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BEFORE THE ARIZONA CORPORATION COMMISSION
Arizona Corporation Commission

COMMISSIONERS

DOCKETED

DOUG LITTLE – Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

MAY 13 2016

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
PINE VALLEY WATER COMPANY FOR
APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02181A-15-0216

DECISION NO. 75554

ORDER

Open Meeting
May 3 and 4, 2016
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 June 26, 2015, Pine Valley Water Company (“Pine Valley or “Company”) filed an application with the Arizona Corporation Commission (“Commission”) for approval of a rate increase.
2. On July 15, 2015, the Commission’s Utilities Division (“Staff”) filed a Letter of Insufficiency, requesting that the Company provide additional information on its application.
3. On August 13, 2015, the Company filed amendments related to its application.
4. On September 8, 2015, the Company filed amendments related to its application.
5. On November 6, 2015, Staff filed a Request for an Extension of Time to File Staff Report, stating that Staff needed additional time, until November 17, 2015, to file the Staff Report in this matter.
6. On November 10, 2015, by Procedural Order, Staff’s Request for an Extension of Time to file Staff Report was granted. Further, the timeclock in this matter was extended.

1 7. On November 17, 2015, Staff filed a Staff Report in this matter, recommending approval
2 of the Company's rate application subject to Staff's recommended conditions, rates and charges.

3 8. On December 3, 2015, the Company filed a response to the Staff Report, objecting to
4 several of Staff's recommendations.

5 9. On December 9, 2015, by Procedural Order, a procedural conference was scheduled to
6 be held on December 22, 2015, to discuss whether this matter needed to be set for hearing. Further, the
7 timeclock in this matter was suspended.

8 10. On December 22, 2015, the procedural conference was held as scheduled before a duly
9 authorized Administrative Law Judge ("ALJ") for the Commission. Mr. Lance Wischmeier appeared
10 on behalf of the Company and Staff appeared through counsel. During the conference, it was
11 established that Mr. Wischmeier was authorized to represent the Company pursuant to Arizona
12 Supreme Court Rule 31(d)(28); Staff stated it did not believe that a hearing was necessary in this matter
13 and that the parties may be able to resolve the issues; and Staff and the Company requested additional
14 time to reach an agreement on the issues. At the conclusion of the conference, Staff and the Company's
15 request for additional time to resolve the issues was granted and Staff stated it would file an Amended
16 Staff Report.

17 11. On January 12, 2016, Staff filed an Amended Staff Report, continuing to recommend
18 approval of the application, subject to Staff's modified rates and charges and conditions ("Amended
19 Report").

20 12. On February 23, 2016, the Company filed a letter in the docket stating that it has no
21 objection to Staff's amended recommendations.

22 **Background**

23 13. Pine Valley is an Arizona "C" corporation engaged in the business of providing water
24 utility service in an area southeast of Sedona, Arizona in Yavapai County.

25 14. Pine Valley was granted a Certificate of Convenience and Necessity ("CC&N") to
26 provide water utility service in Arizona in Commission Decision No. 42256 (July 28, 1972).

27 15. Pine Valley is currently providing services under rates and charges established in
28 Commission Decision No. 63681 (May 24, 2001).

1 16. The Company is currently serving approximately 170 metered customers and its service
2 area encompasses approximately 147 acres.

3 17. Staff has determined that Pine Valley is a Class “E” utility.¹

4 18. Pine Valley is wholly-owned subsidiary of Lance Enterprises, Inc. (“LEI”).

5 **Water System/Compliance Issues**

6 19. As part of its review of Pine Valley’s application, Staff conducted a site visit to evaluate
7 the Company’s plant facilities.²

8 20. According to Staff, Pine Valley’s water system consists of a single well, with a yield of
9 80 gallons per minute (“GPM”); an arsenic treatment system; two storage tanks, with a combined
10 capacity of 191,000 gallons; two booster pumps; one pressure tank; seven fire hydrants; and a
11 distribution system serving approximately 170 customers during the test year (“TY”) ending December
12 31, 2014.³

13 21. According to Staff, Pine Valley’s non-account water loss is below 10 percent per year
14 and is within acceptable limits.⁴

15 22. Pine Valley’s CC&N area has experienced slow, but steady, growth. According to Staff,
16 the CC&N area is surrounded by the Tonto National Forest and growth is not possible outside of the
17 approximate 205 existing lots in the Pine Valley Subdivision.⁵ Staff believes the Company’s well
18 capacity of 80 GPM and storage tank capacity of 191,000 gallons are adequate to serve Pine Valley’s
19 current customer base and future growth.

20 23. Staff opined that the Company’s two 7.5 horse power booster pumps may not be
21 appropriately sized to maximize efficient performance and that the booster pumps are using more
22 energy than necessary, resulting in increased maintenance costs to operate the water system.⁶ Staff
23 suggests that the Company consider retaining the services of a professional engineer to study the
24 pumping dynamics to get recommendations to enhance the efficiency of the booster pumps, to save

25 _____
26 ¹ Amended Staff Report at 3.

