

ORIGINAL



0000170618

1 Steve Wene, No. 019630
2 MOYES SELLERS & HENDRICKS LTD.
3 1850 N. Central Avenue, Suite 1100
4 Phoenix, Arizona 85004
5 (602)-604-2189
6 swene@law-msh.com
7 Attorneys for Francesca Water Company, Inc.

RECEIVED

2016 MAY 26 P 4: 37

AZ CORP COMMISSION
DOCKET CONTROL

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 **COMMISSIONERS**

10 DOUG LITTLE, CHAIRMAN
11 BOB STUMP
12 BOB BURNS
13 TOM FORESE
14 ANDY TOBIN

Arizona Corporation Commission

DOCKETED

MAY 26 2016

DOCKETED BY 

15 IN THE MATTER OF THE APPLICATION
16 OF FRANCESCA WATER COMPANY,
17 INC. FOR A PERMANENT RATE
18 INCREASE

DOCKET NO: W-03945A-16-0044

**COMPANY'S RESPONSE TO
STAFF REPORT**

19
20 Francesca Water Company, Inc. ("Francesca" or "Company") hereby files its
21 response to the Staff Report.

22 **1.0 Revised Rate Schedule**

23
24 During the course of this rate case, Francesca discovered that the sole 1-inch meter
25 is actually a 5/8 by 3/4-inch meter. Apparently, this meter was downsized under previous
26 ownership and the change in records did not occur. The Company is in the process of
27 determining when the change occurred and is offering the customer a rebate.

28 Nevertheless, the single 1-inch meter has been reclassified as a 5/8 x 3/4-inch meter. The

1 revised bill count summary and rate schedule are set forth in Exhibits 1 and 2,
2 respectively.

3 **2.0 Company's Revenue Proposal**

4 Francesca's proposed metered water revenue requirement remains the same,
5 generating \$69,252 annually. Under the Company proposed rates, a customer using a
6 median of 4,697 gallons per month will see their bill increase \$11.76, or 32.96%, from
7 \$35.69 to \$47.45.

8 **3.0 Staff's Status Quo Proposal Fails to Generate the Required Revenue**

9 Staff is recommending a status quo approach, which demonstratively failed
10 Francesca over the past few years. In the last rate case, Staff determined the Company's
11 revenue requirement was \$63,547. *See* Decision No. 74397 at ¶ 16. Staff's proposed
12 metered water revenue of \$61,941 was adopted by the Commission. Staff is
13 recommending the same in this case. *See* Staff Report at Schedule BES-3.

14 In the last case, Staff proposed rate design reduced the cost of the first 3,000
15 gallons substantially while drastically increasing the rate for water over 10,000 gallons.
16 Francesca argued that Staff placed too much of its proposed increase in the third tier
17 commodity rate, arguing "if the high third tier rate results in customers conserving water
18 then revenues will decline and FWC will not earn its authorized revenues." *Id.* at ¶ 22.
19 Fearing a drastic revenue shortfall, Francesca proposed an alternative rate design set forth
20 below if Staff's revenue requirement was adopted. *See id.* at ¶ 23.

	Staff's Proposal	Company's Alternative
Monthly Minimum	\$19.00	\$22.00
Tiers		
0-3,000 gallons	\$2.00	\$2.30
3,001-10,000 gallons	\$4.35	\$4.00
Over 10,000 gallons	\$6.70	\$4.73

21
22
23
24
25
26 The Commission adopted Staff's revenue requirement of \$63,547. *Id.* at ¶ 21.
27 Fortunately, the Commission also adopted Francesca's compromise rate design. Though
28 the alternative rate design mitigated the impact, Francesca's concern that conservation

1 rate designs would result in revenue shortfalls proved accurate. During the 2012 test year
2 and thereafter, Francesca has never hit Staff's recommended annual revenue requirement.

2012 Rev. Requirement	Actual Revenues			
\$63,547	2012	2013	2014	2015
	\$53,772	\$49,942	\$57,360	\$57,352

7 While Francesca needed a cumulative \$254,188 in revenue between 2012 and 2015, it
8 received only \$218,426. Even with Francesca's compromise rate design in place, the
9 Company has suffered a \$35,762 shortfall over the past four years. This means every
10 year Francesca has endured on average a shortfall of almost \$9,000. In its best year,
11 Francesca's revenue shortfall was \$6,187, or 10%. For a small company serving 103
12 customers, a 10% revenue shortfall every year is devastating and not sustainable.

