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MEMORANDUM

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TO: Docket Control

2015 SEP 16 A 8:28

FROM: Thomas M. Broderick
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: September 16, 2015

RE: **STAFF REPORT FOR VERDE WEST IRRIGATION COMPANY'S
EMERGENCY RATE APPLICATION (DOCKET NO. I-02274A-15-0285)**

Attached is the Staff Report for Verde West Irrigation Company's application for an emergency rate increase. Staff recommends approval of the Staff recommended Repair Surcharge.

Any interested party wishing to file comments regarding the attached Staff Report may file those comments with the Arizona Corporation Commission's Docket Control no later than September 30, 2015.

TMB:BCA:red\ML

Originator: Brendan C. Aladi

Attachment: Original and Thirteen copies

ORIGINAL

Arizona Corporation Commission
DOCKETED

SEP 16 2015

DOCKETED BY

Service List for: Verde West Irrigation Company
Docket No. I-02274A-15-0285

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

VERDE WEST IRRIGATION COMPANY

DOCKET NO. I-02274-15-0285

**APPLICATION FOR AN
EMERGENCY RATE INCREASE**

SEPTEMBER 16, 2015

STAFF ACKNOWLEDGMENT

The Staff Report for Verde West Irrigation ("Company"), Docket No. I-02274A-15-0285 was the responsibility of the Staff members listed below. Brendan C. Aladi was responsible for the review and analysis of the Company's application, recommended revenue requirements and rate design. Michael Thompson was responsible for the engineering and technical analysis. Tom Davis was responsible for reviewing the Commission's records on the Company and reviewing customer complaints filed with the Commission.


Brendan C. Aladi
Public Utilities Analyst


Michael Thompson
Utilities Engineer


Tom Davis
Public Utilities Consumer Analyst

**EXECUTIVE SUMMARY
VERDE WEST IRRIGATION COMPANY
DOCKET NO. I-02274A-15-0285**

Verde West Irrigation Company ("Verde West" or "Company") is a sole proprietorship and a for profit public service corporation that provides irrigation service for 184 customers in Camp Verde, Arizona. The Current rates authorized in Decision No. 70139, have been in effect since February 2008.

On August 6, 2015, Verde West filed a request for an emergency rate increase with the Arizona Corporation Commission ("Commission"). Verde West claims that on June 6, 2015, one of the main intake pumps servicing the irrigation system went down and efforts to get it back online failed. The Company also claims that it is a small rural utility whose annual revenues usually only cover annual expenses with no additional funds available for extraordinary repairs. The Company spent \$16,309.20 to repair its intake pump and to prepare and clean the well site and is requesting to recover this cost. The Company did not request approval of a specific emergency surcharge.

STAFF RECOMMENDATIONS

Staff recommends:

1. Approval of the Staff recommended Repair Surcharge of \$2.60 per month for Lot customers and \$48.94 per month for Acre customers. This surcharge will continue for one year as shown on Page 3 of the Staff Report.
2. The bonding requirements associated with an emergency rate increase be minimized.
3. The Company be directed to file quarterly, beginning January 15, 2016, as a compliance item in this Docket, a report identifying all surcharge monies billed, collected, and withdrawn from the account.
4. That the revenue received be used exclusively to fund plant, and that the Company record the surcharge revenue for the portion funding plant as Contribution In Aid of Construction ("CIAC") on Verde West's books and records.
5. The Company file a full permanent rate case no later than June 1, 2017, using a calendar year 2016 test year.
6. The Company be directed to file with Docket Control, within 30 days of the Decision, a revised rate Schedule reflecting the emergency rate increase, as a compliance item in this docket.
7. That after one year, the surcharge automatically ceases.

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BACKGROUND

Verde West Irrigation Company (“Verde West” or “Company”) is a sole proprietorship and a for profit public service corporation that provides irrigation service for 184 customers in Camp Verde, Arizona. The current rates authorized in Decision No. 70139, have been in effect since February of 2008.

On August 6, 2015, Verde West filed an application for an emergency rate increase with the Arizona Corporation Commission (“Commission”). The Company claims that on June 6, 2015, one of the main pumps servicing the irrigation system went down and efforts to get it back online failed. The Company also claims that it is a small rural utility whose annual revenues usually only cover annual expenses with no extra funds available for extraordinary repairs. The Company spent \$16,309.20 to repair its intake pump and to prepare and clean the well site and is requesting to recover its costs.

On August 26, 2015, a Procedural Order was issued setting September 22, 2015, as the date for the hearing on this application.

CONSUMER SERVICES

In researching the Commission’s database for complaints for the Company from January 1, 2012 to August 21, 2015, Staff found the following:

2012 - 2014 – Zero Complaints

2015 – Three Complaints (one billing, one quality of service and one rate and tariff).