27 ² Amended Staff Engineering Report at 1.

28 ³ *Id.* at 1-2.

⁴ *Id.* at 8.

⁵ *Id.* at 10.

⁶ *Id.* at 9.

1 energy, and to reduce maintenance costs related to the water system.⁷

2 24. Although Pine Valley has an arsenic treatment system, Staff states that the Company
3 treats all raw water distributed to customers and that the Company's raw water contains approximately
4 27 parts per billion ("ppb") arsenic. The Environmental Protection Agency ("EPA") requires that
5 arsenic maximum contaminant levels ("MCLs") not exceed 10 ppb. Staff states that the Company
6 should implement a blending plan to reduce the MCLs for arsenic to meet EPA standards. Staff
7 indicates that if the Company implements a blending plan, approximately one quarter of the Company's
8 raw water could initially bypass the arsenic treatment system and be blended with treated water to meet
9 the arsenic MCLs. With less raw water passing through the arsenic treatment system, Staff claims the
10 arsenic media will become less saturated with arsenic, thereby improving the effectiveness of the
11 media, extending the life of the media, reducing maintenance costs (media will not have to be replaced
12 as often), and reducing arsenic levels. Staff also suggested that the Company should retain a
13 professional engineer to implement a blending plan and to analyze ways to increase the life of the
14 arsenic treatment system media and to decrease maintenance costs.

15 25. As of January 19, 2015, Pine Valley was not in compliance with the Arizona Department
16 of Environmental Quality ("ADEQ") standards related to monitoring and reporting requirements, and
17 ADEQ has determined that the Company's water system is currently not in compliance with water
18 quality standards as required by 40 C.F.R. 141 and Arizona Administrative Code ("A.A.C.") Title 18,
19 Chapter 4. Staff states that although the Company has installed an arsenic treatment system, it failed
20 to report its arsenic results to ADEQ for the 2nd quarter of 2014 and the 1st quarter of 2015.

21 26. Staff recommends that any increase in rates approved by the Commission not become
22 effective until the first day of the month after the Company files with Docket Control, as a compliance
23 item in this docket, documentation from ADEQ indicating that Pine Valley's water system is compliant
24 with departmental requirements.⁸

25 27. Pine Valley is not located within an Arizona Department of Water Resources
26 ("ADWR") Active Management Area ("AMA") as of a July 9, 2015, compliance report. ADWR

27 _____
28 ⁷ Amended Staff Engineering Report at 9.

⁸ *Id.* at 11.

1 determined that the Company is not in compliance with ADWR requirements governing water
2 providers and/or community water systems because the Company failed to submit a five-year water
3 system plan for the year 2012.⁹

4 28. Staff recommends that any increase in rates approved by the Commission not become
5 effective until the first day of the month after the Company files with Docket Control, as a compliance
6 item in this docket, documentation from ADWR indicating that Pine Valley's water system is
7 compliant with departmental requirements governing water providers and/or community water
8 systems.¹⁰

9 29. Staff states that the Company's well pump site does not meet ADEQ security
10 standards.¹¹ During Staff's site visit, Staff observed that the Company's well pump is within the plant
11 area, but is located inside a wood framed enclosure that is easily accessible to the public.¹² According
12 to ADEQ's Bulletin No. 10, "if a well head is not enclosed by a building, security fencing at least 6
13 feet high shall be constructed." Bulletin No. 10 also states that "[o]ther approved means of preventing
14 potential contamination may be approved by the Department."¹³

15 30. Staff recommends that the Company file with Docket Control, as a compliance item in
16 this docket, and within 90 days of the effective date of a Decision in this matter, documentation
17 demonstrating that the Company has implemented well security in the form of a lockable well enclosure
18 or lockable six foot fence.¹⁴

19 31. Staff states that the Company has purchased a used 70kw generator that will help to
20 improve the water system's electrical service during power outages, as well as provide functionality to
21 automatically start the mechanism when needed.¹⁵ According to Staff, the Company has not completed
22 the electrical tie-ins needed to make the generator "used and useful." Staff recommends that the
23 Company complete all necessary generator electrical tie-ins so that the generator can be used during
24

25 ⁹ Amended Staff Engineering Report at 12.

26 ¹⁰ *Id.*

27 ¹¹ Staff citing ADEQ Bulletin No. 10, "Guidelines for the Construction of Water Systems," May 1978 ("Bulletin 10").

28 ¹² Amended Staff Engineering Report at 15.

¹³ Staff citing Bulletin 10.

¹⁴ Amended Staff Engineering Report at 15.