13 To assist the Court, Francesca is providing a table comparing the two previous rate
14 cases and the parties' proposals in this case. See Exhibit 3 (table and notes). As the table
15 illustrates, since 1999 Francesca's customer base has increased by 26%, from 82 to 103
16 customers. Yet, water consumption has slightly decreased from 7,811,000 gallons to
17 7,779,000 gallons per year. Since 1999, the median usage has decreased by 27.47% and
18 the average usage has decreased by 20.76%.

19 **4.0 Indicators Illustrate Francesca Near Financial Collapse**

20 A small water company needs a proper amount of metered water revenue and
21 properly designed rates to ensure the utility can meet that revenue requirement. If
22 required revenues are not generated, then the Company lacks the financial resources to
23 operate and pay liabilities. A struggling company will necessarily stop making repairs
24 and cut expenses, which will "get lower" each year. The drop in expenses and repairs
25 will consequently result in a lower revenue requirement during the next rate case. Thus
26 begins financial collapse.

1 Francesca shows all the signs of financial collapse. As explained below, its
2 operating expenses are dropping due to the revenue shortfall. It has a cash flow deficit.
3 It had no money to spend on capital repairs or improvements.

4 **4.1 Operating Expenses**

5 Operating expenses in 2015 were \$5,510 less than operating expenses in 2012.
6 The reason is simple – the revenue shortfall left the Company with less money to spend
7 on operations. During the 2015 test year, Francesca had less of its available cash flow
8 from the revenue generated by the current rates to spend on expense items. As revenues
9 decrease or stay flat due to conservation, there is less to spend on everything. Thus,
10 conservation rates caused conservation, resulting in less revenue, resulting is less cash
11 available for the Company to pay for expenses.

12 **4.2 Cash Flow**

13 The Company's 2015 cash flow was negative. During the test year, Francesca had
14 \$10,577 of operating income and \$5,357 of depreciation expense. This means its "cash
15 flow in" was \$15,934. Meanwhile, the Company paid WIFA \$7,845 and decreased its
16 accounts payable by \$10,501. This means its "cash flow out" was \$18,346. Thus, in
17 2015, the Company's cash flow was (\$2,412).

18 **4.3 No Money for Capital Improvements and Repairs**

19 Besides debt service and operating expenses, capital repairs can require substantial
20 amounts of cash. However, Francesca has not had enough cash receipts to make any
21 plant investments in the last two years.

22 **5.0 Proposal to Stabilize the Company's Financial Downfall**

23 Francesca is on the edge of financial ruin, and therefore, is proposing measures to
24 ensure the Company does not fail by focusing on the Company's financial health. First,
25 the rate design needs to favor revenue generation and stability over conservation goals.
26 Therefore, the Company is proposing a rate design whereby 53% of the revenue is
27 generated from the monthly minimum and 47% from the commodity rates. Second, the
28 tier increases need to be less drastic. Francesca is proposing that the first tier rate is

1 \$3.30 per thousand gallons and the highest tier rate is \$5.35 per thousand gallons. While
2 this approach still encourages conservation, it still recognizes that the Company needs to
3 be financially viable.

4 Third, Francesca proposes the Commission authorize a revenue shortage
5 surcharge. Under this proposal, if the Company has a revenue shortfall, then its rates will
6 automatically adjust in the following year to reach the metered water revenue authorized
7 by the Commission. For example, in 2015 the revenue requirement was not met. Under
8 this proposal, the Company would calculate this shortfall, which is not complex and can
9 be done quickly, and implement the surcharge in the January invoices. An example of
10 this calculation is set forth in Exhibit 4.

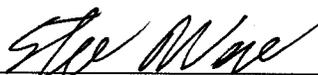
11 To be clear, the surcharge would only apply if there was a revenue shortfall during
12 a calendar year of new rates being in place. Assuming this case is decided in 2016, the
13 first full year of new rates being in place would be 2017. Accordingly, the surcharge
14 could not occur before 2018 and only if Francesca did not generate the revenue
15 requirement. Thus, Francesca requests a surcharge mechanism that adjusts billing to
16 generate the revenue requirement in this rate case decision as described herein.

