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Executive Director

ARIZONA CORPORATION COMMISSION

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DATE: OCTOBER 13, 2016
DOCKET NO.: W-02467A-14-0230 AND W-02370A-14-0231
TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Sarah Harpring. The recommendation has been filed in the form of an Opinion and Order on:

GRANITE MOUNTAIN WATER COMPANY, INC. AND
CHINO MEADOWS II WATER COMPANY, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

OCTOBER 24, 2016

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

OCTOBER 27, 2016 AND OCTOBER 28, 2016

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


JODI A. JERICH
EXECUTIVE DIRECTOR

Arizona Corporation Commission

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On this 13th day of October, 2016, the following document was filed with Docket Control as a Recommended Opinion & Order from the Hearing Division, and copies of the document were mailed on behalf of the Hearing Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the filed document to the following who have consented to email service.

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

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

8 IN THE MATTER OF THE APPLICATION OF
9 GRANITE MOUNTAIN WATER COMPANY, INC.
10 FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02467A-14-0230

11 IN THE MATTER OF THE APPLICATION OF
12 CHINO MEADOWS II WATER COMPANY, INC.
13 FOR APPROVAL OF A RATE INCREASE

DOCKET NO. W-02370A-14-0231

DECISION NO. _____

14 **OPINION AND ORDER**

15 DATES OF HEARING:

In Docket No. W-02467A-14-0230, October 2, 2014, and December 17, 2015 (procedural conferences), May 5, 2015 (public comment), and September 24, 2015, and February 11, 2016 (hearing); and in Docket No. W-02370A-14-0231, October 2, 2014 (procedural conference), May 4, 2015 (public comment), and September 23, 2015 (hearing).

16 PLACE OF HEARING:

Phoenix, Arizona

17 ADMINISTRATIVE LAW JUDGE:

Teena Jibilian¹

18 APPEARANCES:

Craig A. Marks, CRAIG A. MARKS, PLC, on behalf of Granite Mountain Water Company, Inc. and Chino Meadows II Water Company, Inc.; and

Ms. Bridget Humphrey and Mr. Matthew Laudone, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

22
23
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27
28 ¹ Assistant Chief Administrative Law Judge presided over all pre-hearing matters and the evidentiary hearings. The Recommended Opinion and Order was prepared by Administrative Law Judge Sarah N. Harpring.

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1 **BY THE COMMISSION:**

2 **DISCUSSION**

3 **I. Procedural History**

4 On June 30, 2014, Granite Mountain Water Company, Inc. ("Granite") filed with the Arizona
5 Corporation Commission ("Commission"), in Docket No. W-02467A-14-0230 ("Granite Docket"), an
6 application for a rate increase,² and Granite's affiliate,³ Chino Meadows II Water Company, Inc.
7 ("Chino"), filed an application for a rate increase⁴ in Docket No. W-02370A-14-0231 ("Chino
8 Docket"). Granite and Chino each used a calendar year 2013 test year ("TY"), and each requested that
9 their applications be processed and heard concurrently in order to ensure that cost allocations would be
10 consistent in the two cases. Granite and Chino expressly waived the time clock requirements set by
11 the Commission's rules (current and proposed⁵), to the extent necessary to accommodate the joint
12 processing of the two applications.

13 On July 24, 2014, in the Granite and Chino Dockets, the Commission's Utilities Division
14 ("Staff") filed Letters of Deficiency instructing Granite and Chino that their respective applications
15 had not met the sufficiency requirements outlined in A.A.C. R14-2-103, specifying the additional
16 information needed, and providing August 2014 deadlines to correct the deficiencies or make other
17 arrangements with Staff to remedy the rate applications.

18 On July 25, 2014, in the Granite Docket, Staff filed a Notice of Deficiency, stating that the level

19 _____
20 ² Official notice is taken of Granite's application, as amended, which was not offered as an exhibit in the Granite Docket and which is referred to herein as GApp.

21 ³ As used herein, "affiliate" is understood to mean an entity that directly or indirectly owns or controls, is directly or indirectly owned or controlled by, or is directly or indirectly under common ownership or control with, another entity, where control includes the power to direct management policies and need not be absolute and ownership includes an equity interest (or the equivalent thereof) of more than 10 percent. (*See, e.g.*, Ex. CA-4; A.A.C. R14-2-2102(1).) The Commission does not assert that either A.A.C. R14-2-801 (1), included in Exhibit CA-4, or A.A.C. R14-2-2102(1) applies to the water utilities, but references them as illustrative sources for the Commission's understanding of the term "affiliate" as used in this matter.

22 ⁴ At hearing, judicial notice was taken of Chino's application and all other docketed filings in the Chino Docket. (Chino Docket Transcript ("CTr.") at 12.) Chino's application, as amended, is referred to herein as CApp. Although it was a Class C utility on the date its application was filed, Chino filed a short form application rather than the longer application required for a Class C utility under the Commission's rules at the time, due to a pending rulemaking that would reclassify Chino as a Class D utility. Chino requested a waiver of the then-current rule, if needed.

23 ⁵ Pursuant to Commission Decision No. 74436 (April 18, 2014), a Notice of Proposed Rulemaking had been published in the *Arizona Administrative Register* ("AAR") on May 9, 2014, in which the Commission proposed to amend Arizona Administrative Code ("A.A.C.") R14-2-103 by establishing higher revenue thresholds for each utility classification. A Notice of Final Rulemaking for the amendment was published in the *AAR* on December 12, 2014, and the amendments to the rule became effective on January 16, 2015.

1 of deficiency in Granite's application (which left blanks unfilled for several items and referred to an
2 attachment that included blank schedules) was sufficiently significant that Granite should not be
3 considered in compliance with the filing deadline prescribed by Decision No. 74384.

4 On August 8, 2014, in the Granite Docket, Staff filed a Notice of Filing stating that Granite had
5 requested, and Staff had agreed, to extend to August 25, 2014, the deadline for correcting deficiencies
6 to the rate application.

7 Granite and Chino each filed amendments to their respective applications on August 25 and
8 September 8, 17, and 18, 2014.

9 On September 19, 2014, Staff filed Letters of Sufficiency in the Granite and Chino Dockets
10 indicating that Granite's and Chino's respective applications, as amended, had met the sufficiency
11 requirements outlined in A.A.C. R14-2-103. In the Letters, Staff classified Granite as a Class D utility
12 and Chino as a Class C utility.⁶

13 On September 23, 2014, Procedural Orders were issued in the Granite and Chino Dockets
14 scheduling an October 2, 2014, joint procedural conference to discuss the preparation for and
15 concurrent conduct of the proceedings in the Granite and Chino Dockets. The Procedural Orders also
16 suspended the time clocks in the Granite and Chino Dockets as agreed to by Granite and Chino.

17 On October 2, 2014, the joint procedural conference was convened as scheduled, with Granite,
18 Chino, and Staff appearing through counsel. Counsel for Granite and Chino stated that more than the
19 usual amount of time would be needed to respond to discovery requests, that consolidation of the
20 Granite and Chino Dockets was not requested, that each docket should have a hearing, that more issues
21 than typically found in Class C and Class D rate cases were anticipated, and that Granite and Chino
22 each desired to respond to Staff's recommendations once Staff Reports were filed. Staff had no
23 objections to Granite and Chino's proposals and clarified that Staff would be filing testimony rather
24 than Staff Reports. A tentative schedule was established for the filing of testimony.

25 On October 7, 2014, Rate Case Procedural Orders were issued in the Granite and Chino Dockets
26 establishing procedural requirements and schedules that accommodated the parties' requests for

27 ⁶ As of January 16, 2015, Granite's current and proposed revenues result in classification as a Class E utility, and Chino's
28 current and proposed revenues result in classification as a Class D utility. (See A.A.C. R13-2-103(A)(3)(q), 20 AAR 3439,
3442 (December 12, 2014).)

1 extended discovery time-frames. Hearings were scheduled to commence in the Granite Docket on May
2 5, 2015, and in the Chino Docket on May 4, 2015.

3 On December 10, 2014, Affidavits of Publication were filed in the Granite and Chino Dockets,
4 showing that their respective required public notices had been published in *The Daily Courier* on
5 November 28, 2014.

6 On December 12, 2014, in the Granite and Chino Dockets, Proofs of Mailing were filed that
7 included Affidavits stating that the prescribed customer notices had been mailed to Granite and Chino's
8 respective customers on November 24, 2014.

9 On January 14, 2015, in the Granite Docket, Tim Carter, a homeowner in Granite Mountain
10 Homesites and customer of Granite, filed a Motion to Intervene, which was granted by Procedural
11 Order on January 30, 2015.⁷

12 On February 11, 2015, in the Granite and Chino Dockets, Stipulations to Extension for Time
13 were filed, in which Granite, Chino, and Staff jointly requested that the procedural schedules for the
14 Granite and Chino Dockets be extended by two months to allow time for plant projects to be completed,
15 so that Staff could address those plant projects in its testimony. Granite, Chino, and Staff proposed
16 new hearing dates of July 7 and 8, 2015, and stipulated to extensions of the time clock if necessary.

17 On February 18, 2015, in the Granite and Chino Dockets, Procedural Orders were issued
18 rescheduling the hearings to commence, respectively, on July 14 and July 13, 2015; revising all other
19 procedural deadlines accordingly; and requiring that the original hearing dates be retained for the
20 purpose of accepting public comment.

21 On May 4, 2015, in the Chino Docket, a proceeding was convened for the purpose of taking
22 public comment, with Chino and Staff appearing through counsel and no members of the public
23 attending to provide comment.

24 On May 5, 2015, in the Granite Docket, a proceeding was convened for the purpose of taking
25 public comment, with Granite and Staff appearing through counsel and Mr. Carter not appearing. One
26 member of the public appeared and provided public comment opposing Granite's requested rate

27

28 ⁷ Mr. Carter stated that he and his wife would not be able to attend the May 5, 2015, hearing, but wished to provide a written statement as direct testimony before the hearing.

1 increase.

2 On May 8, 2015, Second Stipulations to Extension of Time (“Second Stipulations”) were filed
3 in the Granite and Chino Dockets, stating that the anticipated plant construction schedule had not been
4 met and that Staff thus needed additional time to complete its rate case analyses and testimony. Granite,
5 Chino, and Staff proposed that all procedural deadlines and dates be extended by another six weeks
6 and that the hearings commence on August 18, 2015. Granite, Chino, and Staff further stipulated to an
7 extension of the time clock if necessary.

8 On May 11, 2015, in the Granite Docket, Mr. Carter filed a letter stating that he would be
9 attending the hearing on July 14, 2015, and setting forth the “major points” of his testimony.⁸

10 On May 15, 2015, Procedural Orders were issued in the Granite and Chino Dockets granting
11 the continuances requested by the Second Stipulations and establishing procedural schedules that
12 included hearings to commence on September 24 and 23, 2015, respectively.

13 On July 15, 2015, in the Granite Docket, Staff filed the direct testimony of Teresa B. Hunsaker,
14 Public Utilities Analyst, and Dorothy Hains, Utilities Engineer – Water/Wastewater. In the Chino
15 Docket, Staff filed the direct testimony of Ms. Hunsaker and Jian Liu, Utilities Engineer –
16 Water/Wastewater. Staff’s filing in each Docket included notice that Staff was recommending the
17 imposition of penalties pursuant to Arizona Revised Statutes (“A.R.S.”) §§ 40-424 and 40-425 and
18 intended to address the issue at hearing, at which time Granite and Chino would each be provided an
19 opportunity to be heard thereon. Staff stated that the factual allegations supporting the imposition of
20 penalties were set forth in Ms. Hunsaker’s direct testimony.

21 On July 16, 2015, in the Chino Docket, Staff filed a Notice of Errata stating that the language
22 regarding Staff’s intent to seek penalties had been included erroneously in the Chino Docket filing, as
23 Staff was not recommending the imposition of civil penalties for Chino.

24 On August 11, 2015, Granite and Chino each filed in its respective Docket a Motion to Extend
25 Filing Deadline, requesting permission to file rebuttal testimony on August 17 rather than August 12,
26 2015, and agreeing to a similar extension for Staff’s filing of surrebuttal testimony.

27

28 ⁸ Because Mr. Carter never made an appearance and was not subjected to cross-examination regarding this document,
the document is considered to be public comment rather than testimony.

1 On August 17, 2015, Granite and Chino each filed in its respective Docket the rebuttal
2 testimony of Ray L. Jones, owner and principal of ARICOR Water Solutions LC, who served as the
3 rate case consultant for each.

4 On September 10, 2015, in the Granite Docket, Staff filed the surrebuttal testimony of Ms.
5 Hunsaker and Ms. Hains, and in the Chino Docket, Staff filed the surrebuttal testimony of Ms.
6 Hunsaker.

7 On September 16, 2015, in the Granite Docket, Staff filed the supplemental surrebuttal
8 testimony of Ms. Hunsaker.

9 On September 18, 2015, Granite and Chino each filed the rejoinder testimony of Mr. Jones in
10 its respective Docket.

11 On September 22, 2015, in the Granite Docket, Staff filed a Notice of Errata stating that the
12 supplemental surrebuttal testimony of Ms. Hunsaker had been filed in error and should be ignored.

13 On September 23, 2015, in the Chino Docket, the hearing on Chino's amended application was
14 held before a duly authorized Administrative Law Judge of the Commission, with Chino and Staff
15 appearing through counsel and no members of the public appearing to provide comment. Chino
16 presented documentary evidence and the testimony of Mr. Jones and Dewey Joseph Levie, and Staff
17 presented documentary evidence and the testimony of Mr. Liu and Ms. Hunsaker. During the hearing,
18 judicial notice was taken of Decision No. 71869 (September 1, 2010), Decision No. 72377 (May 27,
19 2011), Decision No. 74384 (March 19, 2014), Decision No. 75031 (April 23, 2015), and Decision No.
20 72896 (February 21, 2012) and of all docketed filings in the Chino Docket and the full evidentiary
21 record in the Granite Docket.

22 On September 24, 2015, in the Granite Docket, the hearing on Granite's amended application
23 was held as scheduled, with Granite and Staff appearing through counsel, Mr. Carter not appearing,
24 and no members of the public appearing to provide comment. Granite presented documentary evidence
25 and the testimony of Mr. Jones, and Staff presented documentary evidence and the testimony of Ms.
26 Hains and Ms. Hunsaker. At the hearing, Granite and Staff agreed to a continuance of the hearing in
27 the Granite Docket in order to allow time for Granite to complete construction of and obtain Arizona
28 Department of Environmental Quality ("ADEQ") approval for Storage Tank No. 3 and for Staff to

1 make a site visit and determination regarding used and usefulness. Granite and Staff also agreed to
2 extend the timeline in the Chino Docket accordingly.

3 On November 30, 2015, in the Granite Docket, Granite filed a Tank Construction Report as
4 well as Post-Hearing Exhibits A-3 and A-4.

5 On December 8, 2015, in the Granite Docket, Granite filed its Second Tank Construction Report
6 and a Request for Procedural Conference to discuss setting a hearing date concerning Storage Tank
7 No. 3.

8 On December 9, 2015, a Procedural Order was issued in the Granite Docket, setting a
9 procedural conference to convene on December 17, 2015.

10 On December 17, 2015, a procedural conference was held as scheduled in the Granite Docket,
11 with Granite and Staff appearing through counsel and Mr. Carter not appearing. It was determined that
12 Granite would file testimony regarding its post-test year plant within 30 days, that Staff would file
13 responsive testimony within 14 days thereafter, and that another hearing date would be scheduled
14 within approximately the following week.

15 On December 18, 2015, a Procedural Order was issued in the Granite Docket, scheduling the
16 hearing to recommence on February 11, 2016, and establishing associated testimony filing deadlines.

17 On January 22, 2016, Granite filed the supplemental direct testimony of Mr. Jones in the Granite
18 Docket.

19 On February 4, 2016, Staff filed the responsive testimony of Ms. Hunsaker and Ms. Hains in
20 the Granite Docket.

21 On February 11, 2016, the hearing in the Granite Docket reconvened as scheduled, with Granite
22 and Staff appearing through counsel, Mr. Carter not appearing, and no members of the public
23 appearing. Granite and Staff each presented documentary evidence and testimony.

24 On April 22, 2016, in the Granite and Chino Dockets, Granite and Chino filed an Initial Joint
25 Brief of Granite and Chino II,⁹ and Staff filed Staff's Opening Briefs.¹⁰

26 On May 5, 2016, in the Granite and Chino Dockets, Granite and Chino filed a Joint Reply Brief

27 ⁹ The initial joint brief is referenced herein as CoJtBr.

28 ¹⁰ Staff's opening brief in the Granite Docket is referenced herein as SGBr., and its opening brief in the Chino Docket is
referenced herein as SCBr.

1 of Granite and Chino II, and Staff filed Staff's Joint Reply Brief.¹¹

2 On September 15, 2016, a Procedural Order was issued consolidating the Granite Docket and
3 Chino Docket for all purposes going forward.

4 During the pendency of these matters, the Commission received five written consumer
5 comments opposing Granite's application,¹² two of which were the same petition signed by 72
6 individuals,¹³ and two written consumer comments opposing Chino's application.

7 **II. Background**

8 **A. Granite and Chino Generally**

9 Granite is a for-profit Arizona "S" corporation and Class E water utility providing service to
10 approximately 120 customers in a 0.75-square-mile service area located several miles northeast of
11 Prescott, in Yavapai County. (Ex. GS-1¹⁴ at ex. DMH-1 at 1; GS-3 at 2; A.A.C. R14-2-103(A)(q).)
12 Granite provides utility service pursuant to a Certificate of Convenience and Necessity ("CC&N")
13 granted by the Commission in Decisions No. 54902 (February 20, 1986) and 55395 (January 28, 1987)
14 and since extended.

15 Chino is a for-profit Arizona "C" corporation and Class D water utility providing service to
16 approximately 900 customers in a service area located north of Prescott and east of U.S. Route 89 in
17 Yavapai County. (Ex. CS-3 at 1, 8; CApp. at 7; A.A.C. R14-2-103(A)(q).) Chino provides utility
18 service pursuant to a CC&N originally held by Verde Utilities Corporation ("Verde") and transferred
19 to Chino pursuant to Commission Decisions No. 51291 (August 21, 1980) and 53420 (January 20,
20 1983), with the transfer made as the result of a court proceeding in which the Arizona Attorney General
21 sought dissolution of Verde and distribution of its assets.¹⁵

22 Paul D. Levie and Rae Levie, husband and wife, wholly own Granite; own 50 percent of the
23 shares of Chino; wholly own Antelope Lakes Water Company ("Antelope"), another regulated water

24 ¹¹ The companies' joint reply brief is referenced herein as CoJtRBr., and Staff's joint reply brief is referenced herein as
25 SJtRBr.

26 ¹² This includes Mr. Carter's letter.

27 ¹³ This represents approximately 60 percent of Granite's customers.

28 ¹⁴ Exhibits admitted in the Granite Docket are referenced herein as Ex. GS-1 and Ex. GA-1, etc., and Exhibits admitted
in the Chino Docket are referenced herein as Ex. CA-1 and Ex. CS-1, etc.

¹⁵ Official notice is taken of these decisions. Decision No. 51291 granted Chino an Order Preliminary to a transfer of the
CC&N and approved the conveyance of the Chino Meadows Unit II water system from Verde Lakes Water Corporation
(the court-approved purchaser from Verde) to Chino. Decision No. 53420 approved Chino's CC&N.

1 utility; and have ownership interests in a number of unregulated affiliated companies. (CApp. at 7;
 2 GApp. at 7; Ex. GS-3 at 3, 32.) The other 50 percent of Chino's shares are owned by other Levie
 3 family members.¹⁶ (Ex. CA-1 at 18.) Mr. Levie is an actively licensed Arizona attorney, is employed
 4 half-time as the Chief Executive Officer ("CEO") for Granite and Chino, and is involved in the Levies'
 5 other active business operations. (See CTr.¹⁷ at 46-48, 52-55.) Mr. Levie is approximately 90 years
 6 old and was experiencing health problems that had made him unable to work during the hearings in
 7 this matter. (CTr. at 49, 59.) During periods that Mr. Levie is unable to work, his youngest son, Dewey
 8 J. Levie ("Dewey"), is authorized to make decisions regarding the water utilities, although there is no
 9 formal succession plan in place. (CTr. at 59-61, 85-86.) Dewey reported that Mrs. Levie would like
 10 for Mr. Levie to retire from decision making. (CTr. at 87.) Dewey is also a licensed attorney. (CTr.
 11 at 87-88.)

12 The Commission's Compliance Section database shows no delinquencies for Granite or Chino.
 13 (Ex. GS-1 at ex. DMH-1 at 6; Ex. CS-1 at ex. JWL at 2.)

14 The Commission's records show that for the period from 2012 through 2015, no complaints
 15 were filed regarding Granite, and from 2012 through 2014, one complaint was filed regarding Chino.
 16 (Ex. GS-3 at 5; Ex. CS-1 at 4.)

17 Granite and Chino are current on their property and sales tax payments. (Ex. GS-3 at 5; Ex.
 18 CS-1 at 5.)

19 **B. Pertinent Prior Commission Decisions**¹⁸

20 In Decision No. 71869 (September 1, 2010), the Commission considered Granite's applications
 21 for a permanent rate increase and for retroactive approval of a \$125,000 line of credit obtained in 2009
 22 and three loans, totaling \$132,793.65, obtained in January 2004, March 2006, and April 2007 from the
 23 Paul D. & Rae Levie Trust ("Levie Trust").¹⁹ The Commission found that it had previously expressly
 24

25 ¹⁶ These family members are Dewey and Maribel Levie, Shauna and Jonathan Duke, Michelle and James Morris, and
 Tanya Boone. (CApp. at 7.)

26 ¹⁷ The transcript in the Chino Docket is referenced herein as CTr., and the transcript in the Granite Docket is referenced
 as GTr.

27 ¹⁸ Official notice of Decision No. 71869, Decision No. 72377 (May 27, 2011), Decision No. 74384 (March 19, 2014),
 Decision No. 75031 (April 23, 2015), and Decision No. 72896 (February 21, 2012) was taken at the hearing in Docket No.
 14-0231.

28 ¹⁹ Granite asserted that the loans had been repaid in full from operations and were no longer outstanding obligations.