¹⁵ *Id.*

1 power interruptions.¹⁶

2 32. During its site visit, Staff identified the following additional plant deficiencies:

| 3 Location | 4 Issue Type | 5 Description of Issue | 6 Possible Consequence | 7 Staff Recommends Company | 8 Regulation – Guideline |
|---------------------|------------------------------------|--|---------------------------|---|---|
| 9 Well Pump | 10 Substandard Installation/Safety | 11 Exposed electrical wiring to well pump. | 12 Bodily Harm | 13 Rewire well pump utilizing conduit installed in professional manner | 14 OSHA 29 CFR ¹⁷ 1910.305 & 1910.307 & Bulletin No. 10, Chapter 3.G.3 |
| | 15 Substandard Installation/Safety | 16 Exposed electrical Romex cables near well pump area leading to booster building | 17 Bodily Harm & Tripping | 18 Install wiring in conduit in professional manner or if wiring has no purpose remove at source | 19 OSHA 29 CFR 1910.305, 1910.307 & 1910.22 |
| 20 Booster Building | 21 Substandard Installation/Safety | 22 Exposed electrical wiring in 2 junction boxes & exposed conduit holes in another junction box | 23 Bodily Harm | 24 Close junction boxes with approved covers & cap exposed holes or replace junction box & insure circuit protected by Ground Fault Interrupter breaker | 25 OSHA 29 CFR 1910.305 & 1910.307 |

26 33. Staff recommends that within 90 days of the effective date of a Decision in this matter, Pine Valley correct the above plant deficiencies and file, as a compliance item with the Commission's Docket Control, documentation demonstrating that the improvements have been completed.

27 34. Staff states that Pine Valley's records are in substantial compliance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

28 35. Staff recommends that on a going-forward basis, Pine Valley record all plant

¹⁶ Amended Staff Engineering Report at 15.

¹⁷ United States Department of Labor, Occupational Health and Safety Administration ("OSHA"), Title 29 – Labor, Code of Federal Regulations ("CFR"), Part 1910.

1 transactions, including retirements, following NARUC guidelines.

2 36. During its review of the Company's application, Staff noted that Pine Valley is leasing
3 storage tanks from its parent company, LEI. Staff states that generally a water utility should own its
4 utility plant to avoid operational problems.

5 37. Staff recommends that the storage tanks being used by Pine Valley be transferred from
6 LEI to the utility, at net book value.

7 38. Pine Valley is in compliance with the Commission's Compliance Division.

8 39. The Company has approved Curtailment and Backflow Prevention Tariffs on file with
9 the Commission.

10 40. The Company does not oppose Staff's recommendations.¹⁸

11 41. We find Staff recommendations reasonable and we will adopt them.

12 **Rate Application**

13 42. The Company's rate application originally requested approval to increase rates to
14 generate additional revenues in the amount of \$33,599, or 35 percent over test year ("TY") revenues
15 of \$95,996, to \$129,595. The Company's application stated that the additional revenues are needed to
16 cover the cost of maintenance for its arsenic treatment system, including media replacement, and
17 needed improvements on the water system.¹⁹

18 43. Pine Valley used a TY ending December 31, 2014.

19 44. Pine Valley filed with its application a notarized affidavit certifying that it mailed to
20 each of its customers, on June 26, 2015, notice of the rate application.

21 45. Approximately 51 opinions in opposition to the proposed rate increase were filed in this
22 docket by customers of Pine Valley.

23 46. Staff recommends approval of the Company's rate application using Staff's revised
24 recommended rates and charges as set forth in Staff's Amended Report. In its Amended Report, Staff
25 recommends a revenue increase of \$15,468 or 15.98 percent, over Staff's adjusted TY revenue of
26 \$96,811, to \$112,279.²⁰

27 ¹⁸ Comments on Staff Report docketed on February 23, 2016.

28 ¹⁹ Company's application at 3.

²⁰ Amended Staff Report at 3.

1 47. Pine Valley is now in agreement with Staff's recommended rates and charges, as
2 modified in the Amended Report.²¹

3 **Rate Base**

4 48. Pine Valley did not propose a fair value rate base ("FVRB") that differed from its
5 proposed original cost rate base ("OCRB") of \$85,253.

6 49. Staff recommends the following adjustments to the Company's proposed FVRB:

- 7 a. Decreasing Plant-in-Service by \$4,684, from \$248,374 to \$243,690, to
8 reflect the reclassification of \$7,225 from Acct. No. 320.1 Water
9 Treatment Plant to Acct. No. 620.1 Arsenic Media Expense, and to
10 recognize \$2,541 in supported water treatment plant.²²
- 11 b. Increasing Accumulated Depreciation by \$5,493, from \$163,121 to
12 \$168,614, to reflect Staff's recalculation of accumulated depreciation
13 based on Staff's adjusted Plant-in-Service and Commission approved
14 rates.²³
- 15 c. Increasing Customer Deposits by \$629, from \$0, to reflect Staff's
16 calculation of Customer Deposits.²⁴
- 17 d. Increasing Advances in Aid of Construction ("AIAC") by \$18,790,
18 from \$0, to reflect that in the year 2013 thirty-one Pine Valley customers
19 loaned the Company \$32,000 to assist in the purchase and installation
20 of an arsenic removal system. Staff states that the Company and the
21 customers agreed that rather than the Company making cash payments
22 on the \$32,000 loan, the Company would provide the customers with
23 water at no charge until the loan amount was paid in full. For rate
24 making purposes, Staff treated the \$32,000 as AIAC because the
25 Company used customer provided funds. Staff states the Company's
26 cash flow will improve before this Decision goes into effect because the
27 loan refunds will be paid off.
- 28 e. Increasing Working Capital by \$9,268, from \$0, to reflect Staff's
calculation for purchased power and purchased water in the amount of
\$412 and Staff's calculation for operation and maintenance expenses of
\$8,857. Staff used the formula method to calculate the Company's
Working Capital.²⁵

