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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

Arizona Corporation Commission

DOCKETED

AUG 05 2016

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION OF  
PICACHO PEAK WATER COMPANY, INC. FOR  
APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02351A-11-0231

DECISION NO. 75686

**ORDER**

Open Meeting  
July 12 and 13, 2016  
Phoenix, Arizona

**BY THE COMMISSION:**

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

**FINDINGS OF FACT**

**Procedural History**

1. On June 1, 2011, Picacho Peak Water Company (“Picacho” or “Company”) filed with the Commission an application for a rate increase using a December 31, 2010, test year.<sup>1</sup>
2. The Commission Utilities Division (“Staff”) filed a Letter of Insufficiency on June 30, 2011, and the Company submitted its response on July 18, 2011.
3. On August 17, 2011, Staff advised Picacho that the application had met the sufficiency requirements of Arizona Administrative Code (“A.A.C.”) R14-2-103, and classified the Company as a Class E utility.
4. On August 29, 2011, the Company filed an affidavit attesting that it had mailed to its customers notice of the application on June 1, 2011.
5. On October 14, 2011, the parties filed a Joint Stipulation to Suspend Time Clock and Request for Procedural Order. Staff stated it had become aware that Picacho was engaged in discussions

<sup>1</sup> Picacho was directed in Decision No. 70558 (October 23, 2008) to file a rate application no later than June 1, 2011.

1 with the Arizona Department of Environmental Quality (“ADEQ”) to resolve outstanding water quality  
2 standard compliance issues. Staff believed that the ADEQ compliance issues should be resolved before  
3 Staff evaluated Picacho’s application. The parties requested that an order be issued indefinitely  
4 suspending the time clock and filing deadlines while Picacho resolved its ADEQ compliance issues.

5         6.         A Procedural Order docketed October 25, 2011, suspended the time clock and all filing  
6 deadlines in this matter. The Procedural Order required Picacho to file periodic Status Reports  
7 regarding the Company’s compliance with ADEQ regulations.

8         7.         Between January 5, 2012, and January 27, 2016, Picacho filed Status Reports as  
9 required by the October 25, 2011, Procedural Order.

10         8.         On May 29, 2015, Staff filed a Request for Procedural Conference.

11         9.         By Procedural Order issued June 15, 2015, a procedural conference was scheduled for  
12 June 23, 2015. At the June 23, 2015, procedural conference, the parties discussed the status of the  
13 ADEQ compliance issues and Picacho stated it was nearly finished with the necessary system  
14 improvements. Staff and the Company agreed that the test year information in the original application  
15 was now stale and that the Company should file an amended application in this docket updating its test  
16 year information.

17         10.        On October 2, 2015, Picacho filed an Amended Rate Application (“Application”).

18         11.        On October 9, 2015, the Company filed an affidavit attesting that it had mailed to its  
19 customers notice of the Application on October 5, 2015. In response to the notice, one customer filed  
20 comments with the Commission regarding the Application.

21         12.        Staff filed a Letter of Insufficiency on October 28, 2015, and Picacho filed a Response  
22 to Insufficiency Letter on November 30, 2015.

23         13.        On December 17, 2015, Staff advised Picacho that the Application had met the  
24 sufficiency requirements of A.A.C. R14-2-103, and classified the Company as a Class E utility.

25         14.        Staff docketed its Staff Report on February 12, 2016, recommending approval of the  
26 Application using Staff’s recommended rates and charges.

27         15.        Staff filed a Revised Staff Report on March 4, 2016, again recommending approval of  
28 the Application using Staff’s recommended rates and charges.

1           16.     On March 21, 2016, Picacho filed its Comments to Amended Staff Report, objecting to  
2 certain of Staff's conclusions and recommendations.

3           17.     Pursuant to a Procedural Order issued April 1, 2016, a procedural conference was held  
4 on April 14, 2016, to discuss several of the Company's concerns raised in its Comments to Amended  
5 Staff Report.

6           18.     On April 28, 2016, Picacho filed a Response to Issues Raised at Procedural Conference.

7 **Company Background**

8           19.     Picacho is an Arizona non-profit corporation engaged in the business of providing water  
9 utility service in an area around Interstate 10 and Picacho Peak State Park in Pinal County, pursuant to  
10 the authority granted by the Commission in Decision No. 49916 (May 11, 1979).

11          20.     The Company's water system consists of one active well with a pump yield of 64 gallons  
12 per minute, one 40,000 gallon storage tank, one pressure tank, three booster pumps, nine Point-of-Use  
13 ("POU") water filtering devices, and a distribution system. Picacho had approximately 13 customers  
14 in the test year. Staff expects that the Company will have no or little growth in the foreseeable future.