17 **6.0 Action Requested**

18 Francesca moves this Court to adopt its position in this case, including a revenue
19 shortfall mechanism.

20 RESPECTFULLY SUBMITTED this 26th day of May, 2016.

21 **MOYES SELLERS & HENDRICKS LTD.**

22
23 
24 _____
25 Steve Wene

26 Original and 13 copies of the foregoing
27 filed this 26th day of May, 2016, with:
28

1 Docket Control
2 Arizona Corporation Commission
3 1200 West Washington
4 Phoenix, Arizona 85007

5
6 *Donnelly Herbert*
7

8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

EXHIBIT 1

Exhibit 1

Company Name: Francesca Water Company, Inc.	Test Year Ended: 12/31/2015
Meter Size: 5/8 x 3/4-inch	Docket No. W-03945A-16-0044

BILL COUNT SUMMARY

	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Total
- 0 -	8	7	6	9	30
1 to 1,000	19	16	16	25	76
1,001 to 2,000	35	26	26	36	123
2,001 to 3,000	53	27	36	36	152
3,001 to 4,000	45	31	25	31	132
4,001 to 5,000	35	42	21	44	142
5,001 to 6,000	35	32	25	38	130
6,001 to 7,000	18	20	28	22	88
7,001 to 8,000	20	6	15	8	49
8,001 to 9,000	12	18	12	11	53
9,001 to 10,000	11	8	11	9	39
10,001 to 12,000	9	22	24	13	68
12,001 to 14,000	7	14	19	10	50
14,001 to 16,000	0	10	9	8	27
16,001 to 18,000	0	9	7	3	19
18,001 to 20,000	2	6	7	2	17
20,001 to 25,000	1	8	6	1	16
25,001 to 30,000	0	4	7	1	12
30,001 to 35,000	0	1	3	0	4
35,001 to 40,000	0	1	0	0	1
40,001 to 50,000	0	1	3	1	5
50,001 to 60,000	0	0	0	0	0
60,001 to 70,000	0	0	0	0	0
70,001 to 80,000	0	0	1	0	1
80,001 to 90,000	0	0	0	0	0
90,001 to 100,000	0	0	0	0	0
Over 100,000 (List actual gallons, e.g., 120,000)	0	0	0	0	0
Total Bills	310	309	307	308	1234

EXHIBIT 2

Company Name: Francesca Water Company, Inc.	Test Year Ended: 31-Dec-15
Docket No. W-03945A-16-0044	

CURRENT AND PROPOSED RATES AND CHARGES

CUSTOMER CLASS: Residential___ Commercial___ Industrial___
 Irrigation___ All X___ Other, specify___

<u>MONTHLY USAGE CHARGE:</u>	CURRENT RATES		PROPOSED RATES	
	Rate	Gallons	Rate	Gallons
5/8-inch x 3/4-inch Meter	\$ 22.00	for -	\$ 30.00	for -
3/4-inch Meter	30.00	for -	45.00	for -
1-inch Meter	50.00	for -	75.00	for -
1 1/2-inch Meter	100.00	for -	150.00	for -
2-inch Meter	160.00	for -	240.00	for -
3-inch Meter	320.00	for -	480.00	for -
4-inch Meter	500.00	for -	750.00	for -
6-inch Meter	1,000.00	for -	1,500.00	for -

<u>COMMODITY CHARGE:</u> (All classes, per 1,000 gallons)	CURRENT RATES		PROPOSED RATES	
	Rate	Gallons	Rate	Gallons
5/8-inch x 3/4-inch Meter				
First Tier	\$ 2.30	0 to 3,000 gallons	\$ 3.30	0 to 3,000 gallons
Second Tier	4.00	3,001 to 10,000 gallons	4.45	3,001 to 10,000 gallons
Third Tier	4.73	Over 10,000 gallons	5.35	Over 10,000 gallons
3/4-inch Meter				
First Tier	\$ 4.35	0 to 10,000 gallons	\$ 4.45	0 to 10,000 gallons
Second Tier	6.70	Over 10,000 gallons	5.35	Over 10,000 gallons
1-inch Meter				
First Tier	\$ 4.35	0 to 17,000 gallons	\$ 4.45	0 to 17,000 gallons
Second Tier	6.70	Over 17,000 gallons	5.35	Over 17,000 gallons
1 1/2-inch Meter				
First Tier	\$ 4.35	0 to 37,000 gallons	\$ 4.45	0 to 37,000 gallons
Second Tier	6.70	Over 37,000 gallons	5.35	Over 37,000 gallons
2-inch Meter				
First Tier	\$ 4.35	0 to 61,000 gallons	\$ 4.45	0 to 61,000 gallons
Second Tier	6.70	Over 61,000 gallons	5.35	Over 61,000 gallons
3-inch Meter				
First Tier	\$ 4.35	0 to 127,000 gallons	\$ 4.45	0 to 127,000 gallons
Second Tier	6.70	Over 127,000 gallons	5.35	Over 127,000 gallons
4-inch Meter				
First Tier	\$ 4.35	0 to 200,000 gallons	\$ 4.45	0 to 200,000 gallons
Second Tier	6.70	Over 200,000 gallons	5.35	Over 200,000 gallons
6-inch Meter				
First Tier	\$ 4.35	0 to 410,000 gallons	\$ 4.45	0 to 410,000 gallons
Second Tier	6.70	Over 410,000 gallons	5.35	Over 410,000 gallons

Note: If rates and charges vary across customer classes, duplicate the form and complete one for each rate class. (e.g., residential, commercial) unless "All" is checked.

