

OPEN MEETING ITEM



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COMMISSIONERS
DOUG LITTLE - Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN



ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: MARCH 8, 2016
DOCKET NO.: W-02747A-15-0293

TO ALL PARTIES:

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

LOS CERROS WATER 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:

MARCH 17, 2016

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:

APRIL 12, 2016 AND APRIL 13, 2016

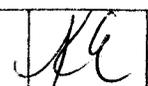
For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.


JODI A. JERICH
EXECUTIVE DIRECTOR

Arizona Corporation Commission

DOCKETED

MAR 08 2016

DOCKETED BY 

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

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

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 DOUG LITTLE – Chairman
4 BOB STUMP
4 BOB BURNS
5 TOM FORESE
5 ANDY TOBIN

6
7 IN THE MATTER OF THE APPLICATION OF LOS
8 CERROS WATER COMPANY, INC. FOR A RATE
9 INCREASE.

DOCKET NO. W-02747A-15-0293

DECISION NO. _____

9 **ORDER**

10 Open Meeting
10 April 12 and 13, 2016
11 Phoenix, Arizona

12 **BY THE COMMISSION:**

13 Having considered the entire record herein and being fully advised in the premises, the Arizona
14 Corporation Commission (“Commission”) finds, concludes, and orders that:

15 **FINDINGS OF FACT**

16 **Procedural History**

17 1. On August 18, 2015, Los Cerros Water Company, Inc. (“Los Cerros” or “Company”)
18 filed an application with the Commission for a rate increase (“Application”), and filed an amendment
19 to the Application on September 11, 2015.

20 2. Los Cerros provided notice of the Application to its customers on August 17, 2015, and
21 of the revision to its proposed service charges on September 16, 2015. In response to the notices, five
22 customers provided comments in opposition to the rate increase and one customer filed comments in
23 favor of the rate increase.

24 3. On September 17, 2015, the Commission’s Utilities Division (“Staff”) docketed a letter
25 stating that the Application had met the sufficiency requirements of Arizona Administrative Code
26 (“A.A.C.”) R-14-2-103, and classifying Los Cerros as a Class D utility.

27 4. On December 1, 2015, Staff filed a Request for an Extension of Time to File Staff
28 Report.

1 5. A Procedural Order issued December 10, 2015, granted Staff's request to extend the
2 filing deadline for the Staff Report to December 16, 2015, and extended the time clock to April 29,
3 2016.

4 6. Staff submitted its Staff Report on December 16, 2015, recommending approval of
5 Staff's recommended rates and charges.

6 7. Los Cerros responded to the Staff Report on December 23, 2015, disagreeing with
7 certain of Staff's calculations.

8 8. On January 20, 2016, Staff filed a Supplemental Staff Report revising certain schedules
9 and recommending approval of Staff's recommended rates and charges.

10 9. On February 26, 2016, Staff filed its Notice of Filing Revised Schedule DWC-2, which
11 had been inadvertently omitted from Staff's January 20, 2016, filing.

12 10. The Company did not file objections or comments to the Supplemental Staff Report.

13 **Company Background**

14 11. Los Cerros is an Arizona S corporation engaged in the business of providing water
15 service to approximately 840 customers fifteen miles north of Tucson in Pima County pursuant to
16 authority granted by the Commission in Decision No. 43107 (February 5, 1973).

17 12. The Company's water system consists of five wells with a capacity of 713 gallons per
18 minute, two storage tanks, three booster pump stations, and a distribution system. A radio telemetry
19 system communicates and controls three of the wells. Staff concludes that Los Cerros has adequate
20 production and storage capacity to serve the present customer base and reasonable growth.

21 13. Staff stated that Consumer Service records reflect that for the period of January 1, 2012,
22 through September 14, 2015, customers filed two billing complaints, one construction complaint, and
23 four disconnect/termination complaints. All complaints have been resolved and closed.