15          21.     On May 8, 2006, Picacho signed a Consent Order with ADEQ in which Picacho agreed,  
16 among other things, to upgrade its water system to bring the Company's water into compliance with  
17 ADEQ water quality standards.

18          22.     Shortly afterwards, Picacho filed a financing application for authorization to obtain a  
19 \$150,000 loan from the Arizona Water Infrastructure Finance Authority ("WIFA") to fund the  
20 necessary water system improvements. Picacho also filed a rate application to support the debt service  
21 on the WIFA loan.

22          23.     In Decision No. 70558 (October 23, 2008), the Commission authorized the WIFA loan  
23 and granted Picacho a rate increase. The Commission also ordered the following:

- 24           • Each January and July, Picacho shall file a report covering the previous six months  
25 that contains all activities regarding the [ADEQ] Consent Order... [Picacho] shall  
26 continue to file the bi-annual report until such time as its water system is found by  
27 [ADEQ] to be in total compliance...with its regulations.
- 27           • [Picacho] shall be in total compliance with [ADEQ regulations] by December 31,  
2009....
- 28           • [Picacho] shall file a subsequent rate case using a test year ending December 31,

1 2010, no later than June 30, 2011.

2 24. The Company filed the Application on June 30, 2011, as required, but Picacho was not  
3 in compliance with ADEQ regulations at the time. Staff believed that the compliance issues needed to  
4 be resolved before Staff could evaluate the Application and this matter was suspended pending  
5 resolution of ADEQ issues.

6 25. At the time Staff filed its Staff Report on February 12, 2016, and its Revised Staff Report  
7 on March 4, 2016, Picacho was still having difficulty coming into full compliance with ADEQ  
8 regulations. Staff's engineering witness stated:

9 ADEQ has determined that the Picacho Peak water system...is NOT in compliance.  
10 ADEQ cannot determine if the Company is currently delivering water that meets  
11 water quality standards required by 40 C.F.R. 141 (National Primary Drinking  
12 Water Regulations) and [A.A.C.], Title 18, Chapter 4. (ADEQ Compliance Status  
13 Report dated January 19, 2016.)

14 [Picacho] has a history of ongoing exceedances of the Maximum Contaminant  
15 Level ("MCL") for nitrate. POU treatment was installed in July 2009, requiring  
16 three samples per year from the distribution system reflecting treatment. In 2013,  
17 the number of required samples were increased to nine samples every six months  
18 collected from POU units in the distribution system. The nitrate levels ranged from  
19 0.72 to 10mg/L (the MCL is 10 mg/L) from the most recent samples collected  
20 between January 1, 2015 and June 30, 2015. [Picacho] needs to address the  
21 performance issues at the individual units (e.g., perform maintenance on the units,  
22 and/or change out the media on the unit that had a result of 10mg/L before the unit  
23 exceeds the MCL.)

24 Staff recommends that [Picacho] file each January and July a report covering the  
25 previous six months that contains all activities regarding the ADEQ compliance  
26 issues. The written report should continue until Staff receives notice that  
27 [Picacho's] water system is in total compliance with ADEQ regulations.<sup>2</sup>

28 26. We find Staff's recommendation reasonable, but modify it to require Picacho to file  
with Docket Control, as a compliance item in this docket, its first report no later than January 30, 2017,  
and each succeeding report every six months until Staff receives written confirmation from ADEQ that  
Picacho is in full compliance with ADEQ regulations.

27 27. Staff also noted that Picacho's 2014 test year water use data is invalid because of meter  
malfunctions, meter misreads, and line breaks.

28 28. Staff recommends that Picacho monitor its water system and submit the gallons pumped

<sup>2</sup> Staff Report dated February 12, 2016, Engineering Report, page 2.

1 and sold to determine the non-account water for one full year. According to Staff's recommendation:  
2 the Company should coordinate when it reads the well meters each month with customer billing so that  
3 an accurate accounting is determined; the results of this monitoring and reporting should be docketed  
4 as a compliance item in this docket within 13 months of the effective date of this Decision; if the  
5 reported water loss is greater than 10 percent, the Company should prepare a report containing a  
6 detailed analysis and plan to reduce water loss to 10 percent or less; if the Company believes it is not  
7 cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost analysis  
8 to support its opinion; in no case should the Company allow water loss to be greater than 15 percent;  
9 if it is necessary, the water loss reduction report or the detailed analysis, whichever is submitted, should  
10 be docketed as a compliance item within 13 months of this Decision's effective date.

11 29. Staff's recommendation is reasonable and we adopt it.