50. Staff's recommended total adjustments to FVRB decrease the Company's proposed rate
base by \$20,328, from \$85,253 to \$64,925.²⁶

51. We find Staff's adjustments to rate base reasonable, and we find that Pine Valley's
OCRB does not differ from its FVRB of \$64,925.

²¹ Comments to Staff's Amended Report docketed on February 23, 2016.

²² Staff Schedule BCA-1 at 1.

²³ Staff Schedule BCA-2 at 2.

²⁴ *Id.* at 4.

²⁵ The formula method is based on 1/8 of the operating expenses less depreciation, taxes, purchased power and purchased water expenses, plus 1/24 of purchased power and purchased water expenses. See also Staff Schedule BCA-2 at 1-4.

²⁶ Staff Schedule BCA-1 at 1.

1 **Operating Income and Revenue Requirement**

2 52. The Company proposed a \$33,599, or 35 percent, increase in revenues over its proposed
3 TY revenues of \$95,996, to \$129,595.

4 53. Staff recommends a \$15,468, or 15.98 percent, increase over Staff's adjusted TY
5 revenue of \$96,811, to \$112,279.

6 54. Staff recommends the following adjustments to revenues and operating expenses:

- 7 a. Increasing Other Water Revenues by \$815, from \$0, to reflect
8 recognition of other water revenue.²⁷
- 9 b. Increasing Arsenic Media expense by \$7,225, from \$0, to reflect the
10 reclassification of \$7,225 from Acct. No. 320.1, Water Treatment Plant,
11 to Acct. No. 620.1, Arsenic Media Expense.
- 12 c. Decreasing Outside Services expense by \$19,200, from \$60,000 to
13 \$40,800, to reflect Staff's calculation and recognized \$20 per customer,
14 per month management fee for all services allowed for the Company.²⁸
- 15 d. Increasing Water Testing by \$620, from \$669 to \$1,289, to reflect
16 Staff's calculation of water testing expense due to the Company's
17 mandatory participation in the Monitoring Assistance Program
18 ("MAP") and to perform all testing required by ADEQ.²⁹
- 19 e. Increasing Depreciation expense by \$383, from \$3,528 to \$3,911, to
20 reflect Staff's recommended depreciation rates for Staff's
21 recommended plant balances.³⁰
- 22 f. Increasing Property Tax expense by \$177, from \$3,610 to \$3,787, to
23 reflect Staff recalculation of property tax expense as required by the
24 Arizona Department of Revenue methodology.³¹
- 25 g. Increasing Income Tax expense by \$1,598, from \$50 to \$1,648, to
26 reflect Staff's calculation of the income tax obligation based on Staff's
27 adjusted TY taxable income.³²

28 55. Staff recommends total annual operating revenues of \$112,279, an increase of \$15,468,
29 or 15.98 percent, over Staff's adjusted TY revenue of \$96,811. Staff's recommended revenue would
30 produce an operating income of \$18,991, for a 16.91 percent operating margin, and a cash flow of
31 \$22,901. Staff states that it used the Company's cash flow needs to determine the revenue requirement,
32 and Staff believes its recommended revenue requirement will provide the Company with sufficient
33 cash flow to pay operating expenses and contingencies.³³

34 56. We find that Staff's recommended operating expenses of \$93,288, operating income of

25 ²⁷ Staff Schedule BCA-3 at 1-2.

26 ²⁸ Staff calculated the \$20 per customer x 170 customers x 12 months = \$40,800.

27 ²⁹ Staff Report at Engineering Report at 12. See, also Staff Schedule BCA-3 at 1-2.

28 ³⁰ Staff Schedule BCA-3 at 1-2.

29 ³¹ *Id.* at 5.

30 ³² Staff Schedule BCA-1 at 3.

31 ³³ Amended Report at 7.

1 \$18,991, and revenue requirement of \$112,279, are reasonable, and we will adopt them.