1 ordered Granite to apply to the Commission for approval prior to securing any loans or entering into
 2 any other financial arrangements, in both Decision No. 54902 (February 20, 1986) and Decision No.
 3 55921 (March 25, 1988); that the Commission had expressly ordered Granite to comply with all
 4 Commission water utility rules and to convert \$210,000 being carried as loans to paid-in-capital in
 5 Decision No. 58869 (November 30, 1994); and that the Commission had expressly ordered Granite not
 6 to issue any long-term debt or other evidence of indebtedness without prior Commission approval (after
 7 determining that Granite had obtained unauthorized long-term debt between July 1985 and June 1996
 8 in the form of nine separate loans totaling \$213,300) in Decision No. 61731 (June 4, 1999). The
 9 Commission further found that Granite had not obtained an ADEQ Approval to Construct ("ATC") for
 10 its 50,000-gallon storage tank before commencing its construction; that its system had water loss of
 11 20.50 percent during the test year, mostly because of non-billed and unread meters; that free and
 12 discounted water use was being provided to Daniel at his home property and stables property pursuant
 13 to a December 2001 Easement Agreement between Granite and Daniel, through which Daniel granted
 14 and conveyed two permanent well sites and accompanying easements and facilities to Granite; that
 15 Daniel's home property and stables property had been transferred to him by Mr. Levie, as Trustee of
 16 the Levie Trust, contemporaneously with the execution of the Easement Agreement; that Granite had
 17 inadequate storage capacity and needed to address it either through construction and installation of a
 18 110,000-gallon storage tank or drilling a replacement well; and that \$10,627.69 in test year revenues
 19 should be imputed to Granite because of Granite's failure to monitor some meters and failure to charge
 20 Daniel tariffed rates for the water usage on his home property and stables property.²⁰ The Commission
 21 stated the following regarding Granite's compliance with Commission statutes, rules, and direct orders:

22 GMWC has established a pattern of behavior (repeatedly obtaining
 23 financings without prior Commission approval) that suggests either a severe
 24 "memory problem" on the part of GMWC's owners and operators or that
 25 GMWC's owners and operators believe that it is acceptable to disregard
 Commission statutes, rules, and direct orders. After giving serious
 consideration to ordering Staff immediately to commence an order to show

26 ²⁰ *Inter alia*, the Commission found that Granite anticipated customer growth, caused by the failure of private wells in its
 27 service area, and planned to address the increases by adding a 50,000-gallon storage tank and drilling a new well to replace
 28 its inactive Well No. 5 (a "grandfathered well"). The Commission also found that Granite's active wells (Well No. 3 and
 Well No. 4) and the intended site for the new well were all located on property owned by the Levies' son, Daniel Paul Levie
 ("Daniel"), rather than by Granite, although the ownership of the wells themselves and of the well sites was unclear.

1 cause proceeding to address GMWC's violations of Commission statutes
 2 and orders, we have decided instead to give GMWC an opportunity to
 3 demonstrate its intent to comply with the law by complying with this
 4 Commission decision. We made this decision in part because GMWC is
 5 providing its customers with safe drinking water and does not have a history
 6 of customer complaints, both of which suggest that GMWC's owners and
 7 operators have the skills necessary to comply with Commission statutes,
 8 rules, and direct orders. Because GMWC's pattern of behavior could be
 9 attributable to a lack of knowledge and understanding of the statutes that
 10 govern water utilities' financial transactions, we will also require each
 11 individual involved in the management and operations of GMWC, both now
 12 and in the future, to complete and file with the Commission's Docket
 13 Control, an attestation acknowledging that the individual is aware that
 14 GMWC is prohibited from issuing stocks and stock certificates, bonds,
 15 notes, or other evidences of indebtedness without first obtaining a
 16 Commission order approving such issuance.²¹

17 In Decision No. 71869, the Commission:

- 18 • Established Granite's current rates and charges;
- 19 • Denied approval of the four financings described in Granite's financing application;
- 20 • Required Granite to treat the funds obtained through the \$125,000 line of credit as an infusion
 21 of cash by booking it as paid-in-capital;
- 22 • Required Granite to obtain Commission approval before entering into any future financing
 23 arrangement payable at periods of more than 12 months after the date of execution/issuance
 24 (including issuing stock, stock certificates, bonds, notes, or any other evidence of indebtedness);
- 25 • Ordered Staff to initiate an order to show cause proceeding against Granite if Granite were to
 26 enter into any future financing arrangement without first obtaining Commission approval, and
 27 to treat the amount obtained through any unapproved financing as paid-in-capital for
 28 ratemaking purposes;
- Required Granite to file an Approval of Construction ("AOC") for the new 50,000-gallon
 storage tank within six months after the effective date of the decision;
- Required Granite to address its inadequate storage capacity issue within 18 months after the
 effective date of the decision, by drilling a replacement well to replace Well No. 5 or
 constructing and installing a 110,000-gallon storage tank;

²¹ Decision No. 71869 at 33.

- 1 • Required Granite to hire an Arizona registered engineer to design the storage tank, if it chose
2 to address its inadequate storage capacity issue with a 110,000-gallon storage tank;
- 3 • Required Granite to:
- 4 ○ File copies of the ATC for the storage tank or replacement well within six months after
5 the effective date of the decision, and
- 6 ○ File copies of the AOC for the storage tank or replacement well within 18 months after
7 the effective date of the decision;
- 8 • Required Granite to cease providing free and discounted water and to provide water only in
9 accordance with its Commission-authorized rates and charges;
- 10 • Required each individual involved in the management and operations of Granite, now and in
11 the future, to complete and file, within 30 days after the effective date of the decision or within
12 30 days after becoming involved in management or operations, a specific signed and dated
13 attestation;
- 14 • Required Granite to file a permanent rate case application within two years after the effective
15 date of the decision;
- 16 • Required Staff to scrutinize the records for Granite's next rate case application to determine
17 whether Granite had ceased providing free and discounted water and was appropriately
18 collecting revenue from every recipient of water from its system;
- 19 • Required Granite, within 90 days after the effective date of the decision, to file documentation
20 establishing the ownership of each well and well site for its water system and that it would have
21 the right to access each well and well site for the foreseeable future; and
- 22 • Required Staff to scrutinize the ownership-related documentation filed by Granite and to
23 determine, and make a filing regarding, whether Granite's ownership and access rights were
24 sufficient to ensure that Granite would, for the foreseeable future, have sufficient control over
25 its water supply to ensure that it would be able to serve its customers.

26 In Decision No. 72294 (May 4, 2011),²² in response to a February 2011 request from Granite,
27

28 ²² Official notice is taken of this decision.

1 the Commission extended the deadline for Granite to file the ATC for the replacement well from March
2 1, 2011, to September 1, 2011; the deadline to file the AOC for the replacement well from March 1,
3 2012, to September 1, 2012; and the deadline to address Granite's inadequate storage capacity by
4 replacing Well No. 5 or constructing and installing a 110,000-gallon storage tank from March 1, 2012,
5 to September 1, 2012.

6 In Decision No. 72377 (May 27, 2011), the Commission authorized Granite to incur long-term
7 debt, in the form of one or more 18- to 22-year amortizing loans, with a total amount not to exceed
8 \$181,320, pursuant to loan agreement/s with the Water Infrastructure Finance Authority of Arizona
9 ("WIFA") and/or National Bank of Arizona, at an interest rate not to exceed the prime rate at closing
10 plus three percent and with any unused authorization to expire on December 31, 2012. The Decision
11 also required Granite to file an ATC for the replacement well by September 1, 2011; an ATC for the
12 storage tank by March 1, 2012; an AOC for the replacement well by September 1, 2012; and an AOC
13 for the storage tank by March 1, 2013.

14 In Decision No. 72896 (February 21, 2012), the Commission considered Chino's application
15 for a permanent rate increase; established Chino's current rates and charges; and, to eliminate future
16 disputes related to cost allocations, ordered Chino to file its next general rate case using the same test
17 year as used in the next rate case for Granite.

18 In Decision No. 73155 (May 18, 2012),²³ in response to a Granite request and Staff
19 recommendation to correct incompatible rate case filing deadlines for Granite and Chino, created by
20 Decision No. 71869 and Decision No. 72896 respectively, the Commission extended the deadline for
21 Granite to file its rate application from September 1, 2012, to September 30, 2013, and required that
22 Granite's rate application use a test year ending no earlier than March 31, 2013.

23 In Decision No. 74384 (March 19, 2014), in response to an October 2012 request from Granite
24 and Staff recommendation, the Commission:

- 25 • Modified Decision Nos. 71869 and 72294 to:

26
27
28 ²³ Official notice is taken of this decision.

- 1 ○ Allow Granite to address its inadequate storage capacity issue by acquiring and adding
2 to its system, by June 30, 2014, a production well and a 50,000-gallon storage tank;
- 3 ○ Deem the ATCs already filed by Granite, for the addition of Well No. 6 as a production
4 well and the addition of a 50,000-gallon storage tank, to have satisfied the requirements
5 for Granite to file copies of ATCs for the plant additions to address the inadequate
6 storage capacity issue; and
- 7 ○ Allow Granite to satisfy the requirements for filing of AOCs by filing, no later than June
8 30, 2014, copies of an AOC for Well No. 6 and an AOC for the 50,000-gallon storage
9 tank;
- 10 • Modified Decision Nos. 71869 and 73155 to extend, to June 30, 2014, the deadline for Granite
11 to file a permanent rate application and to require Granite to use a test year ending December
12 31, 2013;
- 13 • Modified Decision No. 72377, in pertinent part, to:
- 14 ○ Allow Granite to use the funds obtained through the long-term debt of up to \$181,320
15 to cover the costs of acquiring and adding to its system a production well and a 50,000-
16 gallon storage tank;
- 17 ○ Extend to June 30, 2014, the expiration date for any unused authorization to incur the
18 long-term debt;
- 19 ○ Deem the ATCs already filed by Granite, for the addition of Well No. 6 as a production
20 well and the addition of a 50,000-gallon storage tank, to have satisfied the requirements
21 for Granite to file ATCs for the plant additions discussed in Decision No. 72377; and
- 22 ○ Allow Granite to satisfy the requirements for filing AOCs by filing, no later than June
23 30, 2014, copies of an AOC for Well No. 6 and of an AOC for the 50,000-gallon storage
24 tank;
- 25 • Required Granite, beginning in the month of execution of the financing documents for the long-
26 term debt of up to \$181,320 and continuing monthly until the associated long-term debt is paid
27 in full, to set aside \$10 from each customer's bill payment and deposit the funds in a separate
28 interest-bearing account established for the purpose of receiving such funds;

- 1 • Required Granite to use the set-aside funds only to repay the long-term debt; and
- 2 • Required Granite, in its next permanent rate application, to provide full information regarding
- 3 the amounts paid to acquire Well No. 6 and the easements for access to Well No. 6, along with
- 4 an explanation of and supporting documentation for the manner in which the value of each was
- 5 determined.

6 In Decision No. 75031 (April 23, 2015), in response to a Granite request and Staff
7 recommendation, the Commission:

- 8 • Extended to June 26, 2015, the deadline for Granite to docket the AOC for Well No. 6;
- 9 • Extended to September 25, 2015, the deadline for Granite to docket the AOC for the 50,000
- 10 gallon storage tank; and
- 11 • Ordered that Granite must demonstrate compelling circumstances as a prerequisite to obtaining
- 12 any future extension of any of the requirements imposed by the Commission to resolve
- 13 Granite's inadequate storage capacity.

14 **III. Systems & Compliance**

15 **A. Granite**

16 On September 25, 2014, and January 21, March 24, and December 9, 2015, Ms. Hains
17 conducted on-site inspections of Granite's system to evaluate the system's operations and determine
18 the plant items that were and were not used and useful. (Ex. GS-1 at 3, ex. DMH-1 at 1; Ex. GS-8 at
19 1.)

20 Granite's system includes three active wells (Well Nos. 3, 4, and 6)²⁴ with a combined yield of
21 approximately 60 gallons per minute ("GPM"),²⁵ three active storage tanks with a combined capacity
22 of 111,700 gallons,²⁶ one booster pump station, and a distribution system with approximately 141
23 customer connections, 100 of them through 5/8" x 3/4" meters. (Ex. GS-1 at ex. DMH-1 at 1, 3.)

24 Well No. 6, also known as the Short Spur Well, was placed into service in May 2015, and its production yield is limited
25 to 17 GPM by ADWR requirements. (Ex. GS-1 at ex. DMH-1 at 2.) The active wells are approximately 300 feet apart on
26 Shane Drive. (Ex. GS-1 at ex. DMH-1 at 1.)

25 Granite reported that the yield from Well No. 3 varies between 8 and 22 GPM, with 8 GPM as the yield at static water
27 level. (Ex. GS-1 at ex. DMH-1 at 2.)

26 This includes the new 50,000 gallon storage tank that Staff found to be used and useful as of December 2015. (Ex.
28 GS-8 at 2.) ADEQ issued an AOC for the storage tank on December 3, 2015, and Staff inspected the storage tank and
found it to be in service on December 9, 2015. (*Id.* at 1.)

1 Granite's system also includes three inactive wells (Well Nos. 2, 1, and 5). (*Id.* at ex. DMH-1 at 2-3.)

2 Granite served an average of approximately 122 metered connections during the TY, the vast
3 majority of them residential customers. (*See* Ex. GS-1 at ex. DMH-1 at 4.) Staff determined that
4 Granite's system has adequate production and storage capacity to serve its existing customer base and
5 reasonable growth.²⁷ (Ex. GS-1 at ex. DMH-1 at 4.)

6 During the TY, Granite pumped 10,510,000 gallons and sold 9,763,000 gallons, resulting in a
7 water loss of 747,000 gallons or 7.11 percent, which is within the Commission's standard for non-
8 account water usage to be less than 10-percent. (Ex. GS-1 at ex. DMH-1 at 4.)

9 Granite's service area is located within the Prescott Active Management Area ("AMA") and,
10 according to a June 17, 2015, compliance status report from the Arizona Department of Water
11 Resources ("ADWR"), Granite is in compliance with ADWR requirements governing water providers
12 and/or community water systems. (Ex. GS-1 at ex. DMH-1 at 5.)

13 According to an ADEQ compliance status report dated April 9, 2015, Granite's system has no
14 major deficiencies and is delivering water meeting the safe drinking water standards established in
15 A.A.C. Title 18, Chapter 4. (Ex. GS-1 at ex. DMH-1 at 5.)

16 Granite has an approved curtailment tariff and an approved backflow prevention tariff on file
17 with the Commission. (Ex. GS-1 at ex. DMH-1 at 8.)

18 **B. Chino**

19 On December 9, 2014, Mr. Liu conducted an on-site inspection of Chino's system in
20 preparation for providing Staff's engineering evaluation. (Ex. CS-3 at 2, ex. JWL at 1.)

21 Chino's system includes two active wells with a combined yield of approximately 475 GPM,
22 four active storage tanks with a combined capacity of 107,000 gallons, two pressure tanks, five booster
23 pumps, and a distribution system serving 908 active connections during the TY,²⁸ all of them through
24 5/8" x 3/4" meters. (Ex. CS-3 at ex. JWL-1 at 1-2.)

25 Chino served an average of approximately 895 metered connections during the TY. (*See* CApp.
26 at 18.) Staff determined that Chino's system has adequate production and storage capacity to serve its

27 ²⁷ Staff estimated that Granite's customer count could increase to 148 by 2018, based on a linear regression analysis. (Ex.
GS-1 at ex. DMH-1 at 5.)

28 ²⁸ There are 1,017 meters attached to the system, all 5/8" x 3/4" in size. (Ex. CS-3 at ex. JWL at 2.)

1 existing customer base and reasonable growth.²⁹ (Ex. CS-3 at ex. JWL at 5.)

2 During the TY, Chino pumped 60,730,000 gallons and sold 52,423,000 gallons, resulting in a
3 water loss of 8,307,000 gallons or 13.68 percent, which exceeds the Commission's standard for non-
4 account water usage to be less than 10 percent. (Ex. CS-3 at ex. JWL at 4.) Staff recommended that
5 Chino be required to prepare and file with the Commission's Docket Control, within 90 days of the
6 effective date of a decision in this matter, as a compliance item in this docket, either (a) a report
7 containing a detailed analysis and plan to reduce water loss to 10 percent or less or (b) if Chino believes
8 it is not cost effective to reduce its water loss to 10 percent or less, a detailed cost benefit analysis to
9 support its opinion. (Ex. CS-3 at ex. JWL at 4.)

10 Chino's service area is located within the Prescott AMA and, according to an October 14, 2014,
11 ADWR compliance status report, Chino is in compliance with ADWR requirements governing water
12 providers and/or community water systems. (Ex. CS-1 at ex. JWL at 3.)

13 According to an October 28, 2014, ADEQ compliance status report, Chino's system has no
14 major deficiencies and is delivering water meeting the safe drinking water standards established in
15 A.A.C. Title 18, Chapter 4. (Ex. CS-3 at ex. JWL at 2.)

16 Chino has an approved curtailment tariff and an approved backflow prevention tariff on file
17 with the Commission. (Ex. CS-1 at ex. JWL at 7.)

18 **IV. Ratemaking—Granite**

19 **A. Summary**

20 In its amended application, Granite reported TY total operating revenues of \$117,447 and an
21 original cost rate base/fair value rate base ("OCRB/FVRB")³⁰ of \$564,606, and requested an increase
22 in revenues of \$64,221 or 54.68 percent, for a rate of return of 8.03 percent. (GApp. at 6, att. 1 supp.
23 at 1; Ex. GS-3 at 5) Granite reported that it had 121 customer connections at the end of the TY,
24 including 86 served by 5/8" x 3/4" meters, 34 served by 1" meters, and 1 served by a 2" meter. (GApp.
25 at att. 4 supp. at 3.)

26 Granite acknowledged that Decision No. 74384 had required Granite to file its rate application,

27 ²⁹ Chino estimated growth of zero to two customers per year. (Ex. CS-3 at ex. JWL at 5.)

28 ³⁰ In its application, Granite waived the right to have its FVRB determined using Reconstruction Cost New. (GApp. at 6.)

1 but stated that it needed a rate increase due to the costs incurred to add a new production well and
 2 construct a 50,000 gallon storage tank, as required by Decision No. 74384. (GApp. at 3-4.) The
 3 production well and storage tank were under construction at the time of the application. (GApp. at 4.)
 4 Granite also asserted that the depreciation rates for two of its plant accounts (pumping equipment and
 5 transportation equipment) were excessive, resulting in full depreciation in spite of the useful life
 6 remaining in the underlying plant. (GApp. at 4.)

7 According to Mr. Jones, Granite accepted most of Staff's proposed adjustments so as to limit
 8 the rate case issues and demonstrate Granite's "commitment to improving its operations and meeting
 9 Staff's expectations concerning record keeping and cost accounting." (Ex. GA-1 at 4.) As a result, as
 10 of the hearing, Granite and Staff disagreed regarding post-TY plant (specifically regarding the
 11 valuation of Well No. 6), treatment of unsupported plant as CIAC, amortization of CIAC, a post-TY
 12 retirement not reflected in Staff's recommended accumulated depreciation, the allocation of common
 13 costs, Mr. Levie's salary, the correct income tax rate to apply to Granite, rate design, the applicability
 14 of a recommended Code of Affiliate Conduct, annual reporting of corporate cost allocations, authority
 15 for summary appointment of an interim manager, and the assessment of penalties. (Ex. GA-6.)

16 As of the final date of hearing in this matter, Granite proposed and Staff recommended the
 17 following:³¹

	Granite Proposed	Staff Recommended
OCR/B/FVRB	\$586,318	\$529,152
Adjusted TY Revenue	\$117,320	\$117,320
Adjusted TY Operating Expenses	\$120,060	\$126,164
Adjusted Operating Income	(\$2,740)	(\$8,844)
Current Rate of Return	-0.47%	-1.67%
Required Rate of Return	8.03%	8.031%
Required Operating Income	\$47,087	\$42,496
Operating Income Deficiency	\$49,828	\$51,340
Gross Revenue Conversion Factor	1.2090	1.211224
Increase in Gross Revenue (\$)	\$60,243	\$62,184
Increase in Gross Revenue (%)	51.35%	53.00%
Proposed Annual Revenue	\$177,563	\$179,504

28 ³¹ Ex. GA-5 at Sched. RLJ-1 Supp.; Ex. GS-9 at Fin. Sched. TBH GM-1.

1 **B. Rate Base**

2 The difference in Granite and Staff's proposed OCRB/FVRB figures is attributable largely to
3 their differing treatment of the reported post-TY costs for acquisition of Well No. 6. (Ex. GA-6; Ex.
4 GA-5 at Rev. Sched. RLJ-2 Supp.)

5 1. Post-TY Plant—Well No. 6

6 Granite acquired the easement for Well No. 6 from the Levies' daughter, Shauna Duke, and her
7 husband, Jonathan Duke,³² for \$75,000, a price that the Dukes and Granite agreed upon for an easement
8 allowing Granite permanent use of the well, the well house, and portions of the property for water
9 utility purposes. (Ex. GA-2 at 6.) Granite reported that it had been unable to find a suitable site to drill
10 a new well when it became aware of the Well No. 6 property, which had gone through foreclosure and
11 was listed for \$185,000. (Ex. GA-2 at 5-6.) Granite believed that the property could be purchased for
12 \$155,000 and stated that it did not have \$155,000 and could not borrow or otherwise secure \$155,000
13 to purchase the property, which Granite believed needed to be done quickly. (*Id.*) Granite reported
14 that the Dukes purchased the property from the bank as an accommodation to Mr. Levie and solely to
15 allow Granite to use Well No. 6, which was known to provide water of suitable quantity and quality
16 for use as a potable water supply. (*Id.* at 7.)

17 To support its valuation of the easement, Granite had a real estate appraisal report created by
18 the Huck Appraisal Office on April 14, 2015. (Ex. GS-6.) The appraisal report concluded that the
19 retrospective market value of the unrestricted easement, as of the date on which the easement was
20 recorded with the Yavapai County Recorder, was \$80,000. (Ex. GS-6 at 1.) According to the appraisal
21 report, the easement consists of approximately 1.024 acres or 44,594 square feet of a larger Parcel No.
22 102-09-008D ("Parcel"), consisting of approximately 1.40 acres or 61,034 square feet. (Ex. GS-6 at
23 2.) The easement includes five outbuildings and site improvements, but does not include a single
24 family residence located on the Parcel, which was built in 1978 and is approximately 1,440 square feet
25 in size. (*Id.* at 2, 5, 24.) The five outbuildings include a finished 702-square foot guest room/office
26 that lacks a bathroom, three unfinished wood frame sheds (128, 64, and 65 square feet in size) that lack

27 _____
28 ³² The easement, dated October 23, 2013, was obtained by Granite from Sandia Properties LLC, which is controlled by Jonathan and Shauna Duke. (Ex. GS-3 at 15.)

1 plumbing, and a partially finished 108-square foot well house that lacks plumbing. (*Id.* at 24.) The
 2 site improvements include chain link and agricultural fencing, a water well situated on a concrete slab,
 3 mostly native vegetation, and “miscellaneous other site improvements.” (*Id.* at 25.) The appraiser
 4 determined that the Parcel had a value of \$1.15 per square foot or \$70,189 based on a sales comparison
 5 approach, and a market value of \$71,250 based on a price-per-lot analysis. (*Id.* at 32.) The appraiser
 6 then determined that the portion of the Parcel subject to the easement (44,594 square feet) would be
 7 valued at \$51,283 if a fee simple interest. (*Id.* at 33.)

8 Based on the extent to which Granite is authorized to use the easement area, and the owners are
 9 restricted in their use of the easement area, the appraiser determined that 90 percent of the utility and
 10 value in the land in the easement area had been transferred to the holder of the easement³³ and, thus,
 11 that the value of the land in the easement was \$46,000. (Ex. GS-6 at 34.)