12 30. Picacho is located within the Arizona Department of Water Resources ("ADWR")  
13 Tucson Active Management Area ("AMA") and is subject to ADWR AMA reporting and conservation  
14 requirements. In a December 31, 2015, compliance status report, ADWR reported that the Company is  
15 not in compliance with departmental requirements governing water providers and/or community water  
16 systems.

17 31. Staff recommends that Picacho file an updated ADWR Compliance Status Report  
18 indicating that the Company is in compliance with ADWR requirements by December 31, 2016.

19 32. We find that Staff's recommendation is reasonable, except that it should be modified to  
20 require the filing by December 30, 2016.<sup>3</sup>

21 33. In response to the notices regarding the Application, the owners of the RV Park  
22 expressed concerns that the Ostrich Ranch's water hauling might create a backflow issue and  
23 contaminate the water system.

24 34. Picacho responded that after each complaint from the RV Park's owners, Company  
25 representatives consulted the certified system operator who assured Picacho that he inspected the water  
26 haul truck and the air gap that prevents any backflow contamination, and confirmed that ADEQ rules

27  
28 <sup>3</sup> December 31, 2016, is a Saturday.

1 are being followed. Picacho advised the RV Park owners there is no backflow risk.<sup>4</sup>

2 35. Staff noted that a check with the Utilities Division Compliance Section showed there is  
3 one delinquent item. Picacho failed to comply with the requirement in Decision No. 70558 that each  
4 January and July, the Company file a report covering the previous six months that contains all activities  
5 regarding the ADEQ Consent Order and continue to file the bi-annual report until such time as its water  
6 system is found by ADEQ to be in total compliance with its regulations.

7 36. In Decision No. 70558, the Commission directed Picacho to file as part of its Utilities  
8 Division Annual Report affidavits attesting that it is current on payment of its property taxes in Arizona.

9 37. We believe it is reasonable to require Picacho to continue to do so.

10 **Rate Application**

11 38. Picacho's present rates and charges were approved in Decision No. 70558.

12 39. During the test year ended December 31, 2014, Picacho served all but one of its  
13 customers on 3/4-inch meters. The RV Park, which provides water to over 300 spaces, is connected by  
14 a 1-inch meter.

15 40. Average and median monthly water usage for three residential 3/4-inch meters were  
16 28,875 gallons and 25,200 gallons, respectively.

17 41. The water rates and charges for Picacho at present, as proposed by Picacho in its  
18 Application, and as recommended by Staff in its Revised Staff Report, are as follows:

|                                     | Present<br>Rates | Company<br>Proposed | Staff<br>Proposed |
|-------------------------------------|------------------|---------------------|-------------------|
| <b><u>MONTHLY USAGE CHARGE:</u></b> |                  |                     |                   |
| <b><u>Residential</u></b>           |                  |                     |                   |
| 5/8" x 3/4" Meter                   | \$15.00          | \$10.00             | \$20.00           |
| 3/4" Meter                          | 15.00            | 10.00               | 20.00             |
| 1" Meter                            | 37.50            | 25.00               | 25.00             |
| 1 1/2" Meter                        | 75.00            | 50.00               | 50.00             |
| 2" Meter                            | 120.00           | 80.00               | 80.00             |
| 3" Meter                            | 240.00           | 160.00              | 160.00            |
| 4" Meter                            | 375.00           | 250.00              | 250.00            |
| 6" Meter                            | 750.00           | 500.00              | 500.00            |
| <b><u>Commercial</u></b>            |                  |                     |                   |
| 5/8" x 3/4" Meter                   | \$ 138.00        | \$ 125.00           | \$ 125.00         |
| 3/4" Meter                          | 138.00           | 125.00              | 125.00            |
| 1" Meter                            | 345.00           | 200.00              | 200.00            |

28 <sup>4</sup> Response to Issues Raised at Procedural Conference filed April 28, 2016, Attachment 1.

|   |            |          |          |          |
|---|------------|----------|----------|----------|
| 1 | 1 ½" Meter | 690.00   | 425.00   | 425.00   |
|   | 2" Meter   | 1,425.00 | 825.00   | 825.00   |
| 2 | 3" Meter   | 2,208.00 | 1,500.00 | 1,500.00 |
|   | 4" Meter   | 3,450.00 | 2,500.00 | 2,500.00 |
| 3 | 6" Meter   | 6,900.00 | 4,000.00 | 4,000.00 |

**COMMODITY RATES:**  
**(Per 1,000 Gallons)**

**5/8" x 3/4" Meter, Residential**

|   |                         |        |        |        |
|---|-------------------------|--------|--------|--------|
| 5 | 0 to 3,000 gallons      | \$3.05 | \$3.50 | \$3.00 |
| 6 | 3,001 to 10,000 gallons | 4.58   | 5.25   | 4.00   |
| 7 | Over 10,000 gallons     | 5.49   | 9.69   | 7.43   |