2 **Rate Design**

3 57. The rates and charges for the Company at present, as proposed in the rate application,
4 and as recommended by Staff are as follows:

5 **MONTHLY USAGE CHARGE:**

| | Present | Proposed Rates | |
|---------------------|---------|----------------|---------|
| | Rates | Company | Staff |
| 6 5/8" x 3/4" Meter | \$18.65 | \$37.50 | \$23.00 |
| 7 3/4" Meter | 21.26 | 45.00 | 24.00 |
| 8 1" Meter | 24.80 | 75.00 | 28.00 |
| 9 1 1/2" Meter | - | - | - |
| 2" Meter | \$43.64 | \$95.00 | \$52.00 |
| 3" Meter | - | - | - |
| 10 4" Meter | - | - | - |
| 6" Meter | - | - | - |
| 11 8" Meter | - | - | - |
| 12 10" Meter | - | - | - |

13 **COMMODITY RATES**

14 **5/8" x 3/4" Meter – Residential**

| | | | |
|----------------------------|--------|--------|--------|
| 15 0 to 4,000 Gallons | \$3.32 | | \$3.87 |
| 4,001 to 14,000 Gallons | 4.98 | | 5.55 |
| 16 Over 14,000 Gallons | 5.98 | | 6.60 |
| 0 to 5,000 Gallons | | \$2.99 | |
| 17 5,001 to 10,000 Gallons | | 3.49 | |
| Over 10,000 Gallons | | 3.99 | |

18 **3/4" Meter – Residential and Commercial**

| | | | |
|----------------------------|--------|--------|--------|
| 19 0 to 4,000 Gallons | \$3.32 | | \$3.87 |
| 4,001 to 14,000 Gallons | 4.98 | | 5.55 |
| 20 Over 14,000 Gallons | 5.98 | | 6.60 |
| 0 to 5,000 Gallons | | \$2.99 | |
| 21 5,001 to 10,000 Gallons | | 3.49 | |
| 22 Over 10,000 Gallons | | 3.99 | |

23 **1" Meter – Residential and Commercial**

| | | | |
|----------------------------|--------|--------|--------|
| 24 0 to 4,000 Gallons | \$3.32 | | \$3.87 |
| 4,001 to 14,000 Gallons | 4.98 | | 5.55 |
| 25 Over 14,000 Gallons | 5.98 | | 6.60 |
| 0 to 5,000 Gallons | | \$2.99 | |
| 26 5,001 to 10,000 Gallons | | 3.49 | |
| 27 Over 10,000 Gallons | | 3.99 | |

28 ...

2" Meter – Residential and Commercial

| | | | | |
|---|-------------------------|--------|--------|--------|
| 1 | 0 to 4,000 Gallons | \$3.32 | | \$3.87 |
| 2 | 4,001 to 14,000 Gallons | 4.98 | | 5.55 |
| | Over 14,000 Gallons | 5.98 | | 6.60 |
| 3 | 0 to 5,000 Gallons | | \$2.99 | |
| | 5,001 to 10,000 Gallons | | 3.49 | |
| 4 | Over 10,000 Gallons | | 3.99 | |

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-40-5)

| | Present | Company | Staff Recommended | | | |
|----|-------------------|--------------|-------------------|---------------|--------------|---------|
| | <u>Rates</u> | <u>Rates</u> | <u>Service</u> | <u>Meter</u> | <u>Total</u> | |
| | | | <u>Line</u> | <u>Charge</u> | | |
| 9 | 5/8" x 3/4" Meter | - | - | - | - | |
| | 3/4" Meter | - | - | - | - | |
| 10 | 1" Meter | - | - | - | - | |
| | 1 1/2" Meter | \$570 | \$570 | \$315 | \$255 | \$570 |
| 11 | 2" Turbine Meter | - | - | - | - | |
| | 2" Compound Meter | \$970 | \$970 | \$455 | \$515 | \$970 |
| 12 | 3" Turbine Meter | - | - | - | - | |
| | 3" Compound Meter | \$1,900 | \$1,900 | \$780 | \$1,120 | \$1,900 |
| 13 | 4" Turbine Meter | - | - | - | - | |
| | 4" Compound Meter | \$2,155 | \$2,155 | \$840 | \$1,315 | \$2,155 |
| 14 | 6" Turbine Meter | - | - | - | - | |
| 15 | 6" Compound Meter | \$4,165 | \$4,165 | \$1,375 | \$2,790 | \$4,165 |

| | Present | Company | Staff | |
|----|------------------------------------|-----------------|--------------------|---------|
| | <u>Rates</u> | <u>Proposed</u> | <u>Recommended</u> | |
| 17 | <u>SERVICE CHARGE:</u> | | | |
| | Establishment | \$35.00 | \$45.00 | \$40.00 |
| 18 | After Hours Service Charge | 45.00 | 50.00 | 50.00 |
| | Reconnection (Delinquent) | 40.00 | 50.00 | 40.00 |
| 19 | Meter Test (If Correct) | 50.00 | 50.00 | 30.00 |
| | Deposit | 2x Average Bill | * | * |
| 20 | Deposit Interest | ** | 0 | * |
| | Reestablishment (Within 12 Months) | | ** | ** |
| 21 | NSF Check | \$25.00 | \$40 + bank | \$25.00 |
| | | | fees | |
| 22 | Deferred Payment | 8% | 10% | **** |
| 23 | Meter Reread (If Correct) | \$25.00 | \$25.00 | \$25.00 |
| 24 | Late Payment Penalty | \$5.00 | 10.00 | 5.00 |