12 The appraiser used a cost approach to value the outbuildings included in the easement land,
 13 determining that they had an aggregate value of \$50,705, which was depreciated to \$34,361. (Ex. GS-
 14 6 at 35.) The appraiser assigned each of the outbuildings a separate value, with the well house (Building
 15 5) assigned a value of \$1,449, less \$217 depreciation, for a net value of \$1,232. (Ex. GS-6 at 35.) The
 16 \$34,361 was then added to the estimated \$46,000 value of the easement land, and rounded, to reach an
 17 estimated easement value of \$80,000. (*Id.*)

18 Another appraisal report concerning the Parcel was prepared in February 2012 by Appraisal
 19

20 ³³ The appraisal report states that the easement authorizes the following uses by Granite:

- 21 • Ingress and egress,
- 22 • Use and maintenance of Well No. 6 and other water delivery facilities and of the associated buildings,
- 23 • Drilling and construction of any additional wells located within 600 feet of grandfathered Granite Well No. 5, and
- 24 • Construction and maintenance of future facilities determined to be required by Granite to provide water service under its CC&N. (Ex. GS-6 at 33.)

25 The appraisal report also states that the easement “severely restricts” the owners’ use of the land included in the easement by prohibiting the following:

- 26 • Building of structures on the land in the easement;
- 27 • Building of fences, walls, corrals, etc. in the land in the easement;
- 28 • Storage of vehicles, equipment, supplies, etc. that limit Granite’s ability to drill, operate, or maintain wells on the property; and
- Conducting any activities that otherwise limit Granite’s ability to drill, operate, and maintain wells on the property. (Ex. GS-6 at 33.)

The appraiser determined that the owners of the Parcel may still benefit from the land contained in the easement, however, because it serves as a buffer from surrounding homes, roads, and other uses and can be used for pets, farm animals, landscaping, a play area, etc. (Ex. GS-6 at 34.)

1 Consultants, Inc. for purposes of estimating the total compensation due to the owners for partial
 2 acquisition of the Parcel by Yavapai County for use as a right of way. (Ex. GS-7.) The right-of-way
 3 area, 2,986 square feet in size, was taken for purposes of widening Williamson Valley Road, to which
 4 the Parcel abutted. (Ex. GS-7 at 42.) The appraisal report concluded that the Parcel should be valued
 5 at \$1.00 per square foot, resulting in a value of \$64,015 before the right of way and \$61,029 after the
 6 right of way. (Ex. GS-7 at 43.) The appraisal report further concluded that the improvements included
 7 in the right of way area (fencing, gates, and landscaping) had a depreciated cost of \$1,166, resulting in
 8 a total taking of \$4,152. (Ex. GS-7 at 42-43.) The February 2012 appraisal report also valued a 4,015-
 9 square foot temporary (one-year) construction easement at \$511, based on a rent estimate determined
 10 using a return on investment analysis, and a 1,441-square foot drainage easement at \$1,441, based on
 11 the \$1.00 per square foot valuation of the Parcel. (Ex. GS-7 at 44-49.) The Yavapai County Public
 12 Works Department sent the Dukes a Purchase Agreement, including a copy of the February 2012
 13 appraisal report, on February 27, 2013, and the Dukes signed the Purchase Agreement, which provided
 14 for a total purchase price of \$7,331,³⁴ on April 27, 2013. (Ex. GS-7.)

15 In his January 2016 testimony, Mr. Jones broke down the post-TY plant for Well No. 6,
 16 reporting \$48,500 for land and land rights, \$21,373 for structures and improvements, \$21,935 for the
 17 well itself, \$12,868 for pumping equipment, \$5,669 for solution chemical feeders, \$34,869 for a water
 18 main, \$81 for services, and \$402 for backflow prevention devices, for a total of \$145,697. (Ex. GA-5
 19 at Rev. Sched. RLJ-2 Supp. at 3.)

20 Staff found that Well No. 6 and the 6-inch main connecting Well No. 6 with the main line were
 21 used and useful, that the expenses for the easement should be included in land and land rights rather
 22 than the well account, and that the expenses for culvert installation to prevent storm run-off from
 23 flooding the Well No. 6 site should be classified to and allowed in structure and improvements. (Ex.
 24 GS-1 at 8-10.) In all, Staff recommended that a total of \$100,129 be allowed for Well No. 6, with the
 25 difference being Staff's recommendation to allow Granite to include \$29,432³⁵ for the Well No. 6
 26

27 ³⁴ The total purchase price included a \$2,393 allowance for improvements. (Ex. GS-7.)

28 ³⁵ Staff recommended allowing \$12,200 for the land (easement), \$16,000 for Well No. 6 itself, \$1,232 for the Well House (Building 5), and nothing for the other buildings. (Ex. GS-2 at 1-3.)

1 easement purchase rather than the \$75,000³⁶ requested. (Ex. GA-6 at 1; Ex. GS-2 at 1-3.) Staff's
2 recommendation for the allowable value of the easement was based on Staff's determination that the
3 size of the easement obtained exceeds Granite's current needs and that the outbuildings on the property,
4 other than the well house, are being used by the residential tenants rather than by Granite. (GTr. At
5 68, 72, 83.) Staff observed that the residence located on the parcel was occupied by renters and that
6 there was personal property located in the guest house and was told by Granite's then Operating
7 Manager that the sheds were also used by the renters. (GTr. At 68, 83.) Staff used a map of the Parcel
8 and easement, attached hereto as Exhibit 1, to illustrate and estimate the amount of property actually
9 needed for Granite to use Well No. 6 for its system. (GTr. At 69-72; Ex. GS-5.) Ms. Hains determined
10 that Granite needed only approximately 12,200 square feet of property, which was valued at \$1.00 per
11 square foot in keeping with the 2012 appraisal, and allowed \$16,000 for Well No. 6 itself and \$1,232
12 for the well house, in keeping with the 2015 appraisal. (See GTr. At 74; Ex. GS-6 at 35.)

13 Granite asserted that Staff's position failed to consider the need to drill a replacement well in
14 the future and discounted the value of the outbuildings, which Granite asserted it intended to use to
15 support its obligations. (Ex. GA-2 at 4-5.) According to Granite, Staff's recommended \$29,432 for
16 Well No. 6, the well house, and all required land rights for the well and connecting water lines was
17 "unrealistically low" and less than Granite would have paid just for the drilling of a new well (Ex. GA-
18 2 at 5.) Additionally, Granite asserted that no unaffiliated person would have been willing to grant
19 Granite an easement such as that granted by the Dukes for less than the full market value of the property.
20 (*Id.* at 7-8.) Mr. Jones acknowledged, however, that there are currently no plans to drill another well
21 on the property. (GTr. At 44.)

22 In light of the current and foreseeable use of the easement property, Staff's determination that
23 only 12,200 square feet of that easement, as shown in Exhibit 1 hereto, is used and useful is reasonable
24 and should be adopted. Likewise, Staff's use of the value of the well and depreciated value of the well
25 house, taken from the 2015 appraisal, is reasonable and should be adopted. We note that the \$16,000
26 value of the well itself was also used by Granite on rebuttal. We also conclude that the used and useful

27 ³⁶ On rebuttal, Mr. Jones had broken down the \$75,000 as \$46,000 for land and land rights, \$13,000 for structures and
28 improvements (based on a \$34,075 structure value, less depreciation of \$16,344, rounding of \$361, and \$5,000 below
appraisal purchase price), and \$16,000 for Well No. 6 itself. (Ex. GA-1 at 9.)

1 portion of the easement property should be valued at \$1.075 per square foot, the average of the \$1.00
 2 determined in the 2012 appraisal and the \$1.15 determined in the 2015 appraisal. As a result, the
 3 allowable amount for Well No. 6, including the easement, the well itself, and the well house, should be
 4 \$30,347.

5 2. Unsupported Plant

6 Granite was unable to produce invoices to support \$96,342 of its proposed plant in service,
 7 reporting that the invoices had been lost in a December 14, 2011, fire that destroyed the offices shared
 8 by Granite and the Levies' other businesses, including all physical records. (Ex. GA-1 at 11; Ex. GS-
 9 3 at 13.) Granite provided Mr. Levie's sworn statement that the accounts payable records and invoices
 10 for 2008 through 2011 had been destroyed in the fire and that the Quickbooks accounting records
 11 provided for that period reflected correct entries of the invoice costs and had been made in the regular
 12 course of business. (GApp.; Ex. GS-3 at 13.) Granite asserted that the plant should be allowed because
 13 it was supported by accounting records, that there was no dispute that the amount claimed represents
 14 actual plant in service, and that Granite had tried but been unable to obtain duplicate support for the
 15 plant because vendors had gone out of business or purged their records. (Ex. GA-1 at 11.) Granite
 16 added that if Staff's treatment of unsupported plant were adopted, "the added CIAC amortization
 17 complexity . . . [would] lead to confusion and disagreement regarding future CIAC amortization
 18 balances." (Ex. GA-6.)

19 Because Staff was unable to verify the cost for the proposed plant, Staff recommended that 10
 20 percent of the proposed cost (\$9,634) be treated as a contribution in aid of construction ("CIAC"). (Ex.
 21 GS-3 at 13-14.) With amortization of the CIAC balance, this resulted in a reduction in rate base of
 22 \$9,334. (Ex. GA-6 at 1.) Staff stated that its typical recommendation was to remove 100 percent of
 23 unsupported plant from rate base because it is a company's responsibility to support its claimed costs,
 24 and ratepayers are at risk of paying a return on plant values that are overstated or on plant items that
 25 do not exist if unsupported costs are not removed. (Ex. GS-3 at 1.) In this case, however, Staff made
 26 the recommendation for 10 percent of the unsupported plant amount to be offset with CIAC because
 27 Granite's records had been destroyed by fire, Granite had made an effort to obtain copies of cancelled
 28 checks through numerous letters to its bank, and Staff had verified on its inspection that the plant did

1 exist and that the costs were not overstated. (Ex. GS-3 at 14.) Additionally, Staff acknowledged that
2 Granite and Chino tried very hard to recover the destroyed records. (CTr. at 107.)

3 Although the Commission traditionally has disallowed inclusion in rate base of unsupported
4 plant, the circumstances in this matter are unusual in that the records were destroyed by fire rather than
5 destroyed or lost by Granite, and Staff has determined that the plant in question exists and that the
6 associated plant costs have not been overstated. In light of these considerations, which should address
7 Staff's concerns about overstated costs and nonexistent plant, it is just and reasonable to include the
8 entire \$96,342 in rate base by reversing Staff's adjustment. It is also just and reasonable to advise
9 Granite that it is expected in future to ensure that its records are stored in a manner that substantially
10 mitigates the risk of future loss of records through physical destruction by an act of God or otherwise.³⁷

11 3. Amortization of CIAC

12 Granite disagreed with Staff's method for amortization of CIAC, which Mr. Jones described as
13 a "hybrid" because it used specific depreciation rates for some plant accounts and composite rates for
14 other plant accounts rather than a composite rate, which Mr. Jones stated was the norm. (CTr. at 20.)
15 Granite asserted that Staff's amortization method was needlessly complex and would lead to confusion
16 and disputes regarding future CIAC amortization balances. (See Ex. GA-6; CTr. at 20-21.) Mr. Jones
17 testified that simplifying the amortization method by using a composite rate would help Granite and
18 Chino, neither of which has in-house accounting staff, to succeed in complying with accounting
19 requirements. (CTr. at 21, 74.) Mr. Jones also opined that Granite and Chino would likely need to use
20 an outside contractor to do the accounting if Staff's hybrid method were adopted, which would create
21 a recoverable operating expense. (CTr. at 21, 74.) Additionally, Mr. Jones testified that he had never
22 before been involved in a case where specific rates were used to amortize CIAC. (CTr. at 56, 73.)

23 As of the hearing, Staff continued to recommend using plant specific depreciation rates rather
24 than a composite rate in its amortization of CIAC. (See Ex. GS-9 at Final Sched. TBH GM-7.)

25 Because we believe that using plant specific depreciation rates rather than a composite rate in
26 the amortization of CIAC injects needless complexity into the process, Granite's method of CIAC

27 _____
28 ³⁷ For example, Granite could scan and save its invoices in electronic files and ensure that the electronic files are backed up off site.

1 amortization should be adopted.

2 4. Accumulated Depreciation

3 Granite adopted Staff's methodology in reconstructing Granite's accumulated depreciation
4 balance and disagreed with Staff only as to the treatment of a post-TY retirement associated with the
5 post-TY replacement of the Well No. 4 pump. (Ex. GA-1 at 11-12.) To reflect the post-TY retirement,
6 Granite deducted \$4,680 from accumulated depreciation. (Ex. GA-6.) In its Reply Brief, Staff agreed
7 that the post-TY retirement should be addressed as shown by Granite. (SR Brief at 8.) We agree with
8 the parties that the post-TY retirement should be reflected.

9 5. Cash Working Capital

10 Granite and Staff agreed regarding the methodology to calculate cash working capital, but
11 reached different outcomes based upon their different recommended operating expenses. (See Ex. GA-
12 6.) The method used by Granite and Staff should be adopted.

13 6. Resolution

14 The adjustments adopted herein result in an OCRB of \$539,411, which should be adopted as
15 Granite's FVRB for purposes of establishing Granite's rates and charges in this matter.

16 C. Revenue Requirement

17 1. Method of Establishing

18 Granite and Staff both proposed that Granite's revenue requirement be established by applying
19 a rate of return to Granite's OCRB/FVRB and agreed on an 8.031-percent rate of return. (Ex. GA-5 at
20 Sched. RLJ-1 Supp.; Ex. GS-9 at Fin. Sched. TBH GM-1.) This rate of return is reasonable for Granite
21 and should be adopted.

22 2. Uncollected TY Revenues

23 During its audit, Staff scrutinized whether Granite had ceased providing free and discounted
24 water to Daniel's properties and the Levies' development property as required by Decision No. 71869.
25 (Ex. GS-3 at 46-47.) Staff also field inspected each unread meter identified in Decision No. 71869 to
26 determine operability. (*Id.* at 47.) Staff's review of Granite's account history for the meters identified
27 in Decision No. 71869 as unread and/or not properly billed, along with other Levie family accounts,
28 revealed the following:

- 1 • From September 1, 2010, through the end of the TY, Granite failed to collect properly for
 2 Account No. 80.002.01, the account for Daniel's home property, for which no payments were
 3 made from December 2011 through the end of the TY, and for which the end-of-TY balance
 4 was \$7,265.68;³⁸
- 5 • From September 1, 2010, through the end of the TY, Granite failed to collect properly for
 6 Account No. 80.001.02, Daniel's account for the stables property, for which only sporadic
 7 payments were made during the period, and for which the end-of-TY balance was \$1,157.28;
- 8 • Granite also failed to collect properly for two additional accounts owned by Daniel:
- 9 ○ Account 81.002.01, for the mobile homes on the stables property, for which no payments
 10 were made from July 2011 through the end of the TY, and for which the end-of-TY balance
 11 was \$7,759.51; and
- 12 ○ Account 80.012.00, for which no payments were made from July 2011 through the end of
 13 the TY, and which had an end-of-TY balance of \$1,186.88.³⁹

14 Granite provided records showing that the Levies have made post-TY payments on these
 15 accounts as follows:

- 16 • For Account 80.002.01, a January 2014 credit of \$3,500 was reportedly made in lieu of payment
 17 to Daniel for Construction Work in Progress for Well No. 5,⁴⁰ and a January 2014 payment of
 18 \$2,201.26 was made from the Levie Trust;
- 19 • For Account 81.002.01, a January 2014 payment of \$7,759.51 was made from the Levie Trust;
 20 and

21
 22
 23 ³⁸ This amount does not reflect a \$1,564.42 credit to the account made by Granite on December 10, 2013, at Mr. Levie's
 24 direction, reportedly for a water leak that caused abnormally high consumption from March to April 2013 and for late fees.
 (Ex. GS-3 at 48.) Staff asserted that the adjustment was not appropriate as it represented a discount to a related party
 provided more than eight months after the abnormally high usage. (*Id.* at 48-49.) Granite acknowledged on rebuttal that it
 would have been a better business practice not to make the adjustment due to the family relationship. (Ex. GA-1 at 21.)

25 ³⁹ Ex. GS-3 at 46-50.

26 ⁴⁰ Granite originally provided Staff with a copy of a December 31, 2013, check to Daniel with a memo reading "for prep
 27 work and installing of 2 pipes, back hoe Bobcat and gradework at Short Spur Well," and when Staff asked for a copy of the
 cancelled check, told Staff that the check had been voided and the amount used to offset the balance owed by Daniel. (Ex.
 28 GS-3 at 48.) Staff deemed the \$3,500 offset to Daniel's water account inappropriate because of the misleading information
 provided regarding the check payment, the fact that the alleged CWIP transaction was not conducted at arm's length or
 documented properly for ratemaking purposes because there was no supporting invoice, and the adjustment's not meeting
 Generally Accepted Accounting Principles ("GAAP"). (*Id.* at 48-49.)

- For Account 80.012.00, a January 2014 payment of \$1,186.88 was made from the Levie Trust.⁴¹

Granite reported that Daniel did not pay the bills for the home property account because the bills were being sent to the home property, which is occupied by Daniel's ex-wife, while Daniel lives in Utah and does not receive copies of the bills. (Ex. GS-3 at 50, att. F.) Granite did not specifically address why the revenues for the accounts were not collected, although Granite did report that shut-off procedures had not been followed before and during the TY. (Ex. GS-3 at att. F.) According to Granite, its then administrative assistant was not following shut-off procedures for delinquent accounts and trained its new administrative assistant not to follow the shut-off procedures. (Ex. GS-3 at att. F.) Granite reported that the proper practice for delinquent accounts (sending late notices and collecting) was resumed after the new administrative assistant brought the no-shut-offs practice to the attention of the Operations Manager, several months after replacing the old administrative assistant. (Ex. GS-3 at att. F.)

The end-of-TY balances for Daniel's four accounts included pre-TY balances and penalties due, but Staff's data showed that Granite failed to collect the following amounts of revenue for these accounts during the TY:

Acct. 80.002.01	\$ 3,085.24
Acct. 81.002.01	2,546.84
Acct. 80.001.02	617.84
Acct. 80.012.00	892.06
Total	\$ 7,141.98

These amounts represent uncollected TY revenue not reflected in the metered water revenue figures reported by Granite and Staff. Because this revenue should have been collected, and only went uncollected due to negligent or intentional conduct of Granite, this \$7,142 should be imputed as TY metered water revenue to offset the revenue increase needed by Granite.

3. Allocation of Common Costs

Granite, Chino, Antelope, and the rest of the Levies' businesses⁴² are operated out of a shared

⁴¹ Ex. GS-3 at 49-50.

⁴² The Levies reported the following 13 businesses located at the same business address: Chino; Granite; Antelope; Equestrian Development Corporation; Equestrian Construction, LLC; LL&M Development, LLC; Levie-Antelope Lakes Development Inc.; CityofPrescott.com LLC; Paul D. and Rae Levie Living Trust; Paul D. and Rae Levie Family Corporation; The Levie Family Foundation; Levie Family Limited Partnership; and Levie Realty & Investment LLC. (Ex.

1 office using shared personnel. (Ex. GA-1 at 3; Ex. GS-3 at 34.) The shared office is located in Chino
 2 Valley, Arizona, in a 2,280 square foot property owned by Dewey. (Ex. CS-1 at 26, 28.) A rental
 3 agreement, dated December 15, 2011, obligates Chino to pay Dewey monthly rent of \$1,250, for an
 4 annual rent expense of \$15,000.⁴³ (*Id.*) Chino reported that the TY rental expense has been allocated
 5 80 percent to Chino and 20 percent to Granite, with none of the other companies paying rent. (*Id.*)
 6 Staff determined that the water utility operations use approximately 75 percent of the office space,
 7 while Dewey's office and the operations of the non-regulated affiliates occupy the other 25 percent.
 8 (*Id.* at 28.)

9 The office personnel perform support services for the Levies' property management operations
 10 and are not paid separately for those services, with the Administrative Assistant estimated to work up
 11 to 16 hours per week on property management and the Operations Manager estimated to work up to
 12 four hours per week on property management. (Ex. GS-3 at 32.) No documentation was provided
 13 showing the amount of time the shared personnel spend working for the non-regulated affiliates. (*Id.*
 14 at 33.)

15 Because of the shared office location and personnel, a number of expenses are allocated
 16 between Chino and Granite. (Ex. CS-1 at 9-10.) For the TY, Chino and Granite provided the following
 17 cost allocations and explanations therefor:⁴⁴

Expense Category	Allocated to Chino	Allocated to Granite	Explanation
Rent	Actual = 80%	Actual = 20%	As directed by management
Indirect Operating Expenses ⁴⁵	Actual = 90% Adjusted = 88%	Actual = 10% Adjusted = 12%	Based on number of customers
Employee Salaries and Wages	Actual = 83%	Actual = 17%	Necessitated by payroll software limitations
Officer, Director and Stockholder Salary and Wages	Intended = 80% Actual = 84%	Intended = 20% Actual = 16%	The 80/20 split is based on Mr. Levie's estimate of time spent on each utility. The

25 GS-3 at 34.) The Levies also reported several inactive businesses: Paul D. Levie Inc.; Antelope Lakes Sewer, LLC; Raven
 26 Water Company, LLC; and Raven Sewer Company LLC. (*Id.*) The Levies also reported that only one of the non-water
 utility businesses, a rental property management company, is currently active. (CTR. at 51-52.)

27 ⁴³ Staff determined that the amount of rent per square foot was reasonable. (Ex. CS-1 at 29.)

28 ⁴⁴ Ex. CS-1 at 9-10, att. A, att. B, att. C, att. D.

⁴⁵ These include expenses for purchased power, chemicals, repairs and maintenance, office supplies, rent, contractual services, transportation, insurance – general liability, and insurance – health and miscellaneous. (Ex. CS-1 at 9.)

			84/16 split was an accounting oversight.
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1
2 Chino paid the majority of indirect operating expenses during the TY, and Granite reimbursed Chino
3 at the end of the year for Granite's allocated amounts. (Ex. CS-1 at 10.) Granite also paid some indirect
4 operating expenses directly, without receiving any reimbursement from Chino. (*Id.*)

5 Staff asserted that allocations are required for affiliate transactions because of the incentive to
6 shift common costs to regulated entities that are more likely to recover them, thereby increasing profits
7 for non-regulated entities.⁴⁶ (Ex. GS-3 at 11.) To determine its cost allocation recommendations, Staff
8 first determined a total of shared costs to be allocated by reclassifying several expenses to different
9 NARUC accounts, disallowing a total of \$50,362 in shared expenses,⁴⁷ adding a total of \$14,034 to
10 normalize several shared expenses,⁴⁸ and deducting the portion of the reported costs attributable
11 directly to Chino. (Ex. GS-9 at Fin. Sched. TBH GM-20a, TBH GM-20b, TBH GM-20c, TBC GM-
12 20d.) Staff then used an allocation methodology taking into account the ratio of the following factors
13 for each system compared to the total for the combined systems: customer count, net plant in service,
14 annual revenue, and gallons pumped. (Ex. GS-9 at Fin. Sched. TBH GM-20e.) Staff's analysis resulted
15 in an allocations of 70.12 percent by Chino, 26.93 percent by Granite, and 2.95 percent by Antelope.
16 (Ex. GS-3 at 44, Sched. TBH GM-20e.)