**5/8" x 3/4" Meter, Commercial**

|   |                     |        |        |        |
|---|---------------------|--------|--------|--------|
| 8 | 0 to 10,000 gallons | \$4.58 | \$5.25 | \$4.00 |
| 9 | Over 10,000 gallons | 5.49   | 9.69   | 7.43   |

**3/4" Meter, Residential**

|    |                         |     |        |        |
|----|-------------------------|-----|--------|--------|
| 10 | 0 to 3,000 gallons      | N/A | \$3.50 | \$3.00 |
| 11 | 3,001 to 10,000 gallons | N/A | 5.25   | 4.00   |
|    | Over 10,000 gallons     | N/A | 9.69   | 7.43   |

**3/4" Meter, Commercial**

|    |                     |     |        |        |
|----|---------------------|-----|--------|--------|
| 12 | 0 to 10,000 gallons | N/A | \$5.25 | \$4.00 |
| 13 | Over 10,000 gallons | N/A | 9.69   | 7.43   |

**1" Meter, All Classes**

|    |                     |        |     |        |
|----|---------------------|--------|-----|--------|
| 14 | 0 to 15,000 gallons | \$4.58 | N/A | \$4.00 |
| 15 | Over 15,000 gallons | 5.49   | N/A | 7.43   |

|    |                     |        |        |     |
|----|---------------------|--------|--------|-----|
| 16 | 0 to 10,000 gallons | \$4.58 | \$5.25 | N/A |
| 17 | Over 10,000 gallons | 5.49   | 9.69   | N/A |

**1-1/2" Meter, All Classes**

|    |                     |        |        |        |
|----|---------------------|--------|--------|--------|
| 18 | 0 to 20,000 gallons | \$4.58 | \$5.25 | \$4.00 |
| 19 | Over 20,000 gallons | 5.49   | 9.69   | 7.43   |

**2" Meter, All Classes**

|    |                     |        |        |        |
|----|---------------------|--------|--------|--------|
| 20 | 0 to 25,000 gallons | \$4.58 | \$5.25 | \$4.00 |
| 21 | Over 25,000 gallons | 5.49   | 9.69   | 7.43   |

**3" Meter, All Classes**

|    |                     |        |        |        |
|----|---------------------|--------|--------|--------|
| 22 | 0 to 70,000 gallons | \$4.58 | \$5.25 | \$4.00 |
| 23 | Over 70,000 gallons | 5.49   | 9.69   | 7.43   |

**4" Meter, All Classes**

|    |                      |        |        |        |
|----|----------------------|--------|--------|--------|
| 24 | 0 to 250,000 gallons | \$4.58 | \$5.25 | \$4.00 |
| 25 | Over 250,000 gallons | 5.49   | 9.69   | 7.43   |

**6" Meter, All Classes**

|    |                      |        |        |        |
|----|----------------------|--------|--------|--------|
| 26 | 0 to 800,000 gallons | \$4.58 | \$5.25 | \$4.00 |
| 27 | Over 800,000 gallons | 5.49   | 9.69   | 7.43   |

...

|   |                          |     |        |        |
|---|--------------------------|-----|--------|--------|
| 1 | <b><u>Bulk Water</u></b> |     |        |        |
|   | All gallons              | N/A | N/A    | \$7.43 |
| 2 | 0 to 25,000 gallons      | N/A | \$5.25 | N/A    |
|   | Over 25,000 gallons      | N/A | 9.69   | N/A    |

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

|    |                   | <u>Company and Staff Recommended</u> |           |           |           |
|----|-------------------|--------------------------------------|-----------|-----------|-----------|
|    | Current           | Service Line                         | Meter     | Total     |           |
|    | Charge            | Charge                               | Charge    | Charge    |           |
| 5  |                   |                                      |           |           |           |
| 6  | 5/8" x 3/4" Meter | \$520.00                             | \$ 445.00 | \$ 155.00 | \$ 600.00 |
|    | 3/4" Meter        | 600.00                               | 445.00    | 255.00    | 700.00    |
| 7  | 1" Meter          | 690.00                               | 495.00    | 315.00    | 810.00    |
|    | 1-1/2" Meter      | 935.00                               | 550.00    | 525.00    | 1,075.00  |
| 8  | 2" Turbine Meter  | 1,595.00                             | 830.00    | 1,045.00  | 1,875.00  |
|    | 2" Compound Meter | 2,320.00                             | 830.00    | 1,890.00  | 2,720.00  |
| 9  | 3" Turbine Meter  | 2,275.00                             | 1,045.00  | 1,670.00  | 2,715.00  |
|    | 3" Compound Meter | 3,110.00                             | 1,165.00  | 2,545.00  | 3,710.00  |
| 10 | 4" Turbine Meter  | 3,520.00                             | 1,490.00  | 2,670.00  | 4,160.00  |
|    | 4" Compound Meter | 4,475.00                             | 1,670.00  | 3,645.00  | 5,315.00  |
| 11 | 6" Turbine Meter  | 6,275.00                             | 2,210.00  | 5,025.00  | 7,235.00  |
|    | 6" Compound Meter | 8,050.00                             | 2,330.00  | 6,920.00  | 9,250.00  |
| 12 | Over 6-inch       | N/A                                  | At Cost   | At Cost   | At Cost   |