Monthly Service Charge for Fire Sprinkler:

| | | | | |
|----|-----------------|---|---|-----|
| 25 | 4" or Smaller | - | - | *** |
| 26 | 6" | - | - | *** |
| | 8" | - | - | *** |
| 27 | 10" | - | - | *** |
| 28 | Larger than 10" | - | - | *** |

* Per Commission rule A.A.C. R-14-2-403(B).

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

*** 2% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**** Pursuant to A.A.C. R14-2-409(G).

58. In addition to the collection of regular rates, the Company will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, pursuant to Commission Rule A.A.C. R14-2-409(D)(5).

59. Pine Valley did not propose any changes to its three-tiered rate structure, but did propose modifications to its break-over points. The Company initially proposed that its monthly minimum charges include zero gallons and that its break-over points be modified to include first-tier 0 to 5,000 gallons, second-tier 5,001 to 10,000 gallons, and third-tier over 10,000 gallons.³⁴

60. Staff's recommends no change in the Company's current break-over points of 0 to 4,000 gallons for the first-tier, 4,001 to 14,000 gallons second-tier, and over 14,000 gallons for the third-tier. Staff concurs with the Company's rate structure and the Company's proposal that its monthly minimum charges include zero gallons.³⁵

61. The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential customer bill, with a median usage of 4,162 gallons, from \$32.74 to \$49.94, for an increase of \$17.20, or 52.50 percent.³⁶

62. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential customer bill, with a median usage of 4,162 gallons, from \$32.74 to \$39.38, for an increase of \$6.64, or 20.30 percent.³⁷ For an average usage customer (6,250 gallons) with the same meter size, Staff's recommended rates would increase the monthly bill from \$43.14 to \$50.97, for an increase of \$7.83, or 18.20 percent.³⁸

63. The Company proposed no changes to its current Service Line and Meter Installation Charges. Staff recommends that the Company apply separate charges for service line and meter

³⁴ Staff Schedule BCA-4.

³⁵ *Id.*

³⁶ Staff Schedule BCA-5.

³⁷ *Id.*

³⁸ *Id.*

1 installations.³⁹ Staff states that there may be times when the Company may need to install meters on
 2 an existing service line; therefore, Staff recommends separate service and meter installation charges.

3 64. Pine Valley proposed various changes to its Service Charges. Staff recommends the
 4 following adjustments to the Company's proposed Service Charges:

- 5 a. Increasing Establishment Charge by \$5, from \$35 to \$40;
- 6 b. Eliminating the Company's current Establishment Charge (After Hours)
 7 and creating a separate \$50 after-hours service charge to be applied to
 8 any service performed after hours at the customer's request and/or for
 9 the customer's convenience;⁴⁰
- 10 c. Decreasing Meter Test Charge by \$20, from \$50 to \$30, because the
 11 Commission provides meter testing at no charge;
- 12 d. Increasing Meter Re-Read by \$10, from \$15 to \$25, so as not to exceed
 13 charges for similar work requiring a field visit;
- 14 e. Adding an After Hours Service Charge in the amount of \$50, for service
 15 provided after normal business hours when such service is at the
 16 customer's request or for the customer's convenience. Staff states the
 17 tariff compensates the utility for additional expenses incurred from
 18 providing after-hours service; and
- 19 f. Denying the Company's proposed Reconnection (Delinquent and After
 20 Hours) Charge in the amount of \$50 and establishing the separate \$50
 21 after-hours service charge (as stated above).

22 65. Staff also recommends no change to the Company's current Reconnection (Delinquent)
 23 Charge of \$40; NSF Check Charge of \$25; Late Payment Penalty Charge of \$5; Deferred Payment
 24 Charge of 1 ½ percent per month; and Deposit Charge as set forth in A.A.C. R14-2-403(B).⁴¹

25 66. Staff further recommends that Pine Valley:

- 26 a. File with Docket Control, as a compliance item in this docket, a
 27 schedule of its approved rates and charges within 30 days after the
 28 effective date of this Decision;
- 29 b. Notify its customers of the authorized rates and charges approved in this
 30 docket, and the effective date of the authorized rates and charges, in a
 31 form acceptable to Staff, by means of an insert in its next regular
 32 scheduled billing and file copies of the notice with Docket Control
 33 within 10 days of the date notice is sent to customers; and
- 34 c. On a going-forward basis, the Company use the depreciation rates as
 35 delineated in Table 9 of the Amended Report in the Engineering Report
 36 section.

37 67. Staff's additional recommendations are reasonable and we will adopt them.