Company Name: Francesca Water Company, Inc. Docket No. W-03945A-16-0044	Test Year Ended: 31-Dec-15
--	----------------------------

CURRENT AND PROPOSED SERVICE CHARGES

CUSTOMER CLASS: Residential Commercial Industrial
 Irrigation All Other, specify _____

<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u> (Refundable pursuant to A.A.C. R14-2-405)	CURRENT CHARGES			PROPOSED CHARGES		
	SERVICE LINE CHARGE	METER INSTALLATION CHARGE	TOTAL CHARGES	SERVICE LINE CHARGES	METER INSTALLATION CHARGE	TOTAL CHARGES
5/8" x 3/4" Meter	\$ 430.00	\$ 130.00	\$ 560.00	\$ 490.00	\$ 132.00	\$ 622.00
3/4" Meter	430.00	230.00	660.00	490.00	233.00	723.00
1" Meter	480.00	290.00	770.00	547.00	293.00	840.00
1-1/2" Meter	535.00	500.00	1,035.00	610.00	506.00	1,116.00
2" Meter - Turbine	815.00	1,020.00	1,835.00	927.00	1,031.00	1,958.00
2" Meter - Compound	815.00	1,865.00	2,680.00	927.00	1,884.00	2,811.00
3" Meter - Turbine	1,030.00	1,645.00	2,675.00	1,171.00	1,662.00	2,833.00
3" Meter - Compound	1,150.00	2,520.00	3,670.00	1,308.00	2,546.00	3,854.00
4" Meter - Turbine	1,460.00	2,620.00	4,080.00	1,661.00	2,647.00	4,308.00
4" Meter - Compound	1,640.00	3,595.00	5,235.00	1,866.00	3,632.00	5,498.00
6" Meter - Turbine	2,180.00	4,975.00	7,155.00	2,479.00	5,026.00	7,505.00
6" Meter - Compound	2,300.00	6,870.00	9,170.00	2,615.00	6,939.00	9,554.00
Over 6"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

<u>SERVICE CHARGES:</u>	CURRENT CHARGES	PROPOSED CHARGES
Establishment	\$ 40.00	\$ 40.00
Service Charge (After Hours)	30.00	50.00
Reconnection (Delinquent)	35.00	45.00
Meter Re-Read (If Correct)	20.00	20.00
Meter Test (If Correct)	30.00	30.00
NSF Check	25.00	25.00
Deposit	*	*
Deposit Interest	*	*
Re-establishment (Within 12 Months)	**	**
Deferred Payment (Per Month)	1.50%	1.50%
Late Fee (Per Month)	***	***

* 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).
 *** \$5.00 or 1.50 percent, whichever is greater.