|    |  | Present | Company  | Staff       |
|----|--|---------|----------|-------------|
|    | <u>SERVICE CHARGES:</u>                | Charges | Proposed | Recommended |
|    |  |         | Charges  | Charges     |
| 13 |  |         |          |             |
| 14 | Establishment                          | \$25.00 | \$25.00  | \$25.00     |
| 15 | Bulk Water Account Establishment       | N/A     | 25.00    | 25.00       |
|    | After Hour Service Charge              | N/A     | 35.00    | 35.00       |
| 16 | Reconnection (Delinquent)              | \$25.00 | 30.00    | 30.00       |
|    | Meter Test (if correct)                | 25.00   | 25.00    | 25.00       |
| 17 | Meter Re-Read (If Correct)             | 10.00   | 15.00    | 15.00       |
|    | NSF Check                              | 25.00   | 25.00    | 25.00       |
| 18 | Deposit                                | *       | *        | *           |
|    | Deposit Interest                       | *       | *        | *           |
| 19 | Re-Establishment (Within 12 Months)    | **      | **       | **          |
|    | Deferred Payment                       | 1.00%   | 1.50%    | 1.50%       |
| 20 | Late Fee                               | 1.00%   | 1.50%    | 1.50%       |
|    | Establishment (After Hours)            | \$35.00 | N/A      | N/A         |
| 21 | Reconnection (Delinquent, After Hours) | 35.00   | N/A      | N/A         |

|    | <u>Monthly Service Charge for Fire Sprinklers</u> |     |     |     |
|----|---|-----|-----|-----|
| 22 | 4" or Smaller                                     | *** | *** | *** |
| 23 | 6"  | *** | *** | *** |
|    | 8"  | *** | *** | *** |
| 24 | 10"   | *** | *** | *** |
| 25 | 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).
- \*\*\* 2.00% of monthly minimum for a comparable-sized 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.

1           42.     Staff determined Picacho's original cost rate base, which is the same as its fair value  
2 rate base ("FVRB") to be \$58,202. This is a \$510 decrease to Picacho's proposed FVRB of \$58,712,  
3 based upon Staff's adjustment to working capital. The Company did not object to Staff's adjustment.

4           43.     Staff's proposed rate base adjustment is reasonable and we find Picacho's FVRB to be  
5 \$58,202.

6           44.     The Company and Staff agree that test year operating revenues were \$50,201. We find  
7 this reasonable and adopt \$50,201 as Picacho's test year operating revenues.

8           45.     In its Application, Picacho proposed test year operating expenses of \$56,669. In its  
9 Revised Staff Report, Staff recommends test year operating expenses of \$53,133. This is a \$3,535  
10 decrease to the Company's proposed amount based on Staff's adjustments \$4,080 to outside services  
11 expense, \$35 to depreciation expense, and \$510 to income taxes. The Company did not object to Staff's  
12 adjustments to depreciation and income taxes, but in its Response to Issues Raised at Procedural  
13 Conference, Picacho objected to Staff's removal of \$3,080 in legal fees from outside services expense.  
14 Picacho argued that Staff's first reduction of \$1,955 as an out-of-test-year expense is incorrect and  
15 provided copies of the invoices to support its position. Staff's second deduction of \$1,125 related to  
16 legal counsel's attendance of Picacho's annual meeting during the test year. Staff claimed that it was  
17 not necessary for counsel to attend the Company's annual meeting. Picacho disagreed, noting that the  
18 necessity of counsel's presence was a business decision made by the Company's board of directors,  
19 and all of Picacho's customers are on its board.

20           46.     We agree with the Company that, in this specific situation, where all of its customers  
21 are also members of the board of directors, and the board has requested counsel's presence at the  
22 board's annual meetings, it is reasonable to include that amount in operating expenses. We also agree  
23 with the Company that the \$1,955 disallowance as an out-of-test year expense was incorrect.