The complaints have been resolved and closed.

ENGINEERING ANALYSIS

A complete discussion of Staff’s technical findings, recommendations and a description of the water system are provided in the attached Engineering Memorandum.

COMPLIANCE

A check with the Commission’s Utilities Division compliance data base showed that there were no delinquent compliance items for Verde West.

CONDITIONS NECESSARY FOR EMERGENCY RATE RELIEF

General conditions necessary for interim emergency rates¹ include:

¹ According to Attorney General Opinion No. 71-17, interim or emergency rates are proper when either all or any of the following conditions occur: when sudden change brings hardship to a Company; when the Company is insolvent; or when the condition of the Company is such that its ability to maintain service pending a formal rate determination is in

1. A sudden change that causes hardship to the company.
2. A company is insolvent.
3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

Staff believes that an emergency condition exists such that this filing meets the requirements necessary to file this emergency rate request and for the Commission to act on the request. Staff notes that this sudden change caused hardship to the Company.

COMPANY'S JUSTIFICATION FOR EMERGENCY RATE RELIEF

The Company's current rates have been in effect since February 2008. The monthly usage charge for Lot customers is \$12.00 and \$26.00 for Acre customers. According to the Company's application, Verde West is a small rural utility whose annual revenues usually only cover annual expenses with no extra funds available for extraordinary repair costs.

STAFF'S ANALYSIS OF FINANCIAL INFORMATION AND RECOMMENDED REVENUE REQUIREMENT

The Company did not recommend approval of a specific emergency surcharge. However, Staff reviewed the following invoices provided by the Company totaling \$16,309.20:

Precision Electric Co, Inc	\$12,654.20
Parker Constructions	937.50
Ferguson Construction	2,537.50
Laborers	<u>180.00</u>
Total	\$16,309.20

Staff reviewed the emergency application. The application contained copies of the invoices and no other financial information was provided from which to establish emergency rates. Staff notes the Commission determined the Company's fair value rate base to be \$12,186 in 2003 for the Company's last rate case. Based on the Staff's engineering findings and a review of the invoices, Staff developed a Repair surcharge for the Lot and Acre Customers.

Staff recommends an emergency repair surcharge that would produce total operating revenue of \$16,309.20, to recover the total cost of the intake pump repair.

RATES

The Company did not request an increase of the current rates which has been in effect since February 2008, in this emergency rate request.

serious doubt. Those criteria have been affirmed in *Scates v. Arizona Corporation Commission*, 118 Ariz.531 (CT. App.1978) and in *Residential Utility Consumer office v. Arizona corporation Commission*, 199 Ariz. 588 (2001).

A Lot customer receives water anytime between March 15th and November 15th of each year. An Acre customer receives water on two specific days of the week between March and November growing season. There is no water service during the winter months of December through February.

Using the 2014 customer count, there were 165 Lot customers and 19 Acre customers for a total of 184 customers.

Cost of Intake Pump Repairs to be recovered per month = $\$16,309.20/12 = \$1,359.10$.

Weighting surcharge based on current base rates (ie $\$12.00 + \$26.00 = \$38.00$).

Lot customers = 31.58% of revenue so $(31.58\% \text{ of } \$1,359.10)/165 = \2.60 repair surcharge per Lot customer per month for one year).

Acre customers = 68.42% of revenue so $(68.42\% \text{ of } \$1,359.10)/19 = \48.94 repair surcharge per Acre customer per month for one year).

Monthly Usage Charge		Staff Recommended			Percent
<u>Current Rates</u>		<u>Repair surcharge</u>		<u>Total</u>	<u>Increase</u>
Lot customers	\$12.00	Lot customers	\$2.60	\$14.60	22 %
Acre customers	26.00	Acre customers	48.94	74.94	188 %

CONCLUSIONS

1. Staff believes that emergency conditions exist such that this filing meets the requirements necessary to qualify for action by the Commission.
2. Staff believes that the bonding requirements that are normally associated with emergency rate increases be minimized as Verde West and its owner have very limited funding available.
3. Staff believes the follow-up full rate case filing should be filed no later than June 1, 2017, using a test year ending December 31, 2016.

RECOMMENDATIONS

Staff recommends:

1. Approval of the Staff recommended Repair Surcharge of \$2.60 per month for Lot customers and \$48.94 per month for Acre customers. This surcharge will continue for one year as shown on Page 3 of the Staff Report.
2. The bonding requirements associated with an emergency rate increase be minimized.

3. The Company be directed to file quarterly, beginning January 15, 2016, as a compliance item in this Docket, a report identifying all surcharge monies billed, collected, and withdrawn from the account.
4. That the revenue received be used exclusively to fund plant, and that the Company record the surcharge revenue for the portion funding plant as Contribution In Aid of Construction on Verde West's books and records.
5. The Company file a full permanent rate case no later than June 1, 2017, using a calendar year 2016 test year.
6. The Company be directed to file with Docket Control, within 30 days of the Decision, a revised rate Schedule reflecting the emergency rate increase, as a compliance item in this docket.
7. That after one year, the surcharge automatically ceases.