17 Mr. Jones testified that Granite's most significant concern in this matter was with Staff's
18 proposed four-factor cost allocation method. (Ex. GA-1 at 4-5.) According to Granite, Staff's
19 allocation method would shift costs and revenues from Chino to Granite (and Antelope) because the
20 shared costs are currently being allocated on the basis of customer counts (with 88 percent of the
21

22 ⁴⁶ Staff provided the following quote from the NARUC Guidelines for Transactions with Affiliates: "Regulations are
23 designed to prevent 'cross subsidization' - one entity paying for costs that actually benefit another entity. Cross
24 subsidization can occur between regulated entities as well as between regulated and non-regulated entities." (See Ex. GS-
25 3 at 11.)

26 ⁴⁷ The disallowed expenses included \$17,444 for non-regulated salaries and wages; a total of \$16,434 in officer pay
27 adjustment for time actually worked and duties assigned to the office manager; \$46 for purchased power late fees; \$124 in
28 repairs and maintenance expense to eliminate personal expenses; a total of \$2,804 in office supplies and expense to eliminate
items such as Mrs. Levie's phone and charges, meals, and personal expenses; \$1,232 in contractual services to eliminate
legal fees related to the fire; a total of \$7,380 in transportation expenses to eliminate items such as tires for personal use,
out of state gasoline purchases, and delivery of gas to Paul's home; \$1,058 in general liability insurance to remove a vehicle
used by a non-regulated affiliate; \$2,301 in miscellaneous expenses such as gifts and meals; and \$1,539 in non-regulated
payroll taxes. (Ex. GS-9 at Fin. Sched. TBH GM-20c, 20d.)

⁴⁸ The expenses normalized included salaries and benefits, office supplies and expenses (service contracts), transportation
expenses (vehicle registration), and general liability insurance (policy adjustment for refunds). (Ex. GS-9 at Fin. Sched.
TBH GM-20d.)

1 common costs currently allocated to Chino, 12 percent to Granite, and 0 percent to Antelope). (Ex.
 2 GA-1 at 4-5.) Granite asserted that this cost shift to Granite would create revenue instability, would
 3 likely cause Granite to under-collect its authorized revenue by a significant amount, and would move
 4 the rates of Granite and Chino farther apart, which could discourage future consolidation or acquisition.
 5 (Ex. GA-1 at 4-5.) Mr. Jones also asserted that the use of the four factors was unnecessarily complex
 6 for small organizations that need simplicity to succeed. (*Id.* at 14.) Mr. Jones further testified that the
 7 factors used by Staff were unusual because revenues, gallons pumped, and net plant (rather than gross
 8 plant) generally are not used in a four-factor allocation. (Ex. GA-1 at 14.) Mr. Jones characterized the
 9 use of net plant as “particularly problematic” for Chino because of its mature and depreciated rate base.
 10 (*Id.*) According to Mr. Jones, Staff’s original allocations would have shifted \$49,006 in costs and
 11 related revenue from Chino to Granite (which has fewer customers, lower water sales, higher levels of
 12 plant investment, and higher rates), with that each \$10,000 shift lowering Chino’s rates by
 13 approximately \$0.25 per 1,000 gallons while increasing Granite’s rates by about \$1.06 per 1,000
 14 gallons. (Ex. GA-2 at 2.) Mr. Jones asserted that due to this disparate impact, “aggressive shifting of
 15 costs to Granite is certain to increase revenue instability because Granite would almost certainly under-
 16 collect its authorized revenue by a significant magnitude.” (*Id.*)

17 Granite originally proposed that common costs be allocated based on customer count (88
 18 percent to Chino and 12 percent to Granite), as this method has long been used by Granite and Chino
 19 and is simple to administer and understand and is accurate. (GA-1 at 4-5, 15.) In response to Staff’s
 20 proposed allocation method, however, Granite proposed a three-factor allocation method on rebuttal
 21 that included current customer count, projected customer count (five years post-TY), and gross plant
 22 in service, assigning a 2.5x weight to each of the customer count factors because of Granite’s belief
 23 that customer counts should dominate any cost allocation method used. (Ex. GA-1 at 15-16, ex. RLJ-
 24 RB6.) Granite proposed to use its proposed allocation method, set forth below, on a going-forward
 25 basis beginning with 2016. (Ex. GA-1 at 16.)

26 ...

27 ...

28 ...

GRANITE ⁴⁹							
Company	Customer Count	% of Total (2.5x Weight)	Projected 2018 Customer Count	% of Total (2.5x Weight)	Gross Plant in Service	% of Total (1x Weight)	Simplified Allocation Factor
Antelope	2		2		\$ 116,938		
Chino	899	88.14%	899	85.86%	795,909	47.90%	80.5%
Granite	121	11.86%	148	14.14%	865,831	52.10%	19.5%
Total	1,020		1,047		\$1,661,740		

Staff's allocation methodology, set forth below, took into account customer count, net plant in service, annual revenue, and gallons pumped. (Ex. GS-9 at Fin. Sched. TBH GM-20e.) Staff's final allocation recommendations reflect Staff's adjustment to its allocation method results, made in response to Granite's concerns that Staff's original recommendation would over-allocate costs to Granite and Antelope. (See Ex. GS-4 at 3, 8-9.) Staff recommended that its allocation recommendations be considered fixed, regardless of any changes to the levels of post-TY plant ultimately allowed by the Commission. (Ex. GS-4 at 4.) Staff stated that allocation methodology should be addressed in the next rate case, however, and that each of the companies should be prepared to support the reasonableness of its proposed allocation methodology used in the next rate case. (*Id.*)

STAFF ⁵⁰											
Company	Customer Count	% of Total	Net Plant in Service	% of Total	Total Annual Revenue	% of Total	Total Annual Gallons Pumped (thousands)	% of Total	4-Factor Average %	Staff Adjusted 4-Factor Average %	
Antelope	2	0.20%	\$ 62,347	11.34%	\$ 613	0.13%	95	0.13%	2.95%	1.00%	
Chino	899	87.96%	173,351	31.54%	357,364	75.17%	64,140	85.81%	70.12%	75.00%	
Granite	121	11.84%	313,950	57.12%	117,447	24.70%	10,510	14.06%	26.93%	24.00%	
Total	1,022		\$549,648		\$475,424		74,745				

Granite opposed Staff's adjusted four-factor allocation, stating that while Staff's allocations seemed reasonable, they actually would "leave the combined operations of Chino and Granite worse off than if Staff had not 'updated' its position" because although Staff's new allocations had reduced the amount of expense allocated to Granite rather than Chino by \$10,634, Staff's failure to increase Chino's revenue requirement to recover the additional expense would guarantee that neither company

⁴⁹ Ex. GA-1 at ex. RLJ-RB6.

⁵⁰ Ex. GS-9 at Fin. Sched. TBH GM-20e.

1 would recover the expense. (Ex. GA-2 at 2-3.) Mr. Jones stated on rejoinder that although Staff's
2 adjusted four-factor allocation recommendations would reduce the amount of expense allocated to
3 Granite rather than Chino by \$10,634, Staff's failure to increase Chino's revenue requirement to
4 recover the additional expense would guarantee that neither company would recover the expense. (*Id.*
5 at 2-3.) Mr. Jones asserted that the recommended cost shift from Chino to Granite would destabilize
6 the revenue of both companies, reduce the three companies' ability to cover their common expenses,
7 and harm the operations of Chino and Granite; could impair the three companies' abilities to implement
8 the operational improvements desired by Staff and committed to by the three companies; and would
9 discourage consolidation by making the companies less attractive for acquisition by larger and better
10 capitalized companies. (*See* Ex. GA-2 at 3-4.)

11 The Commission generally prefers that common costs be allocated on the basis of multiple
12 factors and has recently ordered at least one Class D water utility to use a four-factor allocation method
13 using direct labor hours, direct operating expenses, number of customers, and net plant.⁵¹ In this matter,
14 however, it is not possible to quantify direct labor hours, and the use of direct operating expenses and
15 net plant, like Granite's use of gross plant, would result in dramatic shifting of common costs and
16 significantly higher rates for Granite customers, whose rates are already much higher than those of
17 Chino customers and who are outnumbered more than seven-fold by Chino customers. Additionally,
18 the Commission recognizes that Chino's gross and net plant balances may be misleadingly low due to
19 the manner in which Chino was acquired by its current owners and thus may not truly reflect the value
20 of Chino's plant for purposes of allocating common costs. In addition, any multi-factor allocation
21 method that includes plant as a factor is likely to result in very lumpy future rate increases for Granite
22 as its rate base increases.⁵² Multi-factor allocation methods are also inherently more complicated to
23 calculate and thus may not best serve the Commission's interests in having Granite come into
24 compliance with Commission requirements.

25 ⁵¹ *See* Decision No. 73730 (February 20, 2013), involving Watco, Inc., an "S" corporation and then a Class D water
26 utility. Staff also encouraged A. Petersen Water Co., a Watco, Inc. affiliate and Class E water utility, to use the same four
27 factors in its allocations. (*See* Decision No. 74385 (March 19, 2014).) Official notice is taken of these decisions.

28 ⁵² Including plant as an allocation factor means that common cost allocations will increase at the same time as rate base
increases, which effectively multiplies the rate impact upon customers when new plant has been added in a system with a
revenue requirement and rates established based on FVRB. This is particularly problematic for a system like Granite that
has few customers from whom the revenue increase must be collected.

1 The Commission is concerned that adoption of either of Staff's allocation recommendations
 2 made during this matter will result in unnecessary rate shock and that Granite's proposed allocation
 3 method is overly speculative in its use of future customer counts and overly outcome-oriented in its
 4 use of weighting. Based upon the totality of unique facts and circumstances existing in this matter, the
 5 Commission should establish the revenue requirement in this matter using the following common cost
 6 allocations, based upon the end-of-TY customer counts for each company:

7	<u>Granite</u>	<u>Chino</u>	<u>Antelope</u>
8	11.84%	87.96%	0.20%

9 Additionally, Granite and Chino should begin allocating common costs for each year based upon the
 10 customer count of each and Antelope as of January 1 of the year. These common cost allocations are
 11 appropriate in this matter based upon the totality of the circumstances herein and are not intended to
 12 be and should not be interpreted as creating a new Commission policy on allocation of common costs.

13 4. Mr. Levie's Salary

14 Granite reported Mr. Levie's actual TY salary as \$37,700. (Ex. GA-1 at 13-14.) The payments
 15 for Mr. Levie's salary were made to Paul D. Levie P.C. (Ex. GS-3 at 33.) Mr. Jones testified that Mr.
 16 Levie does not maintain any time sheets to document the amount of time he spends each day working
 17 for each of the Levies' active businesses and that no time study was conducted to support the reported
 18 salary amount. (*Id.* at 34, 36.) Mr. Levie's salary was established using an estimated \$76,800 full-
 19 time salary and then reducing it by half for an intended salary of \$38,400 because Mr. Levie works an
 20 estimated 89 hours per month (approximately half time) for Granite and Chino. (Ex. GS-3 at 34-35;
 21 CTr. at 48-52; CS-1 at att. B.) The actual TY salary of \$37,700 was the result of an inadvertent
 22 oversight. (Ex. CS-1 at att. B.)

23 In a Chino Data Response, Mr. Levie's monthly duties for Granite and Chino were summarized
 24 as follows:

25	Activity	Hours
26	Supervision and management of company personnel	12
27	Oversight of company operations	6
28	Provide strategic direction	6
	Review company financial data including payables, receivables, revenue and expenses	12
	Provide legal representation for Company	8

1	Review payroll and sign checks	4
2	Review and authorize all vendor payments	4
3	Acquire regulate and oversee company loans and long-term debts	8
4	Meetings with operations management to review capital program and address operational issues and ensure proper facilities and equipment are available	20
5	Develop and review company processes and procedures to ensure regulatory compliance	8
6	Review and advise Company on manuals such as employee handbook and emergency response manual	1

7 Note: This schedule includes all time spent working for both Chino
8 Meadows and Granite Mountain. As discussed below, it is estimated
9 that 80% of the time is attributable to Chino Meadows and 20% of
10 the time is attributable to Granite Mountain.⁵³

11 The duties of Granite and Chino's Operations Manager were summarized by Staff as follows:

12 oversees and runs all daily operations; directs and assists administrative
13 staff and field techs; manages day to day operation of the company's
14 facilities and personnel to ensure distribution of safe water to customer,
15 provides customer services and assures compliance with regulatory
16 requirements, manages Company's capital projects, and reviews and
17 authorizes vendor payments.⁵⁴

18 Staff adjusted Mr. Levie's combined annual salary for Granite and Chino to \$21,266 by
19 calculating an hourly rate based on an annual salary of \$37,700 and half-time employment, reducing
20 Mr. Levie's reported 89 hours worked per month by 33 percent (the amount of time Staff estimated
21 that Mr. Levie spent out of town), applying the hourly rate to the remaining 59.63 hours per month to
22 reach \$25,939, and then deducting from that amount \$4,673 representing a salary increase provided to
23 the Operations Manager from 2013 to 2014 (bringing the Operations Manager's 2014 salary to
24 \$55,356). (Ex. GS-3 at 35-36, Sched. TBH GM-20g.) Staff reasoned that the downward adjustment
25 was appropriate considering Mr. Levie's operation of 13 businesses from the same office, lack of time
26 sheet documentation or time study to support his estimated hours worked, the redundancy of some of
27 Mr. Levie's duties with the Operations Manager's duties, Staff's opinion that some of Mr. Levie's time
28 estimates seemed high, and Staff's determination that Mr. Levie spent 33 percent of monthly business
hours out of town. (Ex. GS-3 at 35-36, Sched. TBH GM-20g.) Staff recommended that for Granite
and Chino to recover Mr. Levie's salary expense in future rate cases, a time study and underlying

⁵³ Ex. CS-1 at att. B.

⁵⁴ Ex. GS-3 at 35; Ex. CS-1 at 35. Staff compiled its summary using the original applications and responses to Data Requests. (Ex. GS-3 at 35; Ex. CS-1 at 35.)

1 detailed time sheets be made available as evidence of the direct labor hours Mr. Levie spends on
 2 activities related to Granite and Chino. (Ex. GS-3 at 36.) Staff's position regarding Mr. Levie's salary
 3 did not change on surrebuttal. (Ex. GS-4 at 8.)

4 Granite asserted that reducing 33 percent of Mr. Levie's total monthly hours is unnecessary and
 5 duplicative because Mr. Levie's salary of \$37,700, based on half-time employment, already reflects a
 6 deduction for Mr. Levie's time away from the office. (Ex. GA-1 at 13.) Granite proposed that Mr.
 7 Levie's salary be adjusted to \$33,027, the amount calculated from deducting the \$4,673 increase
 8 provided to the Operations Manager in 2014 from Mr. Levie's paid salary of \$37,700. (*Id.*) Granite
 9 asserted that a pre-allocation salary of \$33,027 is very reasonable for Mr. Levie's services as both chief
 10 executive and legal counsel for Granite and Chino. (*Id.* at 13-14.) Granite proposed that \$6,440 of that
 11 salary (19.5 percent) be allocated to Granite and that the remaining \$26,587 (80.5 percent) be allocated
 12 to Chino. (*See id.* at 14, ex. RLJ-RB6.)

13 While the discussion of this issue focused specifically on Mr. Levie's TY activities and travels,
 14 consideration must also be given to what salary would be reasonable going forward for the duties
 15 performed by the Chief Executive Officer ("CEO") of Granite, Chino, and Antelope, whether that
 16 position is filled by Mr. Levie, by Dewey, or by a third party. In light of this, while we will adopt
 17 Staff's adjustment to deduct the \$4,673 in recognition of the Operations Manager's salary increase and
 18 overlapping duties (as accepted by Granite and Chino), we will not adopt Staff's additional deduction
 19 for the time Mr. Levie is believed to have been out of town during the TY. It cannot be assumed that
 20 another CEO would travel as frequently, particularly as Granite and Chino have expressed an intention
 21 to improve their business practices and compliance with Commission requirements. Thus, a total CEO
 22 salary of \$33,027 should be adopted, to be allocated as designated above.

23 5. Depreciation Expense

24 Granite proposed depreciation expense of \$33,720, while Staff proposed depreciation expense
 25 of \$32,434. (Ex. GA-5 at Sched. RLJ-3 Supp.; Ex. GS-9 at Fin. Sched. TBH GM-11; Ex. GA-6.)
 26 Granite and Staff agreed regarding the depreciation expense methodology to be used,⁵⁵ but reached
 27

28 ⁵⁵ Granite originally had proposed to change the depreciation rates for Plant Accounts 311 (Pumping Equipment) and 341 (Transportation Equipment) but dropped this proposal on rebuttal in an effort to limit disputed issues. (Ex. GA-1 at 17.)

1 different depreciation expense proposals due to different levels of post-TY plant, different levels of
 2 CIAC resulting from Staff's treatment of unsupported plant, and Staff's inadvertent inclusion of \$4,680
 3 for fully depreciated plant retired post-TY. (Ex. GA-1 at 16; Ex. GA-6.) We will use the same
 4 methodology and will deduct the \$4,680 for fully depreciated plant retired post-TY.

5 6. Income Tax Expense

6 Granite and Staff originally disagreed on whether corporate or individual income tax rates
 7 should be applied to Granite, as an "S" corporation, with Staff applying corporate tax rates and Granite
 8 using individual income tax rates. (See Ex. GA-1 at 17-18; Ex. GS-9 at 8, Fin. Sched. TBH GM-11;
 9 Ex. GA-2 at 9; Ex. GA-5 at Sched. RLJ-3 Supp.) Ultimately, in its supplemental direct testimony,
 10 Staff agreed that individual income tax rates should be applied as advocated by Granite. (Ex. GS-9 at
 11 Fin. Sched. TBH GM-23; GTr. at 158.)

12 Granite and Staff also differed in that Staff deducted synchronized interest expense in
 13 calculating income taxes, to account for the effects of the WIFA loan obtained to fund construction of
 14 Storage Tank No. 3, while Granite did not. (See Ex. GS-3 at Sched. TBH GM-23; Ex. GA-1 at Sched.
 15 RLJ-3 Reb.) In its brief, Granite stated that it has no issue with the inclusion of synchronized interest
 16 in the income tax calculation. Staff's income tax calculation methodology is reasonable and should be
 17 adopted.

18 7. Resolution

19 As a result of the adjustments adopted herein, the following adjusted TY results and revenue
 20 requirement should be adopted:

21	OCRB/FVRB	\$539,411
22	Adjusted TY Revenue	\$124,462
23	Adjusted TY Operating Expenses	\$100,231
24	Adjusted Operating Income	\$24,231
25	Current Rate of Return	4.49%
26	Required Rate of Return	8.031%
27	Required Operating Income	\$43,320
28	Operating Income Deficiency	\$19,087
	Gross Revenue Conversion Factor	1.22788
	Required Increase in Gross Revenue (\$)	\$23,436
	Required Increase in Gross Revenue (%)	18.83%
	Revenue Requirement	\$147,898

1 This revenue requirement results in a cash flow before debt service reserve of \$62,730 and a cash flow
2 after debt service reserve of \$60,063.

3 **D. Rate Design**

4 Granite's current and proposed rates and Staff's recommended rates⁵⁶ are as follows:

	Present Rates	Company Proposed	Staff Recommended
MONTHLY USAGE CHARGE:			
All Classes			
5/8" x 3/4" Meter	\$ 25.00	\$ 37.80	\$ 37.50
3/4" Meter	37.50	56.70	56.25
1" Meter	62.50	94.50	93.75
1 1/2" Meter	125.00	189.00	187.50
2" Meter	200.00	302.40	300.00
3" Meter	400.00	604.80	600.00
4" Meter	625.00	945.00	937.50
6" Meter	1,250.00	1,890.00	1,875.00
Hydrant Meter (Individually Assigned)	By Meter Size	By Meter Size	NT
Standpipe (Not Individually Assigned)	None	None	NT
COMMODITY RATES (Per 1,000 Gallons)			
5/8" x 3/4" Meter (All Classes)			
First 4,000 Gallons	\$ 4.40		
4,001 to 10,000 Gallons	6.60		
Over 10,000 Gallons	7.90		
First 3,000 Gallons		\$ 6.65	
3,001 to 10,000 Gallons		9.95	
Over 10,000 Gallons		11.90	
5/8" x 3/4" Meter (Residential)			
First 3,000 Gallons			\$ 6.75
3,001 to 8,000 Gallons			10.25
Over 8,000 Gallons			12.00
5/8" x 3/4" Meter (Commercial)			
First 8,000 Gallons			\$ 10.25
Over 8,000 Gallons			12.00
3/4" Meter (All Classes)			
First 4,000 Gallons	\$ 4.40		
4,001 to 10,000 Gallons	6.60		
Over 10,000 Gallons	7.90		
First 3,000 Gallons		\$ 6.65	

56 Decision No. 71869 (September 1, 2010); Ex. GA-5 at Sched. RLJ-4 Supp.; Ex. GS-9 at Fin. Sched. TBH GM-26, Fin. Sched. TBH GM-27.