EXHIBIT 3

Company Name: Francesca Water Company, Inc.
 Docket No. W-03945A-16-0044

Test Year Ended: 31-Dec-15

Historical and Current Test Year Comparative Analysis									
Line Description	1999 Test Year Actual	Francesca Proposed	1999 Test Year Rates Ordered	2012 Test Year Actual	Francesca Proposed	2012 Test Year Rates Ordered	2015 Test Year Actual	Francesca Proposed	Staff Proposed
1 Monthly Test Year Median Usage	6,476	6,476	6,476	4,831	4,831	4,831	4,697	4,697	4,697
2 Monthly Test Year Average Usage	7,899	7,899	7,899	6,784	6,784	6,784	6,259	6,259	6,259
3 Rates in Effect Ordered by Decision	59262	N/A	63660	63660	N/A	74397	74397	TBD	TBD
4 Monthly Minimum	\$ 18.75	\$ 28.00	\$ 16.35	\$ 16.35	\$ 23.50	\$ 22.00	\$ 22.00	\$ 30.00	\$ 24.50
5 Gallons Included	2,000								
6 All Gallons Over 2,000	\$ 2.00								
7 Tier 1 - 1 to 10,000 gallons		\$ 3.00							
8 Tier 2 - 10,001 to 20,000 gallons		4.00							
9 Tier 3 - Over 20,000 gallons		6.00							
10 Tier 1 - 1 to 4,000 gallons			\$ 2.63	\$ 2.63					
11 Tier 2 - 4,001 to 20,000			3.95	3.95					
12 Tier 3 - Over 20,000 gallons			4.73	4.73					
13 Tier 1 - 1 to 3,000 gallons					\$ 3.10	\$ 2.30	\$ 2.30	\$ 3.30	\$ 2.90
14 Tier 2 - 3,001 to 10,000					4.30	4.00	4.00	4.45	4.60
15 Tier 3 - Over 10,000 gallons					5.61	4.73	4.73	5.35	5.33
16 Median Bill	\$ 27.70	\$ 47.43	\$ 35.25	\$ 30.15	\$ 40.67	\$ 36.22	\$ 35.69	\$ 47.45	\$ 41.01
17 Average Bill	30.55	51.70	40.48	37.87	49.07	44.04	41.93	54.40	48.19
18 Gallons Sold	7,811,000			8,993,000			7,779,000		
19 Number of Customers	82			109			103		
20 Metered Water Revenue	\$ 26,957	\$ 48,870	\$ 35,165	\$ 52,166	\$ 69,166	\$ 61,941	\$ 54,252	\$ 69,252	\$ 61,941
21 Operating Expenses	30,429	30,429	28,212	51,083	51,083	54,363	44,717	49,861	48,853

Please see notes on the following page.

Notes Regarding Historical and Current Test Year Comparative Analysis

Lines 1 and 2 - Both median and average usage decreased from the 1999 test year to the 2012 test year, as well as the 2012 test year to the 2015 test year. For the median user, the total decrease was 1,779 gallons per month, or 27.47%, and during that same time period the average user has reduced monthly usage by 1,640 gallons, or 20.76%.

Line 4 - In the 1999 test year, the monthly minimum was \$18.75 with one commodity rate and 2,000 gallons in the minimum. Decision 63660 reduced the monthly minimum by \$2.40 (12.8%), and implemented an inverted three-tier commodity structure for the first time, with no gallons included in the monthly minimum.

Lines 5 through 15 – over the interim years between the three rate cases, commodity rates have changed from a uniform rate with gallons included in the minimum to inverted tiered rates that do not include any gallons.

Lines 16 and 17 – these amounts are a reflection of the amount of median and average usage bills over the last three test years. The median and average bills at the 1999 usage at the rates authorized by Decision 63660 are higher than the actual 2012 test year results. In addition, the median and average bills at the 2012 usage at the rates authorized by Decision 74397 are also higher than the actual 2015 test year results.

Lines 18 and 19 – the overwhelming point that stands out here is that gallons sold decreased by 32,000 gallons from the 1999 test year to the 2015 test year while the customer count increased by 21. Stated simply, in the last 16 years, Francesca has been able to gain a net of 21 customers while at the same time realizing net water sold decreased by 32,000 gallons per year.

Line 20 – In the 1999 test year, Francesca was given an increase of \$8,208 when it asked for \$21,913. This is nearly a 51% decrease from the requested revenue in addition to a conversion to an inverted tier commodity rate structure. The dramatic revenue shortage paired with the new rate structure set Francesca on a path of ruin that it has yet to recover from. In addition, the 2012 and 2015 test year actual metered water revenue and Francesca proposed revenue are nearly identical. However, Staff recommended metered water revenue is the same for both test years.

Line 21 – this line is provided to show the relationship in each scenario compared to the revenue. Actual results for the 1999 and 2012 test years show that operating expenses either exceeded or were very close to the metered water revenue. However, during this time, Francesca began paying for a WIFA loan, and as a result, began to accumulate accounts payable as the WIFA loan payments are automatically withdrawn. It should be noted that under the current rates per Decision 74397, the 2012 the operating expenses were determined to be \$54,363. Under both Staff and Francesca proposed rates for the current rate case, the operating expenses are about \$49,000.

EXHIBIT 4

Company Name: Francesca Water Company, Inc. Docket No. W-03945A-16-0044	Test Year Ended: 31-Dec-15
--	----------------------------

Surcharge Calculation Example Using Actual Historical Amounts

Dec 74397 Metered Water Revenue Requirement	\$ 61,941	
2015 Test Year Actual Metered Water Revenue	<u>54,252</u>	
Metered Water Shortage for 2015		\$ 7,689
Annualization factor		<u>12</u>
Monthly Metered Water Shortage for 2015		\$ 641
2015 Average Number of Customers		<u>103</u>
Calculated Surcharge Per Customer Per Month		<u><u>\$ 6.22</u></u>