. 39, as well as the
10 requirements stated in Findings of Fact Nos. 41 and 42, are reasonable and shall be adopted.

CONCLUSIONS OF LAW

12 1. Greenthaven Sewer Company, Inc. is a public service corporation within the meaning
13 of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

14 2. The Commission has jurisdiction over Greenthaven Sewer Company, Inc. and the
15 subject matter of the rate application.

16 3. Notice of the rate application was provided in accordance with the law.

17 4. Greenthaven Sewer Company, Inc.'s fair value rate base is \$52,923.

18 5. The rates and charges and terms and conditions of service authorized herein are just
19 and reasonable and in the public interest and should be approved without a hearing.

20 6. Staff recommendations set forth in Findings of Fact No. 39, as well as the
21 requirements stated in Findings of Fact Nos. 41, 42, and 43, are just and reasonable and in the public
22 interest.

ORDER

24 IT IS THEREFORE ORDERED that Greenthaven Sewer Company, Inc. is hereby directed to
25 file with Docket Control, as a compliance item in this docket, on or before July 31, 2015, revised rate
26 schedules setting forth the following rates and charges:

<u>Flat Rates</u>	<u>Phase I</u>	<u>Phase II</u>
Residential Units	\$22.45	\$32.65
Condo Units	\$19.38	\$32.65
Recreational Vehicles and Trailers	\$11.05	\$16.00
Motels (Per Room)	\$11.05	\$16.00
Restaurants (Per Seat)	\$11.05	\$16.00
Other Structures (Per Restroom)	\$22.45	\$32.65

Service Lateral Installation Charges

4-inch lateral	At Cost
6-inch lateral	At Cost
8- inch lateral	At Cost
12- inch lateral	At Cost

SERVICE CHARGES:

Establishment	\$25.00
Re-Establishment (Within 12 Months)	(a)
Reconnection (Delinquent)	\$30.00
Deposit	(b)
Deposit Interest	(b)
NSF Check	\$25.00(c)
Deferred Payment (Per Month)	1.5% per month
Late Fee (Per Month)	1.5% per month
After Hours Service Charge (at customers request)	\$35.00

- (a) Number of months off the system times the monthly minimum per A.A.C. R14-2-603(D).
 (b) Per A.A.C. R14-2-603(B).
 (c) The Company may only charge one NSF fee when customers are billed for water and sewer on one bill.

IT IS FURTHER ORDERED that Phase I rates shall be effective for all service provided on or after August 1, 2015, and shall expire after January 31, 2015, without further order of the Commission.

IT IS FURTHER ORDERED that Phase II rates shall be effective for all service provided on or after February 1, 2016, and shall continue in effect until further order of the Commission.

IT IS FURTHER ORDERED that the above charges shall be effective for all service provided on or after August 1, 2015, and shall continue in effect until further order of the Commission.

IT IS FURTHER ORDERED that Grenehaven Sewer Company, Inc. shall provide notice to its customers of the authorized rates and charges and their effective dates, in a form acceptable to the

1 Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing.
2 Greenthaven Sewer Company, Inc. shall provide a second notice to its customers of the authorized
3 Phase II rates and their effective date, in a form acceptable to the Commission's Utilities Division
4 Staff, by means of an insert in its scheduled billing for the month of January, 2016.

5 IT IS FURTHER ORDERED that Greenthaven Sewer Company, Inc. shall file its next
6 general rate case no later than August 1, 2020, with a test year ending December 31, 2019.

7 IT IS FURTHER ORDERED that Greenthaven Sewer Company, Inc. shall use the
8 depreciation rates delineated in Table B of the Engineering Report portion of the Staff Report in this
9 matter.

10 IT IS FURTHER ORDERED that Greenthaven Sewer Company, Inc. shall employ the four-
11 factor cost allocation methodology to charge indirect costs, as discussed herein.

12 IT IS FURTHER ORDERED that Greenthaven Sewer Company, Inc. shall keep and maintain
13 all invoices for plant assets purchased or acquired subsequent to the effective date of this Decision.

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1 IT IS FURTHER ORDERED that Greenehaven Sewer Company, Inc. shall file annually, as
2 part of its Annual Report, an affidavit with the Commission's Utilities Division attesting that it is
3 current in paying its property taxes in Arizona.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
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8 CHAIRMAN _____ COMMISSIONER _____

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10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive
13 Director of the Arizona Corporation Commission, have
14 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.

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17 JODI JERICH
EXECUTIVE DIRECTOR

18 DISSENT _____
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20 DISSENT _____
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1 SERVICE LIST FOR: GREENEHAVEN SEWER COMPANY, INC.

2 DOCKET NO.: SW-02326A-14-0321

3
4 Steve Wene
5 Moyes Sellers & Hendricks
6 1850 N. Central Ave., Ste. 1100
7 Phoenix, AZ 85004
8 Attorneys for Greenehaven Sewer Company, Inc.

9
10 Janice Alward, Chief Counsel
11 Legal Division
12 ARIZONA CORPORATION COMMISSION
13 1200 West Washington Street
14 Phoenix, AZ 85007

15
16 Steven M. Olea, Director
17 Utilities Division
18 ARIZONA CORPORATION COMMISSION
19 1200 West Washington Street
20 Phoenix, AZ 85007

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22
23
24
25
26
27
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