1	3,001 to 10,000 Gallons		9.95	
	Over 10,000 Gallons		11.90	
2	<u>3/4" Meter (Residential)</u>			
3	First 3,000 Gallons			\$ 6.75
	3,001 to 8,000 Gallons			10.25
4	Over 8,000 Gallons			12.00
5	<u>3/4" Meter (Commercial)</u>			
6	First 8,000 Gallons			\$ 10.25
	Over 8,000 Gallons			12.00
7	<u>1" Meter (All Classes)</u>			
8	First 10,000 Gallons	\$ 6.60		\$ 10.25
	Over 10,000 Gallons	7.90		12.00
9	<u>1 1/2" Meter (All Classes)</u>			
10	First 15,000 Gallons		\$ 9.95	
	Over 15,000 Gallons		11.90	
11	<u>1 1/2" Meter (All Classes)</u>			
12	First 20,000 Gallons	\$ 6.60		\$ 10.25
	Over 20,000 Gallons	7.90		12.00
13	<u>2" Meter (All Classes)</u>			
14	First 30,000 Gallons		\$ 9.95	
	Over 30,000 Gallons		11.90	
15	<u>2" Meter (All Classes)</u>			
16	First 40,000 Gallons	\$ 6.60		\$ 10.25
	Over 40,000 Gallons	7.90		12.00
17	<u>2" Meter (All Classes)</u>			
18	First 50,000 Gallons		\$ 9.95	
	Over 50,000 Gallons		11.90	
19	<u>3" Meter (All Classes)</u>			
20	First 144,000 Gallons	\$ 6.60		\$ 10.25
	Over 144,000 Gallons	7.90		12.00
21	<u>3" Meter (All Classes)</u>			
22	First 100,000 Gallons		\$ 9.95	
	Over 100,000 Gallons		11.90	
23	<u>4" Meter (All Classes)</u>			
24	First 225,000 Gallons	\$ 6.60		\$ 10.25
	Over 225,000 Gallons	7.90		12.00
25	<u>4" Meter (All Classes)</u>			
26	First 150,000 Gallons		\$ 9.95	
	Over 150,000 Gallons		11.90	
27	<u>6" Meter (All Classes)</u>			
28	First 450,000 Gallons	\$ 6.60		\$ 10.25
	Over 450,000 Gallons	7.90		12.00

1	First 300,000 Gallons		\$ 9.95	
	Over 300,000 Gallons		11.90	
2				
	<u>Hydrant Water</u>			
3	All Usage, Per 1,000 Gallons	NT	\$ 11.90	\$ 12.00
4				
	<u>Standpipe Water</u>			
	(Not Individually Assigned)			
5	All Usage, Per 1,000 Gallons	\$ 7.90	\$ 11.90	\$ 12.00
6				
	SERVICE CHARGES:			
7				
	Establishment	\$ 25.00	\$ 25.00	\$ 25.00
8	Establishment (After Hours)	35.00	NT	NT
	After Hours Charge (Flat Rate) ^a	NT	25.00	25.00
9	Reconnection (Delinquent)	35.00	35.00	35.00
	Reconnection (Delinquent) (After Hours)	45.00	NT	NT
10	Meter Test (If Correct)	35.00	35.00	35.00
	Deposit	*	*	*
11	Deposit Interest (Per Year)	*	*	*
	Reestablishment (Within 12 Months)	**	**	**
12	NSF Check	\$ 20.00	\$ 20.00	\$ 20.00
	Deferred Payment (Per Month)	1.00%	1.50%	1.50%
13	Meter Reread (If Correct)	\$ 15.00	\$ 15.00	\$ 15.00
	Late Payment Penalty (Per Month)	***	***	***
14	Moving Customer Meter at Customer Request	NT	At Cost	At Cost
15				
16	<u>Monthly Service Charge for Fire Sprinkler:</u>			
	All Sizes	NT	NT	NT
17				

18 ^a At Customer Request

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

19 ** Months off system times Monthly Usage Charge, per A.A.C. R14-2-403(D)

20 *** 1.50 percent of the unpaid balance per month

21 **** 2% of Monthly Usage Charge for a Comparably 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 for the primary water service line.

22 NT Not tariffed

23 All items billed at cost shall include labor, materials, parts, overheads, and all applicable taxes.

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

25 ...

26 ...

27 ...

28 ...

SERVICE LINE & METER INSTALLATION CHARGES:				
(Refundable pursuant to A.A.C. R14-2-405)				
	Present	Granite Proposed & Staff Recommended		
	Total	Service Line	Meter	Total
5/8" x 3/4" Meter	\$ 500.00	\$ 450.00	\$ 150.00	\$ 600.00
3/4" Meter	575.00	450.00	250.00	700.00
1" Meter	650.00	575.00	300.00	875.00
1 1/2" Meter	716.00	675.00	500.00	1,175.00
2" Meter	1,572.00	1,000.00	1,500.00	2,500.00
3" Meter	2,400.00	1,300.00	2,000.00	3,300.00
4" Meter	3,516.00	1,800.00	3,500.00	5,300.00
6" Meter	6,916.00	2,800.00	6,000.00	8,800.00
Over 6"	NT	Actual Cost	Actual Cost	Actual Cost

Granite's current rates produce 46.8 percent of revenues through base charges, 11.7 percent of revenues through tier 1, 23.1 percent of revenue through tier 2, and 18.35 percent of revenue through tier 3. (Ex. GA-5 at Sched. RLJ-4 Supp.) According to Granite, Staff's rate design would decrease the percentage of revenue collected through monthly minimum charges from 46.8 percent to 46.2 percent and would increase the amount of revenue collected through the third-tier commodity rate from 18.3 percent to 20.2 percent. (Ex. GA-1 at 18-19; Ex. GA-5 at Sched. RLJ-4 Supp.; GTr. at 149-50.) Granite asserted that the shifting of revenue collection caused by Staff's proposed rate design is inappropriate because it would exacerbate expected declining sales and cause Granite to collect less than its authorized revenue. (Ex. GA-1 at 18-19.) Granite's proposed rates would produce 46.5 percent of revenues through base charges, 9.4 percent of revenues through tier 1, 28.0 percent of revenue through tier 2, and 16.1 percent of revenues through tier 3. (Ex. GA-5 at Sched. RLJ-4 Supp.) Granite asserted that its proposed rate design would improve revenue stabilization by retaining the revenue percentage produced by base charges and reducing the percentage of revenues collected from the third-tier commodity rate. (Ex. GA-2 at 9; Ex. GA-1 at 18.) Granite amended its originally proposed rate design to use the tier break-over points recommended by Staff on direct for all meter sizes, except without separate commodity rates for small commercial meter sizes. (Ex. GA-1 at 18.) Granite's concerns regarding Staff's recommended rate design were not alleviated by Staff's subsequent testimony. (Ex. GA-2 at 9-10; Ex. GA-6; CoJtBr. at 11-12.)

...

1 Granite's proposed rates would result in the following monthly bills and bill changes for a
2 residential customer served by a 5/8" x 3/4" meter with average or median usage:⁵⁷

Granite's Proposed	Current Rates	Proposed Rates	\$ Difference	% Difference
Average Usage (6,411 Gallons)	\$58.51	\$91.69	\$33.18	56.71%
Median Usage (3,684 Gallons)	\$41.21	\$64.56	\$23.35	56.66%

6 Staff's final recommended rate design would increase the monthly minimum charges for all
7 meter sizes; lower the first- and second-tier commodity rate break-over points for residential 5/8" x
8 3/4" and 3/4" meter sizes; adopt a two-tiered commodity rate structure for 5/8" x 3/4" and 3/4"
9 commercial meter sizes; and increase commodity rates for all tiers, with the largest percentage increase
10 to the second-tier commodity rate for residential 5/8" x 3/4" and 3/4" meter sizes, which is the same as
11 the first-tier commodity rate for commercial 5/8" x 3/4" and 3/4" meter sizes and for all larger meter
12 sizes. (Ex. GS-3 at 54; Ex. GS-9 at 8, Fin. Sched. TBH GM-26.) Staff found all of Granite's proposed
13 service charges, including the new After Hour Service Charge, to be consistent with the customary
14 charges assessed by similarly sized companies and recommended their approval. (Ex. GS-3 at 55.)

15 Staff's recommended rates would result in the following monthly bills and bill changes for a
16 residential customer served by a 5/8" x 3/4" meter with average or median usage:⁵⁸

Staff's Recommended	Current Rates	Proposed Rates	\$ Difference	% Difference
Average Usage (6,411 Gallons)	\$58.51	\$92.71	\$34.20	58.45%
Median Usage (3,684 Gallons)	\$41.21	\$64.76	\$23.55	57.15%

20 Granite and Staff have both proposed rate designs that are intended to ensure revenue stability
21 by collecting approximately 46 percent of revenues through base charges and by collecting the bulk of
22 commodity rate revenues for residential customers through the first and second tiers. Staff's rate design
23 would also increase the percentage of total revenues collected through the residential third-tier rate
24 from 18.3 to 20.2 percent. Implementation of this type of shift in revenue collection through rate design
25 is often appropriate for a system with customers using excessive amounts of water, to encourage those
26 customers to conserve. Reference to Decision No. 71869 shows that Granite's customers have

27
28 ⁵⁷ Ex. GA-5 at Sched. RLJ-4 Supp.

⁵⁸ Ex. GS-9 at Fin. Sched. TBH GM-26, Fin. Sched. TBH GM-27.

1 conserved under its current rate design, with median usage dropping from 5,429 gallons to 3,684
 2 gallons and average usage dropping from 9,300 gallons to 6,411 gallons. (See Decision No. 71869 at
 3 22.) Additionally, Granite's commodity charges, already relatively high, will increase as a result of
 4 this rate case, making it likely that Granite's customers will conserve without the additional incentive
 5 presented by a rate design that would increase revenue generation through the third-tier. Further, there
 6 may be validity to Granite's claims that attempting to collect an increased percentage of revenues
 7 through third-tier commodity rates will instead result in Granite's failure to meet its revenue
 8 requirement. Thus, we will adopt the rates and charges set forth below, which are designed to generate
 9 the revenue requirement established through the adjustments made herein, to maintain generation of
 10 approximately 46 percent of revenues through monthly minimum charges, to generate a lower level of
 11 revenues through the third-tier rate than recommended by Staff, to keep Granite's rate design simple
 12 by maintaining the same rate design for all classes of customer rather than establishing new commercial
 13 customer rates, and to adopt the service charges and service line and meter installation charges agreed
 14 upon by Granite and Staff.

MONTHLY USAGE CHARGE:	
All Classes	
5/8" x 3/4" Meter	\$ 29.50
3/4" Meter	44.25
1" Meter	73.75
1 1/2" Meter	147.50
2" Meter	236.00
3" Meter	472.00
4" Meter	737.50
6" Meter	1,475.00
Hydrant Meter (Individually Assigned)	By Meter Size
COMMODITY RATES (Per 1,000 Gallons)	
5/8" x 3/4" Meter (All Classes)	
First 3,000 Gallons	\$ 5.30
3,001 to 10,000 Gallons	7.95
Over 10,000 Gallons	9.54
3/4" Meter (All Classes)	
First 3,000 Gallons	\$ 5.30
3,001 to 10,000 Gallons	7.95
Over 10,000 Gallons	9.54

1	<u>1" Meter (All Classes)</u>	
	First 15,000 Gallons	\$ 7.95
2	Over 15,000 Gallons	9.54
3	<u>1 1/2" Meter (All Classes)</u>	
	First 30,000 Gallons	\$ 7.95
4	Over 30,000 Gallons	9.54
5	<u>2" Meter (All Classes)</u>	
	First 50,000 Gallons	\$ 7.95
6	Over 50,000 Gallons	9.54
7	<u>3" Meter (All Classes)</u>	
	First 100,000 Gallons	\$ 7.95
8	Over 100,000 Gallons	9.54
9	<u>4" Meter (All Classes)</u>	
	First 150,000 Gallons	\$ 7.95
10	Over 150,000 Gallons	9.54
11	<u>6" Meter (All Classes)</u>	
	First 300,000 Gallons	\$ 7.95
12	Over 300,000 Gallons	9.54
13	<u>Hydrant Water</u>	
	All Usage, Per 1,000 Gallons	\$ 9.54
14	<u>Standpipe Water</u>	
	(Not Individually Assigned)	
15	All Usage, Per 1,000 Gallons	\$ 9.54

SERVICE CHARGES:		
18		
	Establishment	\$ 25.00
19	After Hours Charge (At Customer Request) (Flat Rate)	25.00
20	Reconnection (Delinquent)	35.00
	Meter Test (If Correct)	35.00
21	Deposit	*
	Deposit Interest (Per Year)	*
22	Reestablishment (Within 12 Months)	**
	NSF Check	\$ 20.00
23	Deferred Payment (Per Month)	1.50%
	Meter Reread (If Correct)	\$ 15.00
24	Late Payment Penalty (Per Month)	***
25	Moving Customer Meter at Customer Request	At Cost

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

** Months off system times Monthly Usage Charge, per A.A.C. R14-2-403(D)

*** 1.50 percent of the unpaid balance per month

SERVICE LINE & METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	Service Line	Meter	Total
5/8" x 3/4" Meter	\$ 450.00	\$ 150.00	\$ 600.00
3/4" Meter	450.00	250.00	700.00
1" Meter	575.00	300.00	875.00
1 1/2" Meter	675.00	500.00	1,175.00
2" Meter	1,000.00	1,500.00	2,500.00
3" Meter	1,300.00	2,000.00	3,300.00
4" Meter	1,800.00	3,500.00	5,300.00
6" Meter	2,800.00	6,000.00	8,800.00
Over 6"	Actual Cost	Actual Cost	Actual Cost

All items billed at cost shall include labor, materials, parts, overheads, and all applicable taxes.

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

The new rates and charges to be adopted herein for Granite will result in the following monthly bills and bill changes for a residential customer served by a 5/8" x 3/4" meter with average or median usage:

	Current Rates	New Rates	\$ Difference	% Difference
Average Usage (6,411 Gallons)	\$58.51	\$72.52	\$14.01	23.94%
Median Usage (3,684 Gallons)	\$41.21	\$50.84	\$9.63	23.37%

V. Ratemaking—Chino**A. Summary**

Chino filed its rate application, using the same TY as Granite, as required by Decision No. 72896. (CApp. at 3.) Chino's application, as amended, reported total TY operating revenues of \$358,364 and an OCRB/FVRB⁵⁹ of \$171,398, and requested an increase in revenues of \$139,014 or 38.79 percent. (CApp. at 6; Ex. CS-1 at 5.) Because of its low OCRB/FVRB, Chino proposed that the Commission establish its rates and charges using an operating margin of 15 percent rather than a typical rate of return on rate base. (CApp. at 4; Ex. CS-1 at 5.) Chino reported that it had 899 customers at the end of the TY, all served by 5/8" x 3/4" meters. (CApp. at 6, 18.)

According to Mr. Jones, Chino accepted most of Staff's proposed adjustments so as to limit issues and demonstrate Chino's "commitment to improving its operations and meeting Staff's expectations concerning record keeping and cost accounting." (Ex. CA-1 at 4.)

⁵⁹ In its application, Chino waived the right to have its FVRB determined using Reconstruction Cost New. (CApp. at 6.)

As of the hearing in this matter, Chino proposed and Staff recommended the following:⁶⁰

	Chino Proposed	Staff Primary Recommended	Staff Alternate Recommended
OCRB/FVRB	\$168,668	\$161,528	\$161,528
Adjusted TY Revenue	\$357,985	\$357,985	\$357,985
Adjusted TY Operating Expenses	\$329,791	\$310,069	\$310,069
Adjusted Operating Income	\$28,195	\$47,916	\$47,916
Current Rate of Return	16.72%	29.66%	29.66%
Required Rate of Return	N/A	29.66%	10.00%
Adjusted TY Operating Margin	7.88%	N/A	N/A
Required Operating Margin	15.00%	N/A	N/A
Required Operating Income	\$60,390	\$47,916	\$16,153
Operating Income Deficiency	\$32,196	\$0	(\$31,764)
Gross Revenue Conversion Factor	1.3858	1.3196	1.3196
Increase in Gross Revenue (\$)	\$44,618	\$0	(\$41,914)
Increase in Gross Revenue (%)	12.46%	0.00%	-11.71%
Proposed Annual Revenue	\$402,603	\$357,985	\$316,072

B. Rate Base

The small difference between Chino's and Staff's proposed OCRB/FVRB figures is attributable to Chino's disagreement with Staff's adjustment to CIAC for unsupported plant and Staff's method for calculating amortization of CIAC, with differences in the parties' cash working capital amounts also flowing from differences in their proposed operating expense figures.

1. Unsupported Plant

Like Granite, Chino was unable to produce invoices to support a portion of its plant in service (\$42,759), due to the December 2011 fire that destroyed the offices shared by the Levies' various business organizations. (See Ex. CA-1 at 7.) As with Granite, and for the same expressed reasons, Staff recommended that 10 percent of the \$42,759, or \$4,276, be treated as CIAC. (Ex. CS-2 at 5.) Chino objected to this treatment, asserting that the plant was supported by accounting records, that there was no dispute that the amount represents plant in service, and that Chino had tried but been unable to obtain duplicate support for the plant because vendors had gone out of business or purged their records. (Ex. CA-1 at 7.) The evidence as to Chino's efforts to obtain replacement records and Staff's determination that the plant exists and that the asserted plant costs are reasonable is the same as

⁶⁰ Ex. CA-1 at Sched. RLJ-1 Reb., Sched. RLJ-2 Reb., Sched. RLJ-3 Reb.; Ex. CS-2 at Surr. Sched. TBH CM-1A, Surr. Sched. TBH CM-1B, Surr. Sched. TBH CM-13A, Surr. Sched. TBH CM-13B.

1 for Granite.

2 Thus, for the reasons discussed for Granite, it is just and reasonable to include the entire \$42,759
3 in rate base by reversing Staff's adjustment. It is also just and reasonable to advise Chino that it is
4 expected in the future to ensure that its records are stored in a manner that substantially mitigates the
5 risk of future loss of records through destruction by an act of God or otherwise.⁶¹

6 2. Amortization of CIAC

7 Chino and Staff agreed that it was appropriate to include CIAC of \$6,130 for computers and
8 software purchased with insurance proceeds, but disagreed regarding amortization of the CIAC, with
9 Staff and Chino taking the same positions as for Granite, which resulted in Staff's using a 20.00 percent
10 depreciation rate for computers and software. (Ex. CA-1 at 8; Ex. CS-2 at Surr. Sched. TBH CM-6.)
11 For the same reasons discussed for Granite, Chino's method of CIAC amortization should be adopted.

12 3. Cash Working Capital

13 Chino and Staff agreed regarding the methodology to calculate cash working capital, but
14 reached different outcomes based upon their different recommended operating expenses. (See Ex. CA-
15 1 at 9.) The method used by Chino and Staff should be adopted.

16 4. Resolution

17 The adjustments adopted herein result in an OCRB of \$170,038, which should be adopted as
18 Chino's FVRB for purposes of this matter.

19 **C. Revenue Requirement**

20 1. Method of Establishing

21 Chino and Staff disagreed concerning the manner in which Chino's revenue requirement should
22 be determined, with Staff recommending that the revenue requirement be established using the
23 traditional rate of return on rate base and Chino proposing that its revenue requirement be established
24 based on a 15-percent operating margin because of its low rate base. (Ex. CS-2 at 2-3; Ex. CA-2 at 3-
25 4; Ex. CA-1 at Sched. RLJ-1 Reb.) Chino asserted that its rate base is low due to authorized
26 depreciation rates that clearly exceed the actual physical depreciation of its plant and because of the

27

28 ⁶¹ For example, Chino could scan and save its invoices in electronic files and ensure that the electronic files are backed up off site.

1 discounted price at which Mr. Levie acquired Chino thorough bankruptcy and had to record plant on
2 Chino's books. (Ex. CA-1 at 11-12; CTr. at 25-26.) Chino also acknowledged that its plant is old and
3 that its rate base can only be increased through additional capital investment in plant. (Ex. CA-1 at 12;
4 CTr. at 65-66.) Chino agreed that capital improvements would also address the operational
5 inefficiencies associated with its older pipelines and facilities, for which replacement needs to
6 commence soon. (CTr. at 65-66.) Mr. Jones also acknowledged that Chino has been collecting cash
7 flow through depreciation expense on its plant over the years. (CTr. at 67.)

8 Staff offered two separate recommended revenue requirements, with Staff's primary
9 recommendation being that Chino's revenue requirement be found equal to its adjusted TY revenues,
10 \$357,985, which Staff determined to reflect a 29.66 percent rate of return, and Staff's alternate
11 recommendation being that Chino's revenue requirement be calculated based on a 10 percent rate of
12 return, resulting in an alternate recommended revenue requirement of \$316,072 (a decrease of \$41,914
13 from the TY). (Ex. CS-2 at 2-3, Surr. Sched. TBH CM-1A, Surr. Sched. TBH CM-1B.) Staff's primary
14 recommendation would result in no change to rates for residential customers, and Staff's alternate
15 recommendation would result in a rate decrease for residential customers. (Ex. CS-2 at 2-3, Surr.
16 Sched. TBH CM-24A, Surr. Sched. TBH CM-24B.)

17 Chino asserted that a 15-percent operating margin is necessary to ensure a sufficient cash flow
18 to meet its operating needs, attract future investment, and be able to replace plant as it ages. (CTr. at
19 17-18.) Staff's cash flow analysis showed that for the Staff-adjusted TY, Chino had cash flow from
20 operations of \$65,964, which would stay the same with Staff's primary recommendation and would
21 decrease to \$34,201 with Staff's alternate recommendation. (Ex. CS-2 at Surr. Sched. TBH CM-23.)

22 Chino's rate base is low for a water utility of its size. Because of this, establishing a revenue
23 requirement based solely on a typical current rate of return (such as the 8.031 percent adopted for
24 Granite) would result in a loss of revenue for Chino. We are concerned that a loss of revenue could
25 hamper Chino's ability to maintain its system in good operating condition as its plant inevitably
26 continues to age. We are also concerned that Chino's owners may be reluctant to invest additional
27 capital into Chino's plant, thereby increasing rate base, if its owners do not anticipate receiving any
28 return on their investment. Thus, while we have considered adopting a typical rate of return for Chino,

1 as adopted for Granite and as recommended by Staff, we believe that it is more just and reasonable and
2 in the public interest to adopt a revenue requirement for Chino that will better enable Chino to devote
3 additional resources to its plant maintenance and replacement while also encouraging additional capital
4 investment. Under the unique circumstances in this case, it is appropriate to determine Chino's revenue
5 requirement by applying a 10-percent operating margin to the adjusted TY revenue adopted herein.
6 This will result in cash flow approximately equivalent to 16 percent of Chino's adjusted TY revenue,
7 which should allow Chino to meet its operating needs, attract future investment, and be able to increase
8 its rate base by replacing plant as it ages.

9 2. Allocation of Common Costs

10 Chino and Staff presented substantially the same evidence and took the same positions
11 regarding allocation of common costs as described for Granite. (*See* Ex. CA-1 at 10-13, ex. RLJ-RB3;
12 Ex. CS-2 at 8, Surr. Sched. TBH CM-19a, Surr. Sched. TBH CM-19e.) For the reasons described in
13 the discussion concerning Granite, an 87.96 percent allocation of common costs should be adopted for
14 Chino, and Granite and Chino should begin allocating common costs for each year based upon the
15 customer count of each and Antelope as of January 1 of the year.

16 3. Mr. Levie's Salary

17 Chino and Staff presented substantially the same evidence and took the same positions
18 regarding Staff's adjustment to Mr. Levie's salary as described for Granite. (*See* Ex. CA-1 at 6, 10,
19 ex. RLJ-RB3; Ex. CS-2 at 8, Surr. Sched. TBH CM-19g.) For the reasons described in the discussion
20 concerning Granite, a total CEO salary of \$33,027 should be adopted and allocated 87.96 percent to
21 Chino for purposes of establishing rates herein.

22 4. Depreciation Expense

23 Chino and Staff agreed regarding depreciation expense methodology, but differed on
24 depreciation expense due to the different levels of CIAC being amortized as a result of Staff's proposed
25 CIAC treatment of 10 percent of Chino's unsupported plant. (Ex. CA-1 at 13.) Like Granite, Chino
26 originally proposed that the depreciation rates for Plant Accounts 311 and 341 be modified, as Chino
27 considered them to be excessive, but subsequently dropped the proposal in an effort to limit disputed
28 issues. (Ex. CA-1 at 13-14.) The agreed upon depreciation expense methodology should be adopted.