24           47.     Accordingly, we believe that an additional \$3,080 should be added to Staff's  
25 recommended test year outside services expense of \$18,387, for a total of \$21,467. After adjustments  
26 for property taxes and bad debt expense, this results in total test year operating expenses of \$56,213  
27 for test year operating loss of (\$6,012).

28           48.     Picacho's proposed rates would produce total operating revenue of \$69,701, which is a

1 \$19,500 increase over test year revenues, or 38.84 percent, and operating income of 10,781. This would  
2 result in an operating margin of 15.47 percent, and a cash flow of \$24,167.<sup>5</sup>

3 49. Staff's recommended rates would produce total operating revenue of \$60,687, which is  
4 a \$10,486 increase over test year revenues, or 20.89 percent, and operating income of \$7,275. This  
5 would result in an operating margin of 11.99 percent, and a cash flow of \$20,697.

6 50. Given the adjustments to operating expenses discussed above, it is necessary to make a  
7 concomitant adjustment to required revenue. The rates adopted will produce total operating revenue of  
8 \$63,851, which is a \$13,650 increase over test year revenues, or 27.19 percent, and operating income  
9 of \$7,275. This results in an operating margin of 11.39 percent, and a cash flow of \$13,708.<sup>6</sup> We believe  
10 this revenue is sufficient to cover operating and maintenance expenses and to manage contingencies.

11 51. The Company's proposed rates, as set forth in its Application, would increase the  
12 average monthly residential customer bill<sup>7</sup> by \$80.32, or 50.3 percent, from \$159.83 to \$240.15, and  
13 would increase the median monthly residential customer bill by \$64.88, or 46.5 percent, from \$139.66  
14 to \$204.54.

15 52. Staff's proposed rates would increase the average monthly residential customer bill by  
16 \$37.41, or 23.4 percent, from \$159.83 to \$197.24, and would increase the median monthly residential  
17 customer bill by \$30.28, or 21.7 percent, from \$139.66 to \$169.94.

18 53. The rate design we adopt is similar to that proposed by that of Staff, except for the tiers  
19 related to the commodity rate for the 3/4-inch commercial customer. In this instance, we do not believe  
20 it is necessary to have different break-over points, two tiers rather than three, or different commodity  
21 rates between residential and commercial customers. We believe the adopted rate design will provide  
22 the Company with a stable revenue stream while still promoting conservation.

23 54. The adopted rate design will increase the average monthly residential (28,857 gallons)  
24 customer bill by \$78.55, or 49.15 percent, from \$159.83 to \$238.39, and will increase the median  
25 (25,200 gallons) monthly residential customer bill by \$68.30, or 48.90 percent, from \$139.66 to

26 \_\_\_\_\_  
27 <sup>5</sup> Neither the Company nor Staff included the WIFA loan payments or the debt service reserve payments in their cash flow  
calculations.

28 <sup>6</sup> \$20,696 before deduction of all debt service-related payments.

<sup>7</sup> Using the three residential customers on the Ostrich Ranch.

1 \$207.96.

2 55. Picacho and Staff agreed upon recommended service line and meter installation charges  
3 and service charges. We believe that Staff’s recommended service line and meter installation charges  
4 and service charges are reasonable and we adopt them.

5 56. Staff recommends that Picacho file with the Commission a schedule of its approved  
6 rates and charges within 30 days of this Decision’s effective date.

7 57. Staff also recommends that Picacho, as a compliance item in this matter, should notify  
8 its customers of the authorized rates and charges, and their effective date, in a form acceptable to Staff,  
9 by means of an insert in the Company’s next regularly scheduled billing, and to file a copy of the notice  
10 with Docket Control within 10 days of the date notice is sent to customers.

11 58. Staff also recommends that the Company be required to adopt depreciation rates by  
12 National Association of Regulatory Utility Commissioners category, as delineated in Table B of the  
13 Engineering Report, attached to the Staff Report dated February 12, 2016.

14 59. The Company did not object to these recommendations.

15 60. We find Staff’s recommendations to be reasonable and we adopt them.

16 61. We believe it is reasonable that the Company collect from its customers a proportionate  
17 share of any privilege, sales, or use tax, per A.A.C. R14-2-409(D).

18 **CONCLUSIONS OF LAW**

19 1. Picacho is a public service corporation within the meaning of Article XV of the Arizona  
20 Constitution and A.R.S. §§ 40-250 and 40-251.

21 2. The Commission has jurisdiction over Picacho and the subject matter of the Application.

22 3. Notice of the Application was given in accordance with Arizona law.

23 4. The authorized rates and charges are just and reasonable and should be approved  
24 without a hearing.