24 14. The Company is in the Arizona Department of Water Resources ("ADWR") Tucson
25 Active Management Area ("AMA"). An ADWR Compliance Status Report dated August 31, 2015,
26 indicated that Los Cerros is in compliance with ADWR requirements governing water providers and/or
27 community water systems.

28 15. An Arizona Department of Environmental Quality ("ADEQ") Compliance Status

1 Report dated July 22, 2015, reported that the Company's water system had no major deficiencies and
2 was delivering water that meets water quality standards required by 40 CFR 141 and A.A.C., Title 18,
3 Chapter 4.

4 16. Staff reported that a check of the Commission's Compliance Section database indicated
5 that the Company had no delinquent compliance items and that Los Cerros is current on its property
6 taxes.

7 17. Los Cerros has Commission-approved Curtailment, Cross Connection and Backflow
8 Tariffs.

9 18. Staff recommends that the Company be required to adopt three Best Management
10 Practices ("BMPs") tariffs.

11 19. Because Los Cerros is within ADWR's Tucson AMA and subject to ADWR regulation,
12 we do not believe it is necessary to require the Company to submit BMPs at this time.

13 20. Because an allowance for the property tax expense is included in Los Cerros' rates and
14 will be collected from its customers, the Commission seeks assurances from the Company that any
15 taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to
16 the Commission's attention that a number of water companies have been unwilling or unable to fulfill
17 their obligation to pay the taxes that were collected from its ratepayers, some for as many as twenty
18 years. It is reasonable, therefore, that as a preventive measure Los Cerros shall annually file, as part of
19 its Utilities' Division Annual Report, an affidavit attesting that the company is current in paying its
20 property taxes in Arizona.

21 **Rate Application**

22 21. Los Cerros' current rates were set in Decision No. 60562 (December 18, 1997).

23 22. During the test year ended December 31, 2014, the Company served 833 customers,
24 predominantly on 5/8" x 3/4" - inch meters, with an average usage of approximately 4,000 gallons,
25 and a median usage of approximately 3,000 gallons.

26 23. The rates and charges for Los Cerros at present, as proposed in the Application, and as
27 recommended by Staff are as follows:

28 24.

	Present Rates	Company Proposed	Staff Proposed
1	<u>MONTHLY USAGE CHARGE:</u>		
2	<u>All Classes</u>		
3			
4			
5			
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7			
8	<u>COMMODITY RATES:</u>		
9	<u>(Per 1,000 Gallons, All Classes)</u>		
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6" Meter

0 to 160,000 gallons	N/A	N/A	\$2.75
Over 160,000 gallons	N/A	N/A	3.05

SERVICE LINE AND METER INSTALLATION CHARGES:

Refundable Pursuant to A.A.C. R14-2-405

	<u>Company and Staff Recommended</u>			
	<u>Current Charge</u>	<u>Service Line Charge</u>	<u>Meter Charge</u>	<u>Total Charge</u>
5/8" x 3/4" Meter	\$240.00	\$ 360.00	\$ 140.00	\$ 500.00
3/4" Meter	280.00	360.00	180.00	540.00
1" Meter	360.00	380.00	220.00	600.00
1-1/2" Meter	450.00	1,000.00	1,000.00	2,000.00
2" Meter	560.00	1,100.00	1,200.00	2,300.00
3" Meter	700.00	1,200.00	1,900.00	3,100.00
4" Meter	1,300.00	1,600.00	3,000.00	4,600.00
6" Meter	2,800.00	2,100.00	5,000.00	7,100.00
Over 6-inch	N/A	At Cost	At Cost	At Cost

SERVICE CHARGES:

	<u>Present Charges</u>	<u>Company Proposed Charges</u>	<u>Staff Recommended Charges</u>
Establishment	\$20.00	\$20.00	\$20.00
Establishment (After Hours)	30.00	N/A	N/A
Reconnection (Delinquent)	25.00	\$25.00	\$25.00
After Hour Service Charge (at customer's request)	N/A	N/A	30.00
Meter Test (if correct)	\$25.00	\$25.00	\$25.00
Meter Re-Read (If Correct)	15.00	20.00	15.00
NSF Check	15.00	15.00	15.00
Deposit	*	*	*
Deposit Interest	*	3.00%	*
Re-Establishment (Within 12 Months)	**	**	**
Deferred Payment, Per Month	1.50%	1.50%	1.50%
Late Fee Penalty	N/A	N/A	1.50%

Monthly Service Charge for Fire Sprinklers

4" or Smaller	***	***	***
6"	***	***	***
8"	***	***	***
10"	***	***	***
Larger than 10"	***	***	***

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

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

*** 1.00% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

1 25. Staff determined Los Cerros' original cost rate base, which is the same as its fair value
2 rate base ("FVRB") to be negative (\$101,079). This is a \$5,608 increase to Los Cerros proposed FVRB
3 of negative (\$95,471), based upon Staff's adjustment to accumulated amortization of contributions in
4 aid of construction. The Company did not object to Staff's adjustment. Staff's proposed rate base
5 adjustment is reasonable and we find Los Cerros' FVRB to be negative (\$101,079).

6 26. The Company and Staff agree that test year operating revenues were \$350,458. We find
7 this reasonable and adopt \$350,458 as Los Cerros' test year operating revenues.

8 27. In its Application, Los Cerros proposed test year operating expenses of \$352,356. In its
9 Supplemental Staff Report, Staff recommends test year operating expenses of \$324,023. This is a
10 \$28,333 decrease to the Company's proposed amount based on Staff's adjustments to salaries and
11 wages, office supplies and expenses, water testing, health and life insurance, depreciation expense, and
12 property taxes. The Company did not object to Staff's adjustments recommended in the Supplemental
13 Staff Report. Staff's adjustments result in test year operating income of \$26,435.

14 28. Los Cerros' original proposed rates would have produced total operating revenue of
15 \$444,957, which is a \$94,499 increase over test year revenues, or 26.96 percent, and operating income
16 of \$92,601. This results in an operating margin of 20.81 percent.

17 29. Staff's recommended rates would produce total operating revenue of \$384,708, which
18 is a \$34,250 increase over test year revenues, or 9.77 percent, and operating income of \$53,435. This
19 results in an operating margin 13.89 percent, and a cash flow of \$87,561. Staff believes its
20 recommended revenue is sufficient to cover operating and maintenance expenses and to manage
21 contingencies.

22 30. The Company's proposed rates, as set forth in its Application, would increase the
23 average monthly residential customer bill by \$6.74, or 30.28 percent, from \$22.26 to \$29.00, and would
24 increase the median monthly residential customer bill by \$6.43, or 32.44 percent, from \$19.82 to
25 \$26.25.

26 31. Staff's proposed rates would increase the average monthly residential customer bill by
27 \$1.49, or 6.69 percent, from \$22.26 to \$23.75, and would increase the median monthly residential
28 customer bill by \$1.18, or 5.95 percent, from \$19.82 to \$21.00.

ORDER

IT IS THEREFORE ORDERED that Los Cerros Water Company, Inc. is hereby directed to file with Docket Control, as a compliance item in this docket, by April 29, 2016, revised water tariffs setting forth the following authorized rates and charges:

MONTHLY USAGE CHARGE:**All Classes**

5/8" x 3/4" Meter	\$13.65
3/4" Meter	18.75
1" Meter	31.25
1-1/2" Meter	62.50
2" Meter	100.00
3" Meter	187.50
4" Meter	312.50
6" Meter	625.00