1 5. Resolution

2 As a result of the adjustments adopted herein, the following adjusted TY results and revenue
3 requirement should be adopted for Chino:

4	OCRB/FVRB	\$170,038
5	Adjusted TY Revenue	\$357,985
6	Adjusted TY Operating Expenses	\$343,853
7	Adjusted Operating Income	\$14,132
8	Current Rate of Return	8.31%
9	Required Rate of Return	22.905%
10	Required Operating Income	\$38,946
11	Operating Income Deficiency	\$24,814
	Gross Revenue Conversion Factor	1.26857
	Required Increase in Gross Revenue (\$)	\$31,479
	Required Increase in Gross Revenue (%)	8.79%
	Revenue Requirement	\$389,464

12 This revenue requirement results in a cash flow of \$58,039.⁶²

13 **D. Rate Design**

14 Chino's current and proposed rates and Staff's primary recommended and alternate
15 recommended rates⁶³ are as follows:

16		Present	Company	Staff Primary	Staff Alternate
17		Rates	Proposed	Recommended	Recommended
18	MONTHLY USAGE CHARGE:				
19	All Classes				
20	5/8" x 3/4" Meter	\$ 17.75	\$ 19.00	\$ 17.75	\$ 13.75
21	3/4" Meter	26.63	28.50	26.63	20.63
22	1" Meter	44.38	47.50	44.38	34.38
23	1 1/2" Meter	88.75	95.00	88.75	68.75
24	2" Meter	142.00	152.00	142.00	110.00
25	3" Meter	266.25	304.00	266.25	220.00
26	4" Meter	443.75	475.00	443.75	343.75
27	6" Meter	887.50	950.00	887.50	687.50
28	Hydrant Meter	NT	By Meter Size	NT	NT
	COMMODITY RATES (Per 1,000 Gallons)				
	All Meters and Classes				
	First 3,000 Gallons	\$ 2.40			
	3,001 to 8,000 Gallons	3.20			
	Over 8,000 Gallons	4.20			

62 Chino has no authorized long-term debt.

63 Decision No. 72896 (February 21, 2012); Ex. CA-1 at Sched. RLJ-4 Reb.; Ex. CS-1 at Sched. TBH CM-24A, Sched. TBH CM-24B.

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<u>5/8" x 3/4" Meter (All Classes)</u>				
First 3,000 Gallons		\$ 2.85	\$ 2.40	\$ 2.00
3,001 to 8,000 Gallons		3.85	3.20	3.00
Over 8,000 Gallons		5.10	4.20	4.00
<u>3/4" Meter (All Classes)</u>				
First 3,000 Gallons		\$ 2.85		
3,001 to 8,000 Gallons		3.85		
Over 8,000 Gallons		5.10		
<u>3/4" Meter (Residential)</u>				
First 3,000 Gallons			\$ 2.40	\$ 2.00
3,001 to 8,000 Gallons			3.20	3.00
Over 8,000 Gallons			4.20	4.00
<u>3/4" Meter (Commercial)</u>				
First 8,000 Gallons			\$ 3.20	\$ 3.00
Over 8,000 Gallons			4.20	4.00
<u>1" Meter (All Classes)</u>				
First 15,000 Gallons		\$ 3.85		
Over 15,000 Gallons		5.10		
First 10,000 Gallons			\$ 3.20	\$ 3.00
Over 10,000 Gallons			4.20	4.00
<u>1 1/2" Meter (All Classes)</u>				
First 30,000 Gallons		\$ 3.85		
Over 30,000 Gallons		5.10		
First 20,000 Gallons			\$ 3.20	\$ 3.00
Over 20,000 Gallons			4.20	4.00
<u>2" Meter (All Classes)</u>				
First 50,000 Gallons		\$ 3.85		
Over 50,000 Gallons		5.10		
First 40,000 Gallons			\$ 3.20	\$ 3.00
Over 40,000 Gallons			4.20	4.00
<u>3" Meter (All Classes)</u>				
First 100,000 Gallons		\$ 3.85	\$ 3.20	\$ 3.00
Over 100,000 Gallons		5.10	4.20	4.00
<u>4" Meter (All Classes)</u>				
First 150,000 Gallons		\$ 3.85		
Over 150,000 Gallons		5.10		
First 180,000 Gallons			\$ 3.20	\$ 3.00
Over 180,000 Gallons			4.20	4.00

1	6" Meter (All Classes)				
2	First 300,000 Gallons		\$ 3.85	\$ 3.20	\$ 3.00
3	Over 300,000 Gallons		5.10	4.20	4.00
4	Hydrant Meter				
5	(Not Individually Assigned)				
6	All Usage, Per 1,000 Gallons	NT	\$ 5.10	\$ 4.20	\$ 4.00
7	SERVICE CHARGES:				
8	Establishment	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
9	After Hours Charge (Flat Rate)	25.00	25.00	25.00	25.00
10	Reconnection (Delinquent)	30.00	30.00	30.00	30.00
11	Meter Test (If Correct)	20.00	25.00	25.00	25.00
12	Deposit	*	*	*	*
13	Deposit Interest (Per Year)	*	*	*	*
14	Reestablishment (Within 12 Months)	**	**	**	**
15	NSF Check	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00
16	Deferred Payment (Per Month)	1.50%	1.50%	1.50%	1.50%
17	Meter Reread (If Correct)	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
18	Late Payment Penalty (Per Month)	1.50%	1.50%	1.50%	1.50%
19	Moving Customer Meter at Customer Request	NT	At Cost	At Cost	At Cost
20	Monthly Service Charge for Fire Sprinkler:				
21	All Sizes	***	NT	***	***

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

** Months off system times Monthly Usage Charge, per A.A.C. R14-2-403(D)

*** 2% of Monthly Usage Charge for a Comparably 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 for the primary water service line.

NT Not tariffed

All items billed at cost shall include labor, materials, parts, overheads, and all applicable taxes. In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per A.A.C. R14-2-409(D)(5).

23	SERVICE LINE & METER INSTALLATION CHARGES:				
24	(Refundable pursuant to A.A.C. R14-2-405)				
25		Present	Chino Proposed & Staff Recommended		
26		Total	Service Line	Meter	Total
27	5/8" x 3/4" Meter	\$ 501	\$ 450	\$ 150	\$ 600
28	3/4" Meter	575	450	250	700
	1" Meter	650	575	300	875
	1 1/2" Meter	716	675	500	1,175
	2" Meter	1,572	1,000	1,500	2,500
	3" Meter	2,400	1,300	2,000	3,300

4" Meter	3,516	1,800	3,500	5,300
6" Meter	6,916	2,800	6,000	8,800
Over 6"	NT	Actual Cost	Actual Cost	Actual Cost

Chino's current rates produce 55.10 percent of revenues through base charges, 18.75 percent of revenues through tier 1, 17.03 percent of revenues through tier 2, and 9.12 percent of revenues through tier 3. (Ex. CA-1 at Sched. RLJ-4 Reb.) According to Chino, its proposed rate design would slightly lower revenues collected through monthly minimum charges to 52.3 percent, while slightly increasing commodity revenues, with the intention of promoting revenue stability while encouraging conservation. (Ex. CA-1 at 14.) Additionally, Chino's proposed rate design would include rates for larger meter sizes, using commodity rate tier break-over points consistent with those proposed for Granite, although Chino's current customers are all served by 5/8" x 3/4" meters. (*Id.* at 14-15.) Chino's rate design uses the same rates for small commercial meters as for small residential meters because Chino desires to avoid unnecessary complexity. (*Id.* at 15.)

Chino's proposed rates would result in the following monthly bills and bill changes for a residential customer served by a 5/8" x 3/4" meter with average or median usage:⁶⁴

Chino's Proposed	Current Rates	Proposed Rates	\$ Difference	% Difference
Average Usage (4,931 Gallons)	\$31.13	\$34.98	\$3.85	12.37%
Median Usage (3,469 Gallons)	\$26.45	\$29.36	\$2.90	10.96%

Staff's primary recommended rate design is the existing Chino rate design, but with rates for larger meter sizes and two-tiered rather than three-tiered commodity rates for commercial 3/4" meters and for all 1" or larger meters. (Ex. CS-2 at 9, Surr. Sched. TBH CM-24A.) Staff's alternate recommended rate design would decrease the monthly minimum charges for all meter sizes, maintain the tier break-over points included in Chino's existing rates for small meter sizes, decrease commodity rates in all tiers, and use two-tiered commodity rates for small commercial meters and all 1" and larger meter sizes. (Ex. CS-2 at 10, Surr. Sched. TBH CM-24B.) Both of Staff's recommended rate designs would retain current miscellaneous service charges and adopt the same increased service line and meter installation charges as proposed by Chino. (Ex. CS-2 at Surr. Sched. TBH CM-24A, Surr. Sched. TBH CM-24B.)

⁶⁴ Ex. CA-1 at Sched. RLJ-4 Reb.

1 Staff's primary and alternate recommended rates would result in the following monthly bills
2 and bill changes for a residential customer served by a 5/8" x 3/4" meter with average or median
3 usage.⁶⁵

Staff's Primary Recommended	Current Rates	Proposed Rates	\$ Difference	% Difference
Average Usage (4,931 Gallons)	\$31.13	\$31.13	\$0.00	0%
Median Usage (3,469 Gallons)	\$26.45	\$26.45	\$0.00	0%

Staff's Alternate Recommended	Current Rates	Proposed Rates	\$ Difference	% Difference
Average Usage (4,931 Gallons)	\$31.13	\$25.54	(\$5.59)	-17.96%
Median Usage (3,469 Gallons)	\$26.45	\$21.16	(\$5.29)	-20.00%

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10 Staff asserted that its primary recommendation, for no change in Chino's monthly minimum
11 and commodity rates, is consistent with gradualism because it eliminates any up or down fluctuation.
12 (CTr. at 119.) Staff also stated that it has in previous cases calculated that a decrease is warranted and
13 then not recommended a decrease. (*Id.* at 120.) Chino's proposed rates would make only minimal
14 changes to its current rate design, reducing revenues collected through monthly minimum rates by 2.8
15 percent and increasing revenues collected through first, second, and third tiers by 1.0 percent, 1.1
16 percent, and 0.7 percent respectively. (Ex. CA-1 at Sched. RLJ-4 Reb.)

17 We also find that it is appropriate to decrease somewhat the amount of revenues collected
18 through monthly minimum charges, bringing them to 49.97 percent, while slightly increasing the
19 revenues collected through first and second tier rates and slightly decreasing the revenues collected
20 through third tier rates. This type of rate design will allow ratepayers slightly more control over their
21 monthly bills than they currently have by sending more accurate price signals regarding the impact of
22 consumption. The rate design also uses the same commodity rate tier break-over points, service
23 charges, and service line and meter installation charges as adopted herein for Granite, which should
24 make administration of the rates by the companies' shared personnel easier and more efficient.

25 We will adopt the rates and charges set forth below, which are designed to generate the revenue
26 requirement established through the adjustments made herein.

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28 ⁶⁵ Ex. CS-2 at Surr. Sched. TBH CM-24A, Surr. Sched. TBH CM-24B, Surr. Sched. TBH CM-25A, Surr. Sched. TBH
CM-25B.

MONTHLY USAGE CHARGE:	
All Classes	
5/8" x 3/4" Meter	\$ 17.55
3/4" Meter	26.33
1" Meter	43.88
1 1/2" Meter	87.75
2" Meter	140.40
3" Meter	280.80
4" Meter	438.75
6" Meter	877.50
COMMODITY RATES (Per 1,000 Gallons)	
5/8" x 3/4" Meter (All Classes)	
First 3,000 Gallons	\$ 2.92
3,001 to 10,000 Gallons	3.94
Over 10,000 Gallons	5.26
3/4" Meter (All Classes)	
First 3,000 Gallons	\$ 2.92
3,001 to 10,000 Gallons	3.94
Over 10,000 Gallons	5.26
1" Meter (All Classes)	
First 15,000 Gallons	\$ 3.94
Over 15,000 Gallons	5.26
1 1/2" Meter (All Classes)	
First 30,000 Gallons	\$ 3.94
Over 30,000 Gallons	5.26
2" Meter (All Classes)	
First 50,000 Gallons	\$ 3.94
Over 50,000 Gallons	5.26
3" Meter (All Classes)	
First 100,000 Gallons	\$ 3.94
Over 100,000 Gallons	5.26
4" Meter (All Classes)	
First 150,000 Gallons	\$ 3.94
Over 150,000 Gallons	5.26
6" Meter (All Classes)	
First 300,000 Gallons	\$ 3.94
Over 300,000 Gallons	5.26

SERVICE CHARGES:	
Establishment	\$ 25.00
After Hours Charge (At Customer Request) (Flat Rate)	25.00
Reconnection (Delinquent)	35.00
Meter Test (If Correct)	35.00
Deposit	*
Deposit Interest (Per Year)	*
Reestablishment (Within 12 Months)	**
NSF Check	\$ 20.00
Deferred Payment (Per Month)	1.50%
Meter Reread (If Correct)	\$ 15.00
Late Payment Penalty (Per Month)	***
Moving Customer Meter at Customer Request	At Cost

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

** Months off system times Monthly Usage Charge, per A.A.C. R14-2-403(D)

*** 1.50 percent of the unpaid balance per month

SERVICE LINE & METER INSTALLATION CHARGES:			
(Refundable pursuant to A.A.C. R14-2-405)			
	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
5/8" x 3/4" Meter	\$ 450.00	\$ 150.00	\$ 600.00
3/4" Meter	450.00	250.00	700.00
1" Meter	575.00	300.00	875.00
1 1/2" Meter	675.00	500.00	1,175.00
2" Meter	1,000.00	1,500.00	2,500.00
3" Meter	1,300.00	2,000.00	3,300.00
4" Meter	1,800.00	3,500.00	5,300.00
6" Meter	2,800.00	6,000.00	8,800.00
Over 6"	Actual Cost	Actual Cost	Actual Cost

All items billed at cost shall include labor, materials, parts, overheads, and all applicable taxes.

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

The new rates and charges adopted herein for Chino will result in the following monthly bills and bill changes for a residential customer served by a 5/8" x 3/4" meter with average or median usage:

	Current Rates	New Rates	\$ Difference	% Difference
Average Usage (4,931 Gallons)	\$31.13	\$33.92	\$2.79	8.96%
Median Usage (3,469 Gallons)	\$26.45	\$28.16	\$1.71	6.47%

1 **VI. Other Issues**2 **A. Notes Receivable/Notes Payable with Affiliated Entities**

3 While performing its audits, Staff determined that Granite and Chino had made a number of
 4 loans to affiliated companies or individuals and that some of these loans had outstanding balances as
 5 of the end of the TY, as follows:

6 **Granite Notes Receivable:**

- 7 • Loan to Chino, in the form of funds paid on behalf of Chino for various categories of expenses
 8 incurred in November 2012, which had an end-of-TY balance of \$19,891;
- 9 • Loan to Antelope, in the form of funds paid on behalf of Antelope for various categories of
 10 expenses incurred, which had an end-of-TY balance of \$8,782;
- 11 • Loan to Mr. Levie, in the form of funds advanced to Desert Snow Construction for the Tract B
 12 Water Line serving property owned by Mr. Levie personally and having no association with
 13 any of the water utilities, which had an end-of-TY balance of \$15,196;
- 14 • Loan to PDL Trust, in the form of funds advanced to Mr. Levie for personal use, which had an
 15 end-of-TY balance of \$15,000; and
- 16 • Loan to Zooki, in the form of funds advanced on behalf of Daniel to cover expenses for office
 17 support provided by an outside contractor and billed to Granite in error, which had an end-of-
 18 TY balance of \$260.⁶⁶

19 **Chino Notes Receivable:**

- 20 • Loan to Antelope, in the form of funds paid on behalf of Antelope for various categories of
 21 expenses, which had an end-of-TY balance of \$2,230 (according to Chino) or \$1,385 (according
 22 to Staff);
- 23 • Loan to Mr. Levie, in the form of funds advanced to Desert Snow Construction for the Tract B
 24 Water Line serving property owned by Mr. Levie personally and having no association with
 25 any of the water utilities, which had an end-of-TY balance of \$16,067;
- 26 • Loan to Daniel, in the form of funds advanced to Zooki, which had an end of TY balance of
 27

28 ⁶⁶ Ex. GS-3 at 51-52, att. G.

1 \$104; and

- 2 • Loan to Mr. Levie, in the form of funds advanced to Mr. Levie for PDL Inc., which had an end
3 of TY balance of \$1,500.⁶⁷

4 Chino Notes Payable:

5 During its audit, Staff also determined that Chino had incurred long-term debt in the form of
6 loans made to Chino by affiliated companies or individuals, as follows:

- 7 • Loan from Mr. Levie, in the form of funds paid by Mr. Levie to cover fire loss expenses on
8 Chino's behalf, which had an end of TY balance of \$5,000;⁶⁸ and
9 • Loan from Granite, in the form of funds paid on behalf of Chino for various categories of
10 expenses incurred by Chino in November 2012, which had an end of TY balance of \$19,891.⁶⁹

11 Staff Recommendations:

12 Staff asserted that Granite's transfers of funds to Chino and Antelope, reflected by the
13 referenced notes payable, constituted long-term debt for which specific Commission authorization is
14 required under A.R.S. § 40-301(B). (Ex. CS-1 at 50; Ex. GS-3 at 51.)

15 Staff recommended:

- 16 1. That Granite and Chino be required to collect all receivables due from affiliates within
17 one year from a decision in this matter;
18 2. That Granite and Chino cease making personal loans or advances with their respective
19 funds (including occasional advances to unaffiliated employees);
20 3. That Chino pay off its notes payable to affiliates within 24 months of the decision in
21 this matter;⁷⁰ and
22 4. That Chino be required to obtain specific authorization from the Commission for
23 indebtedness payable at periods of more than 12 months, including amounts appearing
24 in affiliate payable accounts.⁷¹

25 ⁶⁷ Ex. CS-1 at att. E.

26 ⁶⁸ Staff determined that Chino's general ledger had booked this as a payment to Blain Hayes – Ask my Accountant, as a
27 below-the-line expense item, but that a journal entry had changed it from a note receivable to a note payable, which
28 conflicted with information in the general ledger. (Ex. CS-1 at 49.)

⁶⁹ Ex. CS-1 at att. F.

⁷⁰ This is not consistent with Granite collecting all of its receivables due from affiliates within one year.

⁷¹ See Ex. CS-1 at 47-50; Ex. CS-2 at 12-13; Ex. GS-3 at 52-53.

1 Staff also recommended that the \$5,000 amount classified as a Chino note payable to Mr. Levie be
2 reclassified to a note receivable due from Mr. Levie. (Ex. CS-1 at 50.)

3 Granite and Chino disputed Staff's characterization of these accounts as notes receivable/notes
4 payable. (Ex. CS-1 at 50, att. F; Ex. GA-1 at 25-26.) Specifically regarding the funds paid on behalf
5 of Antelope, Granite and Chino asserted that the balances were not receivables in the traditional sense,
6 but instead should be considered intercompany balances, similar to what would be recorded between a
7 parent holding company and utility subsidiary companies or between utility subsidiary companies when
8 cash is transferred from one subsidiary to the parent or to another subsidiary or from the parent to a
9 subsidiary. (Ex. GS-3 at 52; Ex. CS-1 at 47.) Granite and Chino asserted that Antelope is not required
10 to make any payments to either of them and that if Antelope were to do so, its payments would reduce
11 the intercompany balance. (Ex. GS-3 at 52; Ex. CS-1 at 47.)

12 Granite and Chino accepted Staff recommendations (1) and (2) above, with the proviso that
13 recommendation (2) would apply only to affiliates, stating that Granite and Chino should be able to
14 continue the practice of occasionally advancing funds to unaffiliated employees for collection through
15 future pay checks. (Ex. CA-1 at 16-17; Ex. GA-1 at 25.) Granite and Chino also agreed with Staff
16 recommendations (3) and (4) with respect to unregulated affiliates, but disagreed with Staff
17 recommendations (3) and (4) as applied to regulated affiliates, stating that because the regulated
18 affiliates are all operated using common facilities and common staff and are at different stages in their
19 life cycles, it is in the public interest for Granite and Chino to be able to use excess funds from either
20 of them to support the cash needs of the other or of Antelope. (Ex. CA-1 at 17; Ex. GA-1 at 25.)
21 Granite and Chino further asserted that this practice is consistent with the industry and with
22 Commission efforts to explore consolidation of smaller companies and that, provided there is no
23 interest charged and no expectation for the funds to be repaid, there is no debt requiring Commission
24 approval. (Ex. CA-1 at 18; Ex. GA-1 at 25.) Granite and Chino further stated the following:

25 If Staff's recommendation is adopted, [Granite/Chino] and the other
26 regulated companies would be forced to adopt burdensome, formalized
27 policies and potentially obtain approvals prior to transferring funds. In all
28 likelihood, the only solution to meeting the utilities' cash needs would be
for the providing company to go through required corporate formalities and
issue a potentially taxable dividend to Mr. Levie. Mr. Levie would in-turn

1 provide the after-tax portion of the dividend to the receiving company to be
 2 recorded as additional paid in capital. In the end, the companies would be
 3 in the same position—less any income tax effects—but efficiency and
 4 transparency would be lost. The Company requests that the Commission
 5 allow the Company to continue its current practice of tracking the transfer
 6 of funds from one regulated affiliated to another regulated affiliate through
 the use of intercompany receivable/payable accounts. If and to the extent
 this practice requires Commission approval, the Company asks the
 Commission to issue the required approval in this case or in the alternative
 waive the applicable requirement necessitating the approval.⁷²

7 Staff's position regarding the enumerated recommendations did not change on surrebuttal. (Ex.
 8 GS4 at 13-14; Ex. CS-2 at 13.) In response to Granite and Chino's assertions about potentially having
 9 to issue taxable dividends to Mr. Levie, Staff noted that because Granite and Chino are both for-profit
 10 entities, making taxable dividends is appropriate. (Ex. GS-4 at 14; Ex. CS-2 at 13.)

11 After the Chino hearing, Chino filed an accounting report showing that all affiliate receivables,
 12 other than a receivable of \$3,338.74 from Antelope, had been paid in full. (Ex. CA-3.) After the
 13 Granite hearing, Granite filed an accounting report showing that Granite's only remaining receivables,
 14 as of November 13, 2015, were \$9,239.68 due from Chino⁷³ and \$8,782.46 due from Antelope. (Ex.
 15 GA-3.)

16 A.R.S. § 40-301(B) prohibits a public service corporation from issuing stocks and stock
 17 certificates, bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months
 18 after the date of issuance, unless authorized by a Commission order. A.R.S. § 40-301(C) restricts the
 19 Commission's authority to issue such an order to cases in which the Commission finds both that the
 20 issuance is for lawful purposes within the corporate powers of the applicant and compatible with the
 21 public interest, sound financial principles, and the applicant's proper performance of its service as a
 22 public service corporation and that the issuance will not impair the applicant's ability to perform that
 23 service.