38 ³⁹ Staff Schedule BCA-4.

39 ⁴⁰ Staff states it believes it is appropriate to apply an after-hours service charge in addition to the charge for any utility
 40 service provided after hours at the customer's request or for the customer's convenience. Under Staff's proposal, a customer
 41 would be subject to a \$40 Establishment Fee if it is done during normal business hours, but the customer would pay an
 42 additional \$50 After Hours Fee if the customer requested that the establishment be done after normal business hours.

43 ⁴¹ Amended Staff Report at 8.

1 68. 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 the Company that any
3 taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to
4 the Commission's attention that a number of water companies have been unwilling or unable to fulfill
5 their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years.
6 It is reasonable, therefore, that Pine Valley should annually file, as part of its annual report, an affidavit
7 with the Utilities Division attesting that the Company is current on its property taxes in Arizona.

8 **CONCLUSIONS OF LAW**

9 1. Pine Valley is a public service corporation within the meaning of Article XV of the
10 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

11 2. The Commission has jurisdiction over Pine Valley and the subject matter of the rate
12 application.

13 3. Notice of the application was given in accordance with the law.

14 4. The rates and charges authorized herein are just and reasonable and should be approved
15 without a hearing.

16 5. Staff recommendations, as set forth herein, are reasonable and should be adopted.

17 **ORDER**

18 IT IS THEREFORE ORDERED that Pine Valley Water Company, Inc., is hereby authorized
19 and directed to file with the Commission, as a compliance item in this docket, on or before May 31,
20 2016, a revised tariff setting forth following rates and charges:

21 **MONTHLY USAGE CHARGE:**

| | | |
|----|-------------------|---------|
| 22 | 5/8" x 3/4" Meter | \$23.00 |
| 23 | 3/4" Meter | 24.00 |
| | 1" Meter | 28.00 |
| 24 | 1 1/2" Meter | - |
| | 2" Meter | \$52.00 |
| 25 | 3" Meter | - |
| 26 | 4" Meter | - |
| | 6" Meter | - |
| 27 | 8" Meter | - |
| 28 | 10" Meter | - |

COMMODITY RATES

5/8" x 3/4" Meter – Residential

| | |
|-------------------------|--------|
| 0 to 4,000 Gallons | \$3.87 |
| 4,001 to 14,000 Gallons | 5.55 |
| Over 14,000 Gallons | 6.60 |

3/4" Meter – Residential and Commercial

| | |
|-------------------------|--------|
| 0 to 4,000 Gallons | \$3.87 |
| 4,001 to 14,000 Gallons | 5.55 |
| Over 14,000 Gallons | 6.60 |

1" Meter – Residential and Commercial

| | |
|-------------------------|--------|
| 0 to 4,000 Gallons | \$3.87 |
| 4,001 to 14,000 Gallons | 5.55 |
| Over 14,000 Gallons | 6.60 |

2" Meter – Residential and Commercial

| | |
|-------------------------|--------|
| 0 to 4,000 Gallons | \$3.87 |
| 4,001 to 14,000 Gallons | 5.55 |
| Over 14,000 Gallons | 6.60 |

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-40-5)

| | <u>Service</u> <u>Line</u> | <u>Meter</u> <u>Charge</u> | <u>Total</u> |
|-------------------|-------------------------------|-------------------------------|--------------|
| 5/8" x 3/4" Meter | - | - | - |
| 3/4" Meter | - | - | - |
| 1" Meter | - | - | - |
| 1 1/2" Meter | \$315 | \$255 | \$570 |
| 2" Turbine Meter | - | - | - |
| 2" Compound Meter | \$455 | \$515 | \$970 |
| 3" Turbine Meter | - | - | - |
| 3" Compound Meter | \$780 | \$1,120 | \$1,900 |
| 4" Turbine Meter | - | - | - |
| 4" Compound Meter | \$840 | \$1,315 | \$2,155 |
| 6" Turbine Meter | - | - | - |
| 6" Compound Meter | \$1,375 | \$2,790 | \$4,165 |

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SERVICE CHARGE:

| | | |
|---|------------------------------------|---------|
| 1 | Establishment | \$40.00 |
| 2 | After Hours Service Charge | 50.00 |
| | Reconnection (Delinquent) | 40.00 |
| 3 | Meter Test (If Correct) | 30.00 |
| | Deposit | * |
| 4 | Deposit Interest | * |
| | Reestablishment (Within 12 Months) | ** |
| 5 | NSF Check | \$25.00 |
| 6 | Deferred Payment | **** |
| | Meter Reread (If Correct) | \$25.00 |
| 7 | Late Payment Penalty | 5.00 |

Monthly Service Charge for Fire Sprinkler:

| | | |
|----|-----------------|-----|
| 8 | 4" or Smaller | *** |
| 9 | 6" | *** |
| 10 | 8" | *** |
| | 10" | *** |
| 11 | Larger than 10" | *** |

12 * Per Commission rule A.A.C. R-14-2-403(B).