25 5. The recommendations stated herein are reasonable and should be adopted.

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**ORDER**

IT IS THEREFORE ORDERED that Picacho Peak Water Company, Inc., is directed to file with Docket Control, as a compliance item in this docket, no later July 29, 2016, revised rate schedules setting forth the following rates and charges:

**MONTHLY USAGE CHARGE:**

**Residential**

|                   |         |
|-------------------|---------|
| 5/8" x 3/4" Meter | \$20.00 |
| 3/4" Meter        | 20.00   |
| 1" Meter          | 25.00   |
| 1 1/2" Meter      | 50.00   |
| 2" Meter          | 80.00   |
| 3" Meter          | 160.00  |
| 4" Meter          | 250.00  |
| 6" Meter          | 500.00  |

**Commercial**

|                   |           |
|-------------------|-----------|
| 5/8" x 3/4" Meter | \$ 125.00 |
| 3/4" Meter        | 125.00    |
| 1" Meter          | 200.00    |
| 1 1/2" Meter      | 425.00    |
| 2" Meter          | 825.00    |
| 3" Meter          | 1,500.00  |
| 4" Meter          | 2,500.00  |
| 6" Meter          | 4,000.00  |

**COMMODITY RATES:**  
**(All Classes, Per 1,000 Gallons)**

**5/8" x 3/4" Meter**

|                         |        |
|-------------------------|--------|
| 0 to 3,000 gallons      | \$4.60 |
| 3,001 to 10,000 gallons | 6.90   |
| Over 10,000 gallons     | 8.28   |

**3/4" Meter**

|                         |        |
|-------------------------|--------|
| 0 to 3,000 gallons      | \$4.60 |
| 3,001 to 10,000 gallons | 6.90   |
| Over 10,000 gallons     | 8.28   |

**1" Meter**

|                     |        |
|---------------------|--------|
| 0 to 15,000 gallons | \$6.90 |
| Over 15,000 gallons | 8.28   |

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|    |                            |        |
|----|----------------------------|--------|
| 1  | <b><u>1-1/2" Meter</u></b> |        |
|    | 0 to 20,000 gallons        | \$6.90 |
| 2  | Over 20,000 gallons        | 8.28   |
| 3  | <b><u>2" Meter</u></b>     |        |
|    | 0 to 25,000 gallons        | \$6.90 |
| 4  | Over 25,000 gallons        | 8.28   |
| 5  |                            |        |
| 6  | <b><u>3" Meter</u></b>     |        |
|    | 0 to 70,000 gallons        | \$6.90 |
| 7  | Over 70,000 gallons        | 8.28   |
| 8  | <b><u>4" Meter</u></b>     |        |
|    | 0 to 250,000 gallons       | \$6.90 |
| 9  | Over 250,000 gallons       | 8.28   |
| 10 |                            |        |
| 11 | <b><u>6" Meter</u></b>     |        |
|    | 0 to 800,000 gallons       | \$6.90 |
| 12 | Over 800,000 gallons       | 8.28   |
| 13 | <b><u>Bulk Water</u></b>   |        |
|    | All gallons                | \$8.28 |

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

|    | <u>Service Line</u> | <u>Meter</u>  | <u>Total</u>  |           |
|----|---------------------|---------------|---------------|-----------|
|    | <u>Charge</u>       | <u>Charge</u> | <u>Charge</u> |           |
| 16 |                     |               |               |           |
| 17 | 5/8" x 3/4" Meter   | \$ 445.00     | \$ 155.00     | \$ 600.00 |
| 18 | 3/4" Meter          | 445.00        | 255.00        | 700.00    |
|    | 1" Meter            | 495.00        | 315.00        | 810.00    |
| 19 | 1-1/2" Meter        | 550.00        | 525.00        | 1,075.00  |
|    | 2" Turbine Meter    | 830.00        | 1,045.00      | 1,875.00  |
| 20 | 2" Compound Meter   | 830.00        | 1,890.00      | 2,720.00  |
|    | 3" Turbine Meter    | 1,045.00      | 1,670.00      | 2,715.00  |
| 21 | 3" Compound Meter   | 1,165.00      | 2,545.00      | 3,710.00  |
|    | 4" Turbine Meter    | 1,490.00      | 2,670.00      | 4,160.00  |
| 22 | 4" Compound Meter   | 1,670.00      | 3,645.00      | 5,315.00  |
|    | 6" Turbine Meter    | 2,210.00      | 5,025.00      | 7,235.00  |
| 23 | 6" Compound Meter   | 2,330.00      | 6,920.00      | 9,250.00  |
| 24 | Over 6-inch         | At Cost       | At Cost       | At Cost   |