24 A.R.S. § 40-302 also generally requires that a public service corporation secure a Commission
 25 order authorizing issuance of stocks and stock certificates, bonds, notes, or other evidences of
 26 indebtedness, before making the issuance, and requires that the Commission's order state the amount

27 ⁷² Ex. CA-1 at 18 (footnote omitted); Ex. GA-1 at 26 (footnote omitted).

28 ⁷³ This was the amount remaining from the \$19,891 after Chino made payments at the end of 2014 and throughout 2015.
 (Ex. GA-3.)

1 authorized to be issued, the purposes to which the issuance or proceeds thereof are to be applied, that
 2 the issuance is reasonably necessary or appropriate for the purposes specified in the order (pursuant to
 3 A.R.S. § 40-301), and that the purposes are not wholly or in part reasonably chargeable to operative
 4 expenses or to income.⁷⁴ A.R.S. § 40-302 further requires that notice of the filing of the application
 5 for such an order be provided before an order is issued and allows for a hearing to be held on an
 6 application.

7 Chino and Granite asserted that the funds transferred to Chino by Granite did not constitute
 8 loans because repayment was not expected or required, but also agreed to accept Staff's
 9 recommendation that would prohibit future loans to affiliated companies and individuals, provided that
 10 payroll advances could still be made to non-related employees. (CTr. at 56-59.) Mr. Jones reported
 11 that Mr. Levie had been "adamant" that the companies "cannot continue to operate this way" because
 12 their "time and effort [are] being sapped away by these proceedings at the Commission." (CTr. at 57.)
 13 According to Mr. Jones, Mr. Levie expressed that he would "do whatever it takes" to put the issue
 14 behind him. (CTr. at 57.) Mr. Jones also testified that Granite and Chino were willing to stop
 15 transferring funds to Mr. Levie, to affiliated companies, and to Mr. Levie's children, provided that
 16 Granite and Chino would not be prohibited from making payroll advances to true employees who are
 17 not independent contractors and are neither Mr. or Mrs. Levie nor any of their relatives. (See CTr. at
 18 57-59.)

19 On brief, Staff asserted that the restriction agreed to by Granite and Chino should be included
 20 within its recommended Code of Affiliate Conduct, with an exception to allow for employee payroll
 21 advances to be made to employees who are not relatives or affiliates. (SCBr. At 10-11; SGBr. at 15-
 22 16; SJtRBr. at 3-4.)

23 We agree with Staff that the funds transferred from Granite to Chino and Antelope, and the
 24 notes payable resulting therefrom, constituted long-term debt acquired by Chino and Antelope in
 25 violation of A.R.S. §§ 40-301(B) and 40-302. Considering the number of times Mr. Levie's utilities

26 _____
 27 ⁷⁴ A.R.S. § 40-302(D) allows a public service corporation with operating revenues exceeding \$250,000, to issue notes
 28 not exceeding seven percent of its total capitalization, for proper purposes and not in violation of law and payable at periods
 of not more than 12 months after the date of issuance, without Commission consent. This provision could potentially apply
 to Chino, but not to Granite.

1 have been ordered not to enter into long-term debt or other financing arrangements without
2 Commission approval, it is remarkable that these loans were made without any effort to obtain either
3 Commission approval or a Staff or Commission determination that no approval was required. While
4 Mr. Levie's current desire to do whatever it takes to comply with Commission requirements is a
5 positive step, and Dewey's testimony regarding his and the current Operations Manager's commitment
6 to doing what they can to have success is also encouraging, it would be remiss not to remark that the
7 difficulties and complications experienced in Commission proceedings are of Chino's and Granite's
8 own making. First and foremost, the Levies apparently chose voluntarily to create Granite and Chino
9 as separate legal entities. It is their existence as separate entities, rather than divisions within the same
10 legal entity, that makes it necessary for them to follow formal accounting procedures for transactions
11 occurring between them and that makes it unlawful for one to obtain a loan from the other without prior
12 Commission authorization. With the number of companies the Levies have created and operated, it
13 can only be assumed that the Levies are well aware of each corporation's obligations related to
14 accounting and taxes. If the Levies determine that it would be more advantageous to combine the two
15 or three water utilities into a single legal entity and water utility, the companies can apply for
16 authorization to do so under A.R.S. § 40-285.

17 Staff's recommendations, as modified to allow for employee payroll advances for non-relative
18 employees, should be adopted.

19 **B. Annual Allocations Reporting Requirement**

20 Staff further recommended that Granite and Chino be required to provide an annual report of
21 all corporate cost allocations, which should be reconciled to the amounts billed and paid by each
22 regulated and unregulated affiliate company and should be filed in this matter by April 15 for the
23 previous calendar year, which reporting requirement would cease for each with the filing of its next
24 rate case application. (Ex. CS-1 at exec. summ.; Ex. GS-3 at exec. summ.) Granite and Chino asserted
25 that this recommendation was not detailed enough to allow them to determine specifically what they
26 would be required to report and, further, that the recommendation was unnecessary, as Granite and
27 Chino intended to update their practices to eliminate cost allocations between regulated and
28 unregulated affiliates. (Ex. CA-1 at 16; Ex. GA-1 at 24.) Granite and Chino proposed to document

1 these changes in cost allocations in the Code of Affiliate Conduct. (Ex. CA-1 at 16; Ex. GA-1 at 24.)

2 On surrebuttal, Staff agreed that the reporting requirements and reporting details should be
3 addressed in the Code of Affiliate Conduct but did not waver from its position that the annual reporting
4 was necessary. (Ex. CS-2 at 12; Ex. GS-4 at 12.) On brief, however, Staff asserted that the reporting
5 requirement was recommended when it was anticipated that allocation percentages would vary over
6 time, which would not be the case if Staff's recommended allocations were adopted. (SJtRBr. at 2.)
7 Staff further stated that the companies' officers and employees should maintain time records as to the
8 time spent on each company, and that "[o]nly two persons would be required to maintain records, the
9 Company president and its operations manager." (SJtRBr. at 2-3.) Staff then stated that "[i]f the
10 Company were to keep such records, and the same allocation percentage [were to] remain in place until
11 the next rate case, the need for annual reports could be eliminated." (SJtRBr. at 3.)

12 As Staff's static allocation recommendation is not being adopted herein, Staff's
13 recommendation for an annual cost allocation report would seem to persist. Staff's recommendation
14 for this reporting highlights that Staff is concerned about Granite and Chino's financial practices going
15 forward. This is understandable in light of Granite's history, and the complexity that common cost
16 allocation created in auditing each of the rate applications involved in this matter, but likely will not be
17 most effectively addressed by a separate reporting requirement concerning annual corporate cost
18 allocations. Such a reporting requirement would be meaningless if a corresponding requirement were
19 not imposed upon Staff to review and analyze each annual report and make a filing for the Commission
20 each year providing an analysis regarding the allocations made, with recommendations for any action
21 to be taken. Also, such a report would not be valuable unless it included actual accounting reports such
22 as those provided by Granite and Chino in the form of late-filed exhibits herein.

23 Rather than requiring this reporting, it is appropriate to require both Granite and Chino to file
24 rate applications within three years after the effective date of the decision herein, with both rate
25 applications using the same TY. This will provide Staff with an opportunity to audit the utilities'
26 records for compliance and to provide the Commission with meaningful information regarding the
27 utilities' financial practices following this decision.

28 In addition, if the Levies determine that it would be advantageous and in the public interest for

1 Granite and Chino or all three of the utilities to be consolidated, each rate application could also include
 2 a proposal for consolidation through merger or other means. If Antelope were to be included within
 3 any proposed consolidation, an application would need to be filed for Antelope as well.

4 **C. Code of Affiliate Conduct**

5 Staff recommended that Granite and Chino be required to develop and comply with a Code of
 6 Affiliate Conduct, which would apply to each of them and their affiliates. (Ex. GS-3 at 4; Ex. CS-1 at
 7 13.) Specifically, Staff recommended that Granite and Chino be required to develop and follow a
 8 formal written Code of Affiliate Conduct that would:

- 9 • Govern all operational and financial activities and relationships with and among the parent,
 10 owners, family members, and all affiliates (regulated and unregulated);
- 11 • Assure the separation of the traditional roles of regulated utilities and unregulated affiliates;
- 12 • Develop the cost allocation through a cost allocation manual that includes time-keeping for all
 13 employees;
- 14 • Address valuing transactions for purchases or sales as well as goods and services provided to
 15 or among affiliates;
- 16 • Include competitive bidding practices; and
- 17 • Address financial arrangements between affiliates (regulated and unregulated), whether as
 18 notes receivable or notes payable.⁷⁵

19 Staff stated that the written Code of Affiliate Conduct should be submitted to Staff for
 20 acceptance of its scope and structure. (Ex. GS-3 at 11; CS-1 at 13.) Staff recommended the written
 21 Code because of “ongoing issues” with Granite and Chino and their interactions with regulated and
 22 non-regulated affiliates and the difficulties Staff experienced considering cross-utility impacts and
 23 cross-referencing during Staff’s analyses and preparation of testimony in the Granite and Chino
 24 Dockets. (Ex. GS-3 at 4, 12; Ex. CS-1 at 13-14.)

25 Granite and Chino did not oppose developing a Code of Affiliate Conduct, but asserted that
 26 “while a Code of Affiliate Conduct would govern relationships and transactions between the regulated
 27

28 ⁷⁵ Ex. GS-3 at 11; Ex. CS-1 at 13.

1 and nonregulated affiliates, it would only be adopted by the regulated affiliates and applicable to the
2 transactions recorded by the regulated affiliates that are under Commission jurisdiction.” (Ex. GA-1
3 at 23; Ex. CA-1 at 15.) Granite and Chino asserted that use of detailed time cards should not be included
4 as a separate requirement, but instead can and should be incorporated into the Code of Affiliate
5 Conduct. (Ex. Ex. GA-1 at 23; Ex. CA-1 at 15-16.)

6 On surrebuttal, Staff pointed out that affiliate transactions are always closely scrutinized during
7 an audit and that a number of affiliate transactions (involving regulated and unregulated affiliates as
8 well as family members) necessitated adjustments in this matter. (Ex. GS-4 at 11; Ex. CS-2 at 11.)
9 Staff asserted that the Commission expects Granite and Chino to conform to the Code of Affiliate
10 Conduct in their dealings with unregulated affiliates. (Ex. GS-4 at 11; Ex. CS-2 at 11.) Staff also
11 reasoned that voluntary compliance by the unregulated affiliates is in Granite and Chino’s best interests
12 because unregulated affiliates’ not complying with the Code would likely result in additional time spent
13 on future rate case audits, potentially more disallowances, and potentially higher rate case expense.
14 (See Ex. GS-4 at 11-12; Ex. CS-2 at 11.)

15 On brief, Granite and Chino reiterated their commitment to improving record-keeping and cost
16 accounting to address the issues raised by Staff and to separate costs related to unregulated affiliates
17 from costs related to the utilities (including Antelope). (Jt.Br at 7.) Granite and Chino also again stated
18 that while they do not oppose developing a Code of Affiliate Conduct, they believe that such a Code
19 should only be adopted by the regulated affiliates and applicable to the transactions recorded by the
20 regulated affiliates that are under Commission jurisdiction, as the Commission does not have
21 jurisdiction over non-regulated affiliates, and there is no need for non-regulated affiliates to adopt such
22 a Code. (*Id.*) Granite and Chino also agreed that the Code of Affiliate Conduct should incorporate
23 requirements regarding the use of detailed time cards for employees. (*Id.*)

24 Staff’s recommendation for Granite and Chino to develop and adopt a Code of Affiliate
25 Conduct that will govern transactions of the regulated affiliates and prohibit the type of self-dealing
26 and non-arm’s length transactions in which the companies have engaged in the past, while also
27 requiring more robust record-keeping regarding the use of shared resources (including employees) is
28 in the public interest and should be adopted. While the Code of Affiliate Conduct would not be adopted

1 by the Levies' numerous other business entities or by the individual Levie family members, it would
 2 govern all transactions between any of them and any of the regulated affiliates, thus protecting the
 3 ratepayers of the regulated affiliates and the public interest. Granite and Chino should be required to
 4 work with Staff to develop the Code of Affiliate Conduct, and once Staff has determined that the Code
 5 of Affiliate Conduct sufficiently addresses its concerns regarding self-dealing, non-arm's length
 6 transactions, creation of unauthorized long-term debt through fund transfers or advances, record-
 7 keeping regarding common costs, and any other area included within Staff's recommendations, the
 8 approved Code of Affiliate Conduct should be filed as a compliance item in this matter.

9 Additionally, Staff should consider whether the public interest would be served by pursuing
 10 rulemaking to incorporate the approved Code of Affiliate Conduct into the Commission's rules, either
 11 for applicability only to water utilities or to a broader group of public service corporations. If Staff
 12 determines that such a rulemaking should be pursued, Staff should make such a recommendation to the
 13 Commission in the form of a Staff Report, filed in this docket, providing potential rule language and
 14 requesting that a new docket be opened in which to pursue such a rulemaking.

15 **D. Granite's Compliance with Decision No. 71869--Penalties**

16 After identifying Daniel's four delinquent Granite accounts, with a cumulative 122 separate
 17 occurrences of monthly billing statements not properly collected, Staff stated the following:

18 The Company appears to continue to show unwarranted favoritism towards
 19 accounts and Staff believes that the Company should again be directed NOT
 20 to engage in such self-dealings. Staff recommends that the Company be
 21 again ordered to cease providing discounted or free water and [to]
 22 appropriately collecting [sic] revenues from every recipient of water from
 23 its system as ordered in Decision No. 71869. The Company has continually
 24 failed to adhere to the Commission's orders. Based on the number of
 25 occurrences, the related party favoritism and the self-serving transactions
 26 by the Company and family members, Staff recommends that the
 27 Commission impose a penalty to the Company at the maximum amount
 allowed pursuant to A.R.S. §§ 40-424 and 40-425 for the Company's failure
 to appropriately collect revenues as ordered in Decision No. 71869. Staff
 recommends that the Company be put on notice that any future violations
 should be met with penalties as well. As noted, Staff is recommending that
 the Company develop, submit and precisely follow the provisions of a Code
 of Affiliate Conduct.⁷⁶

28 ⁷⁶ Ex. GS-3 at 50-51.

1 As quoted above, Staff recommended that a penalty be assessed against Granite, pursuant to
2 A.R.S. §§ 40-424 and 40-425, for Granite's failure to appropriately collect revenues as ordered in
3 Decision No. 71869. (Ex. GS-3 at exec. summ., 50-51.)

4 Granite argued that it has complied with Decision No. 71869, which required it to "immediately
5 cease providing water without charge and . . . immediately cease providing water at a discounted rate."
6 (Ex. GA-1 at 19.) Mr. Jones testified that after Decision No. 71869, Granite began billing, at tariffed
7 rates, Daniel's two accounts identified therein and all seven of the previously unbilled accounts, thereby
8 complying with the requirements of the decision. (Ex. GA-1 at 19-20.) Granite reported that all of the
9 accounts have been brought up to date and that it was Granite that identified the problem and took
10 action to correct it. (Ex. GA-1 at 20.) Granite reported that the failure to collect the amounts charged
11 and due resulted from a process problem different than the issue discussed in Decision No. 71869—
12 Granite's administrative assistant not providing past due notices and not performing shut-offs, a
13 problem that was remedied after the new administrative assistant reported the situation to the
14 Operations Manager. (Ex. GA-1 at 20-21.) Granite also asserted that Staff's disallowance of the
15 \$3,500 in rate base associated with the work performed by Daniel and ultimately credited against his
16 water billing is a sufficient penalty and, combined with the Code of Affiliate Conduct, will ensure
17 Granite's continued collecting of all amounts due from affiliates in a timely manner. (Ex. GA-1 at 22.)

18 At hearing and on brief, Staff continued to recommend the imposition of penalties, in an amount
19 to be determined at the discretion of the Administrative Law Judge and the Commission, for Granite's
20 failure to collect the funds due—stating that although Granite had been ordered to discontinue
21 providing free water to relatives of Mr. Levie, Granite continued to provide free water to relatives by
22 billing them for water usage and then failing to collect the amounts charged. (See SGBr. at 14; GTr.
23 at 92; Ex. GS-4 at 11.)

24 The evidence does not support Granite's assertion that it did not violate Decision No. 71869
25 when it failed to collect payment for Daniel's four accounts 122 times between the effective date of the
26 rates approved in Decision No. 71869 (September 1, 2010) and the end of the TY in this matter.
27 Granite's assertion that it has complied by issuing bills that were not collected is disingenuous.
28 Decision No. 71869 stated:

1 103. While the imputation of significant TY revenues addresses
 2 to some extent the issue of GMWC's failure to properly monitor the meters
 3 on its system and its intentional provision of both free and discounted water
 4 to its owners' son and of free water for landscaping purposes in its owners'
 5 development, we want to make it sufficiently clear to GMWC how very
 6 concerned we are about both situations. As a water utility, GMWC is
 7 obligated to read each meter on its system every month, on as close to the
 8 same day as practical, and is obligated to bill monthly for services rendered.
 9 As a public service corporation, GMWC has no authority to provide water
 10 for free or at a discounted rate and is authorized to provide service only at
 11 the rates and charges authorized under its current tariff on file with the
 12 Commission. . . .

13 IT IS FURTHER ORDERED that Granite Mountain Water
 14 Company, Inc. shall immediately cease providing water without charge and
 15 shall immediately cease providing water at a discounted rate.

16 IT IS FURTHER ORDERED that Commission Staff shall, in
 17 reviewing Granite Mountain Water Company, Inc.'s permanent rate case
 18 application, scrutinize Granite Mountain Water Company, Inc.'s records to
 19 determine whether Granite Mountain Water Company, Inc. has ceased
 20 providing free and discounted water and is appropriately collecting
 21 revenues from every recipient of water from its system.⁷⁷

22 Additionally, the attestation required to be made by each individual involved in the management and
 23 operations of Granite, now and in the future, which is attached hereto and incorporated herein as Exhibit
 24 2, required each individual to attest to his or her understanding that Granite must bill and must charge
 25 for its water service. Billing and charging both include the concept of payment being required in
 26 response. An extended pattern of failure to collect on bills for certain accounts can only be understood
 27 as intentional provision of services at no charge, even if the bills were actually issued. Additionally, it
 28 is not believable that Granite did not have a current address to which Daniel's bills were sent. Granite's
 attempt to blame its prior administrative assistant for the non-collection on Daniel's accounts,
 noticeably without providing any Granite employee as a witness, likewise is not credible because Mr.
 Levie is expressly responsible for overseeing company operations and reviewing company financial
 data, including payables, receivables, revenues, and expenses. Also, Mr. Levie is an attorney and thus
 would be better positioned than many utility executives to understand precisely what Granite was
 required to do under Decision No. 71869.

⁷⁷ Decision No. 71869 at 31, 38-39 (footnotes omitted).

1 We agree with Staff that it is appropriate to assess a penalty upon Granite for its failure to
2 comply with Decision No. 71869 by continuing to provide free service to Daniels's various accounts
3 through failing to collect on 122 unpaid bills.

4 A.R.S. § 40-424 authorizes the Commission, after notice and a hearing, to hold in contempt and
5 fine any corporation or person for failure to observe or comply with any order, rule, or requirement of
6 the Commission, with the fine to be collected as penalties in an amount between \$100 and \$5,000.
7 A.R.S. § 40-425, in pertinent part, authorizes the Commission to assess a penalty of \$100 to \$5,000 per
8 offense upon any public service corporation that fails or neglects to obey or comply with any order,
9 rule, or requirement of the Commission, the penalty for which is not otherwise provided. A.R.S. § 40-
10 425(B) provides that a violation that continues from day to day is a single offense.

11 Granite was provided notice of Staff's recommendation for assessment of penalties in Ms.
12 Hunsaker's direct testimony filed in July 2015 and had an opportunity to provide testimony and
13 evidence as well as argument regarding assessment of penalties.

14 Granite has failed to comply with Decision No. 71869 by failing to collect for service provided
15 to Daniels's accounts, as described in Section (IV)(C)(2) herein. For this failure, Granite should be
16 found in contempt under A.R.S. § 40-424 and should be assessed a fine, under both A.R.S. §§ 40-424
17 and 40-425, in the amount of \$1,220. Additionally, Granite should be put on notice that future
18 violations may result in higher fines.

19 **E. Granite's Compliance with Decision No. 74384**

20 Decision No. 74384 required, *inter alia*, that Granite, beginning in the month of execution of
21 the financing documents for the long-term debt of up to \$181,320 ("WIFA loan") and continuing
22 monthly until the WIFA loan is paid in full, set aside \$10 from each customer's bill payment; deposit
23 the funds in a separate interest-bearing account established for the purpose of receiving such funds; and
24 use the set-aside funds only to repay the WIFA loan. Granite executed the WIFA loan documents on
25 May 31, 2014, but did not collect or make any deposit of set-aside funds until November 2014. (GTr.
26 at 101-02, 113-14.) Mr. Jones asserted that the set-aside funds were not collected and deposited until
27 November 2014 because that was when Granite needed to make its first WIFA loan payment. (GTr. at
28

1 114.) Mr. Jones also stated that Granite would not object to a requirement for it to deposit in the set-
2 aside account an amount equivalent to the uncollected set-aside funds. (GTr. at 116.)

3 As a post-hearing exhibit, Granite filed an accounting report showing that a payment of \$7,680⁷⁸
4 had been deposited in the set-aside account on September 25, 2015, to cover the set-aside deposits that
5 should have been made for May 2014 through October 2014. (Ex. GA-4.) The report also showed that
6 the set-aside account had a balance of \$13,821.84 as of November 13, 2015. (*Id.*)

7 By not setting aside and depositing the funds for the WIFA loan in the separate account
8 beginning in May 2014, Granite failed to comply with Decision No. 74384. Although Granite's failure
9 to follow this provision of the decision and the reason therefore (either an unwillingness or inability to
10 follow orders) continues to concern the Commission, we will not take additional action based on this
11 failure at this time, as the failure was of short duration and has been fully remedied. However, Granite
12 needs to be aware that the Commission will, in Granite's next rate case, be scrutinizing its compliance
13 with Commission decisions and may be more inclined to take adverse action against Granite if
14 additional failures to comply with Commission decisions occur.

15 **F. Interim Manager**

16 Due to Granite and Chino's "history of failing to comply with similar Commission orders,"
17 which Staff asserted will continue until a Code of Affiliate Conduct is written and adhered to by Granite
18 and Chino, Staff recommended that the Commission authorize Staff to appoint an interim manager
19 immediately upon determining that either has violated any part of the Code of Affiliate Conduct. (Ex.
20 GS-3 at 12; Ex. CS-1 at 14.) Staff's position is that this matter has provided Granite and Chino adequate
21 due process regarding such an appointment. (Ex. GS-4 at 14; Ex. CS-2 at 14.)