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

14 *** 2% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

15 **** Pursuant to A.A.C. R14-2-409.G

16 IT IS FURTHER ORDERED that the rates and charges approved herein shall not become
 17 effective until the first day of the month **after** Pine Valley Water Company has filed with Docket
 18 Control, as a compliance item in this docket, documentation from Arizona Department of
 19 Environmental Quality ("ADEQ") and from Arizona Department of Water Resources ("ADEQ")
 20 indicating that Pine Valley's water system is in compliance with ADEQ and ADWR requirements, as
 21 discussed herein. Compliance with this requirement shall not be considered complete until Staff's
 22 Compliance Section has issued a Compliance Letter stating that the Company has satisfied the
 23 requirement.

24 IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges, Pine
 25 Valley Water Company is authorized to collect from its customers a proportionate share of any
 26 privilege, sales, or use tax pursuant to A.A.C. R14-2-409(D).

27 IT IS FURTHER ORDERED that Pine Valley Water Company shall notify its customers of the
 28

1 authorized rates and charges, and the effective dates of said rates and charges, in a form acceptable to
2 the Commission Staff, by means of an insert in its next regularly scheduled billing, or separate mailing,
3 and Pine Valley Water Company shall file copies of the notice with Docket Control within 10 days of
4 the date the notice is sent to customers.

5 IT IS FURTHER ORDERED that Pine Valley Water Company is hereby put on notice that it
6 shall appropriately record all plant transactions in accordance with National Association of Regulatory
7 Utility Commissioners guidelines. If the Company fails to do so, the Commission's Utilities Division
8 may recommend that the Company be assessed fines in its next rate case.

9 IT IS FURTHER ORDERED that the storage tanks used by Pine Valley Water Company to
10 provide service to its customers, shall be transferred at net book value, from its parent company Lance
11 Enterprises to the utility. The Company shall file, as a compliance item in this docket, with Docket
12 Control, within 90 days of the effective date of this Decision, proof that it has legally transferred
13 ownership of the tanks from Lance Enterprises, Inc. to the utility.

14 IT IS FURTHER ORDERED that Pine Valley Water Company shall, on a going-forward basis,
15 use the depreciation rates by as delineated in Table 9 in the Staff Engineering Report issued in this
16 docket.

17 IT IS FURTHER ORDERED that Pine Valley Water Company shall file with Docket Control,
18 as a compliance item in this docket, and within 90 days of the effective date of this Decision,
19 documentation demonstrating that the Company has provided well security in the form of a lockable
20 well enclosure or lockable six foot fence.

21 IT IS FURTHER ORDERED that Pine Valley Water Company shall file with Docket Control,
22 as a compliance item in this docket, and within 90 days of the effective date of this Decision,
23 documentation demonstrating that it has completed all necessary generator electrical tie-ins needed to
24 make the Company's 70kw generator functional during power interruptions.

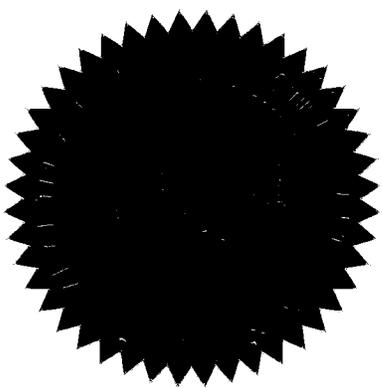
25 IT IS FURTHER ORDERED that Pine Valley Water Company shall file with Docket Control,
26 as a compliance item in this docket, and within 90 days of the effective date of this Decision,
27 documentation demonstrating that the Company has corrected all substandard electrical installations at
28 the Company's Well Pump area and Booster Building as described herein at Finding of Fact No. 31.

1 IT IS FURTHER ORDERED that Pine Valley Water Company shall file annually, with the
2 Commission's Utilities Division, as part of its Annual Report, an affidavit attesting that it is current on
3 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.

6 J. Blunt [Signature]
 7 CHAIRMAN COMMISSIONER
 8
 9 [Signature] [Signature] [Signature]
 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 13th day
16 of May 2016.

17 [Signature]
18 JODI JERICH
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____
22 YK.ru

23
24
25
26
27
28

1 SERVICE LIST FOR:

PINE VALLEY WATER COMPANY, INC.

2 DOCKET NO.:

W-02181A-15-0216

3 Lance Wischmeier
4 PINE VALLEY WATER COMPANY
4 480 Raintree Road
5 Sedona Arizona 86351

6 Janice Alward, Chief Counsel
6 Legal Division
7 ARIZONA CORPORATION COMMISSION
7 1200 West Washington Street
7 Phoenix, AZ 85007

8 Thomas Broderick, Director
9 Utilities Division
9 ARIZONA CORPORATION COMMISSION
10 1200 West Washington Street
10 Phoenix, AZ 85007

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