MEMORANDUM

TO: Brendan Aladi
Public Utility Analyst III
Finance and Regulatory Analysis

FROM: Michael S. Thompson, P.E.
Water/Wastewater Engineer

DATE: September 4, 2015

RE: VERDE WEST IRRIGATION EMERGENCY RATE INCREASE
APPLICATION DOCKET NO. I-02274A-15-0285

INTRODUCTION

On August 6, 2015, Verde West Irrigation ("Verde West" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for implementation of emergency rates to provide sufficient revenue for the recovery of expenses associated with the repair of its System No. 1 intake pump. The Verde West service area which comprises approximately 142 acres (0.22 square miles) is located approximately 5 miles northwest of Camp Verde in Yavapai County, Arizona¹. Exhibit 1 is a map of the Verde West service area.

DESCRIPTION OF THE IRRIGATION SYSTEM

Verde West was visited on August 19, 2015, by Commission Staff member Michael Thompson in the accompaniment of Carl Staggs, the Verde West system operator.

Verde West has two (2) separate irrigation systems (not interconnected) that provide non-potable water for irrigation purposes only. System No. 1 serves approximately 105 un-metered customers in the Buena Vista Estates and Verde West Acres subdivisions, while System No. 2 serves approximately 79 un-metered customers in the Verde West Estates and Verde West Estates II subdivisions.

System No. 1 includes a pumping station (river intake) which draws water from the Verde River, a holding pond, and plastic piping of various sizes that distributes irrigation water, via gravity, from the holding pond to its customers. System No. 2 has similar components and operates in a similar manner as System No. 1. However, System No. 2 draws water from a diversion ditch that is fed from the Verde River. Both systems provide service from mid-March through mid-November (approximately the time of the first freeze). Each system has one (1) manually controlled intake pump/40 hp motor which is operated on a daily basis filling its respective holding pond. Exhibit 2 is a schematic diagram showing the two (2) systems including their pumping stations, ponds, irrigation lines, and ditches.

¹ Camp Verde is located off Interstate Highway 17 approximately 90 miles north of the Phoenix Metropolitan Area.

ACC COMPLIANCE

On August 29, 2011 and September 10, 2015, Verde West filed its twelve (12) month reports for 2009, and 2010 – 2015, respectively, showing the amount of money spent on routine system repairs, maintenance and weed control.

On February 9, 2009, Verde West filed its plan on how it would propose to replace deteriorating existing plastic thin-wall pipe including sufficient detail to determine its reasonableness and included timeframes and cost estimates for replacement and the funding method that the Company would propose to utilize to replace pipe which has deteriorated.

Verde West has no delinquent Commission compliance items and is therefore in compliance.

ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Verde West systems are not within any of the ADWR Management Areas and are not regulated by ADWR.

ARIZONA DEPARTMENT OF WATER QUALITY (“ADEQ”) COMPLIANCE

The Verde West systems are not regulated by ADEQ.

REQUEST FOR EMERGENCY RATE INCREASE – SYSTEM NO. 1 INTAKE PUMP REPAIRS

On June 3, 2015, Verde West’s System No. 1 intake pump/40 hp motor failed operationally leaving its Buena Vista Estates and Verde West Acres customers without irrigation water. Precision Electric Company (“PEC”) was contracted to remove, repair and reinstall the intake pump and motor. PEC removed the pump and motor from the pumping station wet well (25 foot deep sump) on June 10, 2015. Upon inspection it was determined that the pump turbines had sustained significant damage from pulling in rocks, sand, silt, and debris at its intake. Due to the age of the pump and motor (20+ years) several parts had to be custom machined since the parts were no longer available.

Parker Construction and Ferguson Construction were contracted to prepare and clean the well site. Prep and cleanup work involved repairing the wet well access road, removal of a tree branch, draining the wet well sump, and removal of mud, rocks, and debris from the wet well sump.

The pump and motor were ready for installation on July 2, 2015. However, the well site was not ready thus delaying installation until July 20, 2015. Approximately ten (10) days after the July 20th installation, the pump experienced an oil leak. Subsequently, the pump and motor were removed on August 4, 2015 and returned to PEC’s shop in Phoenix to fix the oil leak. PEC completed the repair and reinstalled the pump and motor on August 7, 2015. The pump and motor were found to be in-service and used and useful during the site inspection on August 19, 2015.