COMMODITY RATES:**(All Classes, Per 1,000 Gallons)****5/8" x 3/4" Meter**

0 to 3,000 gallons	\$2.45
3,001 to 10,000 gallons	2.75
Over 10,000 gallons	3.05

3/4" Meter

0 to 3,000 gallons	\$2.45
3,001 to 10,000 gallons	2.75
Over 10,000 gallons	3.05

1" Meter

0 to 10,000 gallons	\$2.75
Over 10,000 gallons	3.05

1-1/2" Meter

0 to 10,000 gallons	\$2.75
Over 10,000 gallons	3.05

2" Meter

0 to 16,000 gallons	\$2.75
Over 16,000 gallons	3.05

3" Meter

0 to 48,000 gallons	\$2.75
Over 48,000 gallons	3.05

4" Meter

0 to 90,000 gallons	\$2.75
Over 90,000 gallons	3.05

6" Meter

0 to 160,000 gallons	\$2.75
Over 160,000 gallons	3.05

SERVICE LINE AND METER INSTALLATION CHARGES:
Refundable Pursuant to A.A.C. R14-2-405

	<u>Service Line</u> <u>Charge</u>	<u>Meter</u> <u>Charge</u>	<u>Total</u> <u>Charge</u>
5/8" x 3/4" Meter	\$ 360.00	\$ 140.00	\$ 500.00
3/4" Meter	360.00	180.00	540.00
1" Meter	380.00	220.00	600.00
1-1/2" Meter	1,000.00	1,000.00	2,000.00
2" Meter	1,100.00	1,200.00	2,300.00
3" Meter	1,200.00	1,900.00	3,100.00
4" Meter	1,600.00	3,000.00	4,600.00
6" Meter	2,100.00	5,000.00	7,100.00
Over 6-inch	At Cost	At Cost	At Cost

SERVICE CHARGES:

Establishment	\$20.00
Reconnection (Delinquent)	25.00
After Hour Service Charge (At Customer's Request)	30.00
Meter Test (If Correct)	25.00
Meter Re-Read (If Correct)	15.00
NSF Check	15.00
Deposit	*
Deposit Interest	*
Re-Establishment (Within 12 Months)	**
Deferred Payment (Per Month)	1.50%
Late Fee Penalty	1.50%

Monthly Service Charge for Fire Sprinklers

4" or Smaller	***
6"	***
8"	***
10"	***
Larger than 10"	***

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

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

*** 1.00% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

1 IT IS FURTHER ORDERED that Los Cerros Water Company, Inc. is authorized to collect
2 from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C.
3 R14-2-409(D).

4 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
5 provided on and after May 1, 2016.

6 IT IS FURTHER ORDERED that Los Cerros Water Company, Inc., as a compliance item in
7 this docket, shall notify its customers of the authorized rates and charges, and their effective date, in a
8 form acceptable to the Commission's Utilities Division Staff, by means of an insert in the Company's
9 next regularly scheduled billing, and to file copies with Docket Control within 10 days of the date
10 notice is sent to customers.

11 IT IS FURTHER ORDERED that Los Cerros Water Company, Inc. shall adopt depreciation
12 rates by National Association of Regulatory Utility Commissioners category, as set forth Figure 6 of
13 the Engineering Report, attached to the Staff Report as Exhibit A.

14 IT IS FURTHER ORDERED that Los Cerros Water Company, Inc. shall file a rate case
15 application no later than five years from the effective date of this Decision.

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1 IT IS FURTHER ORDERED that Los Cerros Water Company, Inc., shall file as part of its
2 Utilities Division Annual Report affidavits attesting that it is current on payment of its property taxes
3 in Arizona.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRMAN _____ COMMISSIONER _____

9
10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive Director
13 of the Arizona Corporation Commission, have hereunto set my
14 hand and caused the official seal of the Commission to be affixed
15 at the Capitol, in the City of Phoenix, this _____ day
16 of _____ 2016.

17 _____
18 JODI JERICH
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____
22 BM:ru

1 SERVICE LIST FOR:

LOS CERROS WATER COMPANY, INC.

2 DOCKET NO.:

W-02747A-15-0293

3 Jody Carlson, Corporate Secretary
4 LOS CERROS WATER COMPANY, INC.
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