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**SERVICE CHARGES:**

|   |                                     |         |
|---|-------------------------------------|---------|
| 1 | Establishment                       | \$25.00 |
| 2 | Bulk Water Account Establishment    | 25.00   |
|   | After Hour Service Charge           | 35.00   |
| 3 | Reconnection (Delinquent)           | 30.00   |
|   | Meter Test (if correct)             | 25.00   |
| 4 | Meter Re-Read (If Correct)          | 15.00   |
|   | NSF Check                           | 25.00   |
| 5 | Deposit                             | *       |
|   | Deposit Interest                    | *       |
| 6 | Re-Establishment (Within 12 Months) | **      |
| 7 | Deferred Payment                    | 1.50%   |
|   | Late Fee                            | 1.50%   |

**Monthly Service Charge for Fire Sprinklers**

|    |                 |     |
|----|-----------------|-----|
| 9  | 4" or Smaller   | *** |
| 10 | 6"              | *** |
|    | 8"              | *** |
| 11 | 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).
- \*\*\* 2.00% of monthly minimum for a comparable-sized 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.

16 IT IS FURTHER ORDERED that, in addition to collection of its regular rates and charges,  
17 Picacho Peak Water Company shall collect from its customers a proportionate share of any privilege,  
18 sales, or use tax pursuant to A.A.C. R14-2-409(D).

19 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service  
20 beginning with Picacho Peak Water Company's next regular billing cycle.

21 IT IS FURTHER ORDERED that Picacho Peak Water Company shall notify its customers of  
22 the authorized rates and charges and their effective date by means of an insert in its next regularly  
23 scheduled billing, in a form acceptable to Staff, and shall, within 10 days after the date notice is sent to  
24 its customers, file with the Commission's Docket Control, as a compliance item in this docket, a copy  
25 of the notice provided.

26 IT IS FURTHER ORDERED that Picacho Peak Water Company shall use the depreciation  
27 rates as shown in Table B of the Engineering Report attached to the Staff Report, on a going-forward  
28 basis.

1 IT IS FURTHER ORDERED that Picacho Peak Water Company shall file with Docket Control,  
2 as a compliance item in this docket, a report regarding the ADEQ compliance issues covering the  
3 previous six months that contains all activities, with its first report due no later than January 30, 2017,  
4 and each succeeding report due every six months until Staff receives written confirmation from ADEQ  
5 that Picacho is in compliance with ADEQ regulations.

6 IT IS FURTHER ORDERED that Picacho Peak Water Company shall monitor its water system  
7 and note the gallons pumped and sold to determine the non-account water for one full year. The  
8 Company should coordinate when it reads the well meters each month with customer billing so that an  
9 accurate accounting is determined. The results of this monitoring and reporting shall be filed with  
10 Docket Control, as a compliance item in this docket, by August 31, 2017. If the reported water loss is  
11 greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to  
12 reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the  
13 water loss to less than 10 percent, it should submit a detailed cost analysis to support its opinion. In no  
14 case shall the Company allow water loss to be greater than 15 percent. If it is necessary, the water loss  
15 reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance  
16 item within 13 months of this Decision's effective date.

17 IT IS FURTHER ORDERED that Picacho Peak Water Company shall file an updated ADWR  
18 Compliance Status Report indicating that the Company is in compliance with ADWR requirements by  
19 December 30, 2016.

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1 IT IS FURTHER ORDERED that Picacho Peak Water Company shall continue to file annually,  
2 as part of its annual report to the Utilities Division, an affidavit attesting that it is current in paying its  
3 property taxes in Arizona.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

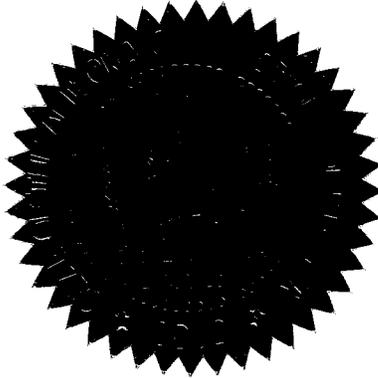
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8 CHAIRMAN LITTLE

  
COMMISSIONER STUMP

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10 COMMISSIONER FORESE

  
COMMISSIONER TOBIN

  
COMMISSIONER BURNS



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  
at the Capitol, in the City of Phoenix, this 5<sup>th</sup> day  
of August 2016.

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16   
17 JODI A. JERICH  
18 EXECUTIVE DIRECTOR

19 BM:rt

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1 SERVICE LIST FOR:

PICACHO PEAK WATER COMPANY, INC.

2 DOCKET NO.:

W-02351A-11-0231

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