The expenses associated with the intake pump and motor repairs that were reviewed, evaluated, and recalculated by Staff are represented in Table 1. The applicant requested recovery of \$16,549.20. However, upon review of the invoices provided by the applicant, Staff determined that the expenses actually incurred were \$240.00 less than requested. Staff concludes that the adjusted expenses totaling \$16,309.20, for the repair of the intake pump and motor, are reasonable and appropriate.

Table 1. Verde West Irrigation – Station #1 Intake Pump & Motor Repairs

Contractors	Work Performed	Cost
Precision Electric Co. Inc.	Remove, repair and reinstall pump and motor	\$12,654.20
Parker Construction	Crane for removal of mud and debris at well site	\$937.50
Ferguson Construction	Backhoe, sump pump, and labor to clean well site and sump	\$2,537.50
Laborers	Shovel/bucket work at well site	\$180.00
Total Cost		\$16,309.20

EXHIBIT 1

YAVAPAI COUNTY

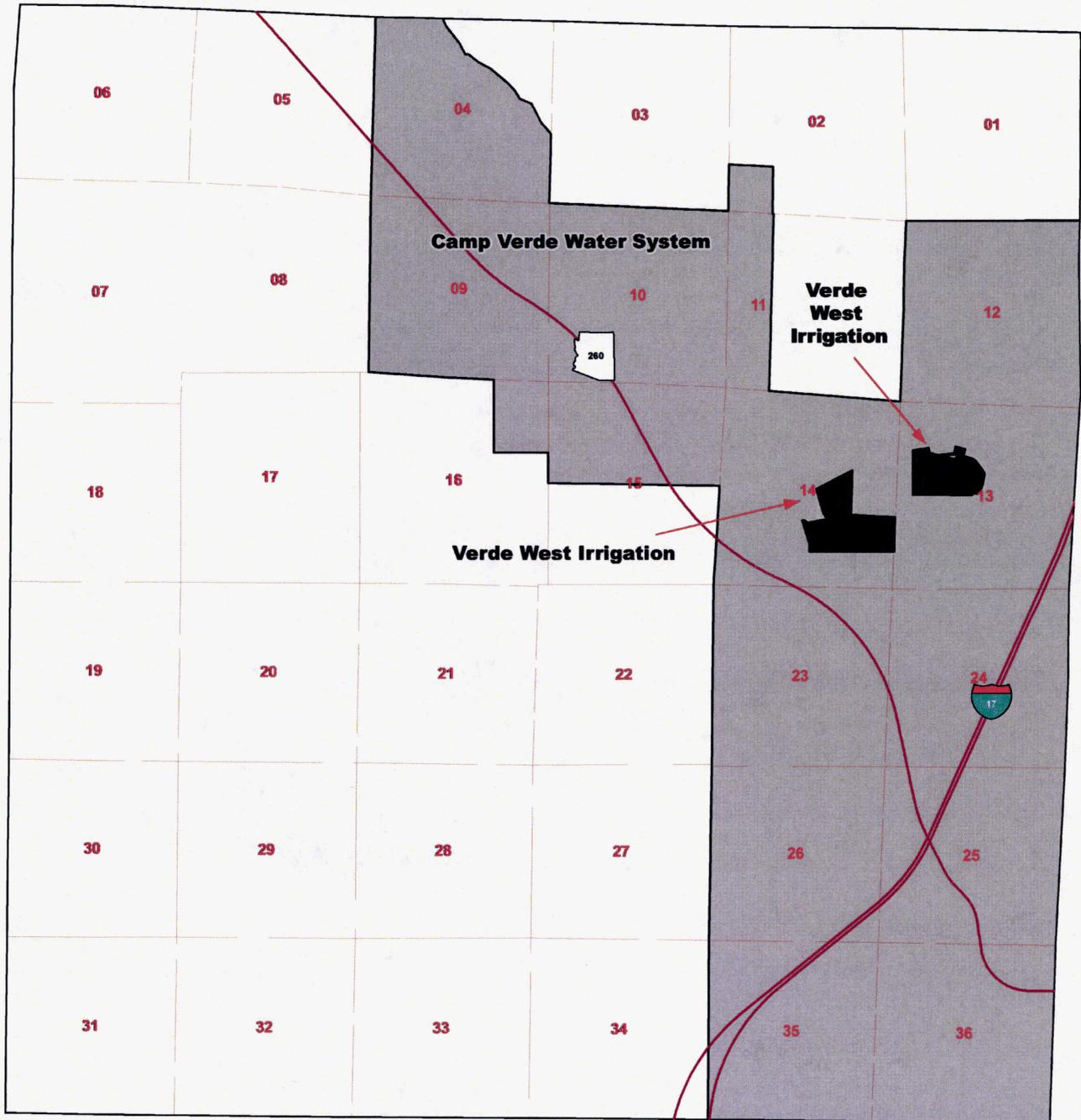


EXHIBIT 2