22 Granite and Chino asserted that the proceedings in this matter have not provided sufficient due
23 process for the Commission to grant Staff the authorization to appoint an interim manager upon
24 determining a violation of the Code of Affiliate Conduct. (Ex. GA-1 at 26-27; Ex. CA-1 at 19-20.)
25 Granite and Chino further asserted that the Commission previously has only appointed interim
26 managers in extraordinary cases in which public health and safety have been jeopardized, and only
27

28 ⁷⁸ The payment was made by a check issued by Granite. (Ex. GA-4.)

1 after an opportunity to appear and present evidence and issuance of a Commission order. (Ex. GA-1
2 at 27; Ex. CA-1 at 19.) Granite and Chino asserted that the public health and safety have not been
3 implicated by any of Staff's recommendations; that Granite and Chino have been transparent and open
4 in their dealings with the Commission; that there is no evidence of willful violation of Commission
5 rules or accounting standards; and that Granite and Chino have cooperated by accepting Staff's
6 recommendations and correcting accounting irregularities. (Ex. GA-1 at 27; Ex. CA-1 at 20.) Mr.
7 Jones testified that small water companies do not have and cannot afford the staffing or expertise
8 needed to understand and comply with every nuance of utility accounting and Commission ratemaking
9 requirements and thus make mistakes, but should not be faced with the continuous threat of
10 confiscation. (Ex. GA-1 at 27-28; Ex. CA-1 at 20.) Granite and Chino argued that granting Staff's
11 request would set a dangerous precedent and make the "difficult business of operating a small water
12 company even more difficult." (Ex. GA-1 at 27-28; Ex. CA-1 at 20.)

13 Staff's desire for authority to install an interim manager summarily is a natural result of Staff's
14 apparent frustration with Granite's history of failure to comply with Commission decisions and Granite
15 and Chino's failure to comply with A.R.S. §§ 40-301 and 40-302. As Granite and Chino have pointed
16 out, however, their failures thus far have not implicated public health and safety, and each continues to
17 maintain compliance with all ADEQ and ADWR requirements.

18 The Commission has previously granted Staff authority to install an interim manager
19 summarily, most recently in Decision No. 74097 (September 23, 2013), a case in which Far West Water
20 & Sewer, Inc. was found not only to have engaged in inappropriate financial transactions and to have
21 violated prior Commission decisions, but also to have numerous deficiencies with ADEQ that had
22 resulted in multiple Consent Orders. While the Commission does not believe that a perceived risk to
23 public health and safety is always necessary to justify installation of an interim manager or a grant of
24 authority for Staff to do so summarily, it is a factor that weighs particularly heavily in determining the
25 appropriateness of such an action. A factor that also weighs very heavily is a utility's perceived ability
26 to comply with requirements imposed. In this matter, in light of Mr. Levie's reported recognition that
27 the utilities' business operations need to improve and Dewey's increased involvement and expressed
28 commitment to complying with regulatory requirements, granting Staff authority to install an interim

1 manager summarily is not warranted. With an appropriate amount of effort and commitment, as well
 2 as the clarity that should come from a comprehensive Code of Affiliate Conduct, there is no reason to
 3 believe that Granite and Chino cannot achieve complete compliance with Commission requirements
 4 (as each has already done with ADEQ and ADWR requirements). However, we put Granite and Chino
 5 on notice that future failures to comply with Commission decisions, with the statutes governing public
 6 service corporations (such as A.R.S. §§ 40-301 and 40-302), with the Commission's rules for water
 7 utilities (A.A.C. Title 14, Chapter 2, Article 4), or with the Code of Affiliate Conduct required herein
 8 may result in the issuance of an Order to Show Cause that may include actions up to and including
 9 appointment of an Interim Manager.

10 * * * * *

11 Having considered the entire record herein and being fully advised in the premises, the
 12 Commission finds, concludes, and orders that:

13 FINDINGS OF FACT

14 1. Granite is a for-profit Arizona "S" corporation and Class E water utility providing
 15 service to approximately 120 customers pursuant to authority granted by the Commission.

16 2. Chino is a for-profit Arizona "C" corporation and Class D water utility providing service
 17 to approximately 900 customers pursuant to authority granted by the Commission.

18 3. Antelope is a much smaller Arizona water utility regulated by the Commission and
 19 serving only approximately two customers.

20 4. Paul D. Levie and Rae Levie, husband and wife ("Mr. and Mrs. Levie"), wholly own
 21 Granite and Antelope and own 50 percent of the shares of Chino. The other 50 percent of the shares
 22 in Chino are owned by other Levie family members, specifically Dewey and Maribel Levie, Shauna
 23 and Jonathan Duke, Michelle and James Morris, and Tanya Boone (Childers). Mr. and Mrs. Levie also
 24 have ownership interests in a number of unregulated affiliated companies.

25 5. Mr. Levie is an actively licensed Arizona attorney, is employed half-time as the CEO
 26 for Granite and Chino, and is involved in the Levies' other active business operations. During the
 27 hearings in this matter, Mr. Levie, who is approximately 90 years old, was experiencing health
 28 problems that made him unable to work. Mr. Levie's youngest son, Dewey, who is also an actively

1 licensed Arizona attorney, was authorized to make decisions regarding Granite, Chino, and Antelope
2 (“the water utilities”) during periods when Mr. Levie was unable to work.

3 6. The procedural history in this consolidated matter is set forth accurately in Section I of
4 the Discussion portion of this Decision and is incorporated by reference here as though set forth in full.

5 7. The most recent pertinent prior Commission decisions involving Granite and Chino are
6 described accurately in Section II of the Discussion portion of this Decision, and those descriptions are
7 incorporated by reference here as though set forth in full.

8 8. Granite and Chino’s water systems have adequate production and storage capacity to
9 serve present customers and reasonable future growth, are in full compliance with ADEQ requirements,
10 and are delivering water that meets the safe drinking water standards of A.A.C. Title 18, Chapter 4.

11 9. Granite and Chino have no delinquencies in the Commission’s Compliance Section
12 database, and the Commission received no complaints regarding Granite from 2012 through 2015 and
13 one complaint regarding Chino from 2012 through 2014.

14 10. Both Granite and Chino are current on their property and sales tax payments.

15 11. Both Granite and Chino have approved curtailment tariffs and backflow prevention
16 tariffs on file with the Commission.

17 12. Granite and Chino’s service areas are both located within the Prescott AMA, and both
18 Granite and Chino are in full compliance with applicable ADWR requirements governing water
19 providers and community water systems.

20 13. Granite had TY water loss of 7.11 percent, within the Commission’s standard for non-
21 account water usage, while Chino’s system had water loss of 13.68 percent, exceeding the
22 Commission’s standard for non-account water usage.

23 14. Staff recommended that Chino be required to prepare and file with the Commission’s
24 Docket Control, within 90 days of the effective date of a decision in this matter, as a compliance item
25 in this docket, either (a) a report containing a detailed analysis and plan to reduce water loss to 10
26 percent or less or (b) if Chino believes it is not cost effective to reduce its water loss to 10 percent or
27 less, a detailed cost benefit analysis to support its opinion. Staff’s recommendation is reasonable and
28 should be adopted.

1 15. Granite has a history of entering into non-arm's length transactions with members of
2 the Levie family and of providing free or discounted water to properties owned or controlled by
3 members of the Levie family, most notably to properties owned or controlled by Mr. and Mrs. Levie's
4 son Daniel. In Decision No. 71869, Granite was expressly ordered to cease providing free and
5 discounted water and to provide water only in accordance with Granite's Commission-authorized rates
6 and charges.

7 16. Between September 1, 2010, and December 31, 2013, Granite failed to collect revenue
8 properly for the following four accounts on at least 122 occasions, as follows:

- 9 • Account No. 80.002.01, the account for Daniel's home property, for which no
10 payments were made from December 2011 through the end of the TY, and for which
11 the end-of-TY balance was \$7,265.68;
- 12 • Account No. 80.001.02, Daniel's account for the stables property, for which only
13 sporadic payments were made between September 1, 2010, and the end of the TY,
14 and for which the end-of-TY balance was \$1,157.28;
- 15 • Account No. 81.001.01, Daniel's account for the mobile homes on the stables
16 property, for which no payments were made from July 2011 through the end of the
17 TY, and for which the end-of-TY balance was \$7,759.51; and
- 18 • Account No. 80.012.00, for which no payments were made from July 2011 through
19 the end of the TY, and which had an end-of-TY balance of \$1,186.88.

20 17. As of the final date of the Granite hearing in this matter, Granite proposed and Staff
21 recommended the following:

	Granite Proposed	Staff Recommended
OCR/FVRB	\$586,318	\$529,152
Adjusted TY Revenue	\$117,320	\$117,320
Adjusted TY Operating Expenses	\$120,060	\$126,164
Adjusted Operating Income	(\$2,740)	(\$8,844)
Current Rate of Return	-0.47%	-1.67%
Required Rate of Return	8.03%	8.031%
Required Operating Income	\$47,087	\$42,496
Operating Income Deficiency	\$49,828	\$51,340

Gross Revenue Conversion Factor	1.2090	1.211224
Increase in Gross Revenue (\$)	\$60,243	\$62,184
Increase in Gross Revenue (%)	51.35%	53.00%
Proposed Annual Revenue	\$177,563	\$179,504

18. For the reasons described in the Discussion Section of this Decision, we find that the following adjusted TY results and revenue requirement are just and reasonable and should be adopted for Granite:

OCRB/FVRB	\$539,411
Adjusted TY Revenue	\$124,462
Adjusted TY Operating Expenses	\$100,231
Adjusted Operating Income	\$24,231
Current Rate of Return	4.49%
Required Rate of Return	8.031%
Required Operating Income	\$43,320
Operating Income Deficiency	\$19,087
Gross Revenue Conversion Factor	1.22788
Required Increase in Gross Revenue (\$)	\$23,436
Required Increase in Gross Revenue (%)	18.83%
Revenue Requirement	\$147,898

19. For the reasons described in the Discussion Section of this Decision, we find that the following rates and charges and conditions of service are just and reasonable and should be adopted for all service provided by Granite on and after November 1, 2016:

MONTHLY USAGE CHARGE:	
All Classes	
5/8" x 3/4" Meter	\$ 29.50
3/4" Meter	44.25
1" Meter	73.75
1 1/2" Meter	147.50
2" Meter	236.00
3" Meter	472.00
4" Meter	737.50
6" Meter	1,475.00
Hydrant Meter (Individually Assigned)	By Meter Size
COMMODITY RATES (Per 1,000 Gallons)	
5/8" x 3/4" Meter (All Classes)	
First 3,000 Gallons	\$ 5.30
3,001 to 10,000 Gallons	7.95
Over 10,000 Gallons	9.54

1	<u>3/4" Meter (All Classes)</u>	
	First 3,000 Gallons	\$ 5.30
2	3,001 to 10,000 Gallons	7.95
	Over 10,000 Gallons	9.54
3		
	<u>1" Meter (All Classes)</u>	
4	First 15,000 Gallons	\$ 7.95
	Over 15,000 Gallons	9.54
5		
	<u>1 1/2" Meter (All Classes)</u>	
6	First 30,000 Gallons	\$ 7.95
	Over 30,000 Gallons	9.54
7		
	<u>2" Meter (All Classes)</u>	
8	First 50,000 Gallons	\$ 7.95
9	Over 50,000 Gallons	9.54
10	<u>3" Meter (All Classes)</u>	
	First 100,000 Gallons	\$ 7.95
11	Over 100,000 Gallons	9.54
12	<u>4" Meter (All Classes)</u>	
	First 150,000 Gallons	\$ 7.95
13	Over 150,000 Gallons	9.54
14	<u>6" Meter (All Classes)</u>	
	First 300,000 Gallons	\$ 7.95
15	Over 300,000 Gallons	9.54
16		
	<u>Hydrant Water</u>	
17	All Usage, Per 1,000 Gallons	\$ 9.54
18	<u>Standpipe Water</u>	
	(Not Individually Assigned)	
19	All Usage, Per 1,000 Gallons	\$ 9.54

SERVICE CHARGES:		
21		
	Establishment	\$ 25.00
22	After Hours Charge (At Customer Request) (Flat Rate)	25.00
	Reconnection (Delinquent)	35.00
23	Meter Test (If Correct)	35.00
	Deposit	*
24	Deposit Interest (Per Year)	*
	Reestablishment (Within 12 Months)	**
25	NSF Check	\$ 20.00
	Deferred Payment (Per Month)	1.50%
26	Meter Reread (If Correct)	\$ 15.00
	Late Payment Penalty (Per Month)	***
27	Moving Customer Meter at Customer Request	At Cost
28		

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

** Months off system times Monthly Usage Charge, per A.A.C. R14-2-403(D)

*** 1.50 percent of the unpaid balance per month

SERVICE LINE & METER INSTALLATION CHARGES:			
(Refundable pursuant to A.A.C. R14-2-405)			
	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
5/8" x 3/4" Meter	\$ 450.00	\$ 150.00	\$ 600.00
3/4" Meter	450.00	250.00	700.00
1" Meter	575.00	300.00	875.00
1 1/2" Meter	675.00	500.00	1,175.00
2" Meter	1,000.00	1,500.00	2,500.00
3" Meter	1,300.00	2,000.00	3,300.00
4" Meter	1,800.00	3,500.00	5,300.00
6" Meter	2,800.00	6,000.00	8,800.00
Over 6"	Actual Cost	Actual Cost	Actual Cost

All items billed at cost shall include labor, materials, parts, overheads, and all applicable taxes.

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

20. As of the final date of the Chino hearing in this matter, Chino proposed and Staff recommended the following:

	Chino Proposed	Staff Primary Recommended	Staff Alternate Recommended
OCRB/FVRB	\$168,668	\$161,528	\$161,528
Adjusted TY Revenue	\$357,985	\$357,985	\$357,985
Adjusted TY Operating Expenses	\$329,791	\$310,069	\$310,069
Adjusted Operating Income	\$28,195	\$47,916	\$47,916
Current Rate of Return	16.72%	29.66%	29.66%
Required Rate of Return	N/A	29.66%	10.00%
Adjusted TY Operating Margin	7.88%	N/A	N/A
Required Operating Margin	15.00%	N/A	N/A
Required Operating Income	\$60,390	\$47,916	\$16,153
Operating Income Deficiency	\$32,196	\$0	(\$31,764)
Gross Revenue Conversion Factor	1.3858	1.3196	1.3196
Increase in Gross Revenue (\$)	\$44,618	\$0	(\$41,914)
Increase in Gross Revenue (%)	12.46%	0.00%	-11.71%
Proposed Annual Revenue	\$402,603	\$357,985	\$316,072

21. For the reasons described in the Discussion Section of this Decision, we find that the following adjusted TY results and revenue requirement are just and reasonable and should be adopted for Chino:

1	OCRB/FVRB	\$170,038
2	Adjusted TY Revenue	\$357,985
3	Adjusted TY Operating Expenses	\$343,853
4	Adjusted Operating Income	\$14,132
5	Current Rate of Return	8.31%
6	Required Rate of Return	22.905%
7	Required Operating Income	\$38,946
8	Operating Income Deficiency	\$24,814
9	Gross Revenue Conversion Factor	1.26857
10	Required Increase in Gross Revenue (\$)	\$31,479
11	Required Increase in Gross Revenue (%)	8.79%
12	Revenue Requirement	\$389,464

22. For the reasons described in the Discussion Section of this Decision, we find that the following rates and charges and conditions of service are just and reasonable and should be adopted for all service provided by Chino on and after November 1, 2016:

13	MONTHLY USAGE CHARGE:	
14	All Classes	
15	5/8" x 3/4" Meter	\$ 17.55
16	3/4" Meter	26.33
17	1" Meter	43.88
18	1 1/2" Meter	87.75
19	2" Meter	140.40
20	3" Meter	280.80
21	4" Meter	438.75
22	6" Meter	877.50
23	COMMODITY RATES (Per 1,000 Gallons)	
24	5/8" x 3/4" Meter (All Classes)	
25	First 3,000 Gallons	\$ 2.92
26	3,001 to 10,000 Gallons	3.94
27	Over 10,000 Gallons	5.26
28	3/4" Meter (All Classes)	
29	First 3,000 Gallons	\$ 2.92
30	3,001 to 10,000 Gallons	3.94
31	Over 10,000 Gallons	5.26
32	1" Meter (All Classes)	
33	First 15,000 Gallons	\$ 3.94
34	Over 15,000 Gallons	5.26
35	1 1/2" Meter (All Classes)	
36	First 30,000 Gallons	\$ 3.94
37	Over 30,000 Gallons	5.26

2" Meter (All Classes)	
First 50,000 Gallons	\$ 3.94
Over 50,000 Gallons	5.26
3" Meter (All Classes)	
First 100,000 Gallons	\$ 3.94
Over 100,000 Gallons	5.26
4" Meter (All Classes)	
First 150,000 Gallons	\$ 3.94
Over 150,000 Gallons	5.26
6" Meter (All Classes)	
First 300,000 Gallons	\$ 3.94
Over 300,000 Gallons	5.26

SERVICE CHARGES:	
Establishment	\$ 25.00
After Hours Charge (At Customer Request) (Flat Rate)	25.00
Reconnection (Delinquent)	35.00
Meter Test (If Correct)	35.00
Deposit	*
Deposit Interest (Per Year)	*
Reestablishment (Within 12 Months)	**
NSF Check	\$ 20.00
Deferred Payment (Per Month)	1.50%
Meter Reread (If Correct)	\$ 15.00
Late Payment Penalty (Per Month)	***
Moving Customer Meter at Customer Request	At Cost

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

** Months off system times Monthly Usage Charge, per A.A.C. R14-2-403(D)

*** 1.50 percent of the unpaid balance per month

SERVICE LINE & METER INSTALLATION CHARGES:			
(Refundable pursuant to A.A.C. R14-2-405)			
	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
5/8" x 3/4" Meter	\$ 450.00	\$ 150.00	\$ 600.00
3/4" Meter	450.00	250.00	700.00
1" Meter	575.00	300.00	875.00
1 1/2" Meter	675.00	500.00	1,175.00
2" Meter	1,000.00	1,500.00	2,500.00
3" Meter	1,300.00	2,000.00	3,300.00
4" Meter	1,800.00	3,500.00	5,300.00
6" Meter	2,800.00	6,000.00	8,800.00
Over 6"	Actual Cost	Actual Cost	Actual Cost

All items billed at cost shall include labor, materials, parts, overheads, and all applicable taxes.

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

3 23. The water utilities and the rest of the Levies' businesses are operated out of a shared
4 office using shared personnel, and do not keep detailed time records to demonstrate the amount of time
5 each employee spends performing work for each of the water utilities or for the Levies' other
6 businesses. Traditionally, the common costs have been divided primarily based upon the customer
7 counts of Granite and Chino, with Antelope excluded from cost allocation.

8 24. Until additional information is available to determine the extent to which common cost
9 items (goods and services) are used by or for Granite and Chino and the other affiliates, Granite and
10 Chino should be required to allocate common costs throughout each year based upon the customer
11 counts of Granite, Chino, and Antelope as of January 1 of the year.

12 25. Granite has a history of issuing evidence of indebtedness payable at periods of more
13 than 12 months after the date of execution/issuance without obtaining prior Commission approval; has
14 been ordered by the Commission on multiple occasions either to apply to the Commission for approval
15 prior to securing any loans or entering into any other financial arrangements or not to issue any long-
16 term debt or other evidence of indebtedness without Commission approval (in Decision Nos. 54902,
17 55921, 61731, and 71869); and has on at least two occasions been required to convert to paid-in-capital
18 funds being carried as a loan or line of credit (in Decision Nos. 58869 and 71869).

19 26. At the end of the TY, Granite had notes receivable totaling \$59,129, for funds paid on
20 behalf of Chino, Antelope, and Mr. Levie; funds advanced to Mr. Levie for personal use; and funds
21 advanced on behalf of Daniel.

22 27. At the end of the TY, Chino had notes receivable totaling \$24,901, for funds paid on
23 behalf of Antelope and Mr. Levie, funds advanced to Mr. Levie, and funds advanced on behalf of
24 Daniel. Chino also had notes payable totaling \$19,891, for the funds paid by Granite on Chino's behalf.

25 28. Staff determined that Chino's notes payable constituted long-term debt for which Chino
26 had not obtained Commission approval as required by A.R.S. § 40-301(B). Staff recommended the
27 following:

28

- 1 • That Granite and Chino be required to collect all receivables due from affiliates
2 within one year from this Decision;
- 3 • That Granite and Chino cease making personal loans or advances with their
4 respective funds;
- 5 • That Chino pay off its notes payable to affiliates within 24 months of this Decision;
6 and
- 7 • That Chino be required to obtain specific authorization from the Commission for
8 indebtedness payable at periods of more than 12 months, including amounts
9 appearing in affiliate payable accounts.

10 29. After the Chino hearing, Chino filed an accounting report showing that all affiliate
11 receivables, other than \$3,338.74 due from Antelope, had been paid in full.

12 30. After the Granite hearing, Granite filed an accounting report showing that all affiliate
13 receivables, other than \$9,239.68 due from Chino and \$8,782.46 due from Antelope, had been paid in
14 full.

15 31. A.R.S. §§ 40-301 and 40-302 prohibit public service corporations from issuing
16 evidences of indebtedness payable at periods of more than 12 months after the date of issuance without
17 first obtaining a Commission order authorizing the issuance and impose requirements related to the
18 circumstances under which such Commission approval may be provided, including restrictions on the
19 uses for which the issuance or proceeds may be applied.

20 32. The funds transferred from Granite to Chino and from Granite to Antelope constituted
21 long-term debt acquired by Chino and Antelope in violation of A.R.S. §§ 40-301 and 40-302.

22 33. Staff's recommendations set forth in Findings of Fact No. 28 are just and reasonable and
23 should be adopted, with a modification to allow Granite and Chino to make reasonable employee
24 payroll advances for employees who are not related to any of the Levies by blood or marriage and to
25 allow Granite 24 months to collect its receivables due from affiliates (to be consistent with the
26 recommendation for repayment by Chino).

27 34. Staff recommended that Granite and Chino each be required, by April 15 of each year,
28 to provide an annual report of all corporate cost allocations for the previous calendar year, to be

1 reconciled to the amounts billed and paid by each regulated and unregulated affiliate company, until
2 the filing of the company's next rate application.

3 35. Rather than adopting Staff's recommendation, we find that Granite and Chino should
4 each be required to file a rate application within three years after the effective date of this Decision,
5 with both rate applications to use the same TY, as this will provide Staff with an opportunity to audit
6 Granite and Chino's records for compliance and to provide the Commission with meaningful
7 information regarding the utilities' financial practices following this Decision. If the Levies determine
8 that it would be advantageous and in the public interest for Granite and Chino, or the water utilities, to
9 be consolidated, each rate application may include a proposal for consolidation through merger or other
10 means. If there is a proposal for Antelope to be included within a consolidation, Antelope would also
11 need to file an application.

12 36. Staff recommended that Granite and Chino be required to develop and comply with a
13 formal written Code of Affiliate Conduct, to be submitted to Staff for acceptance of its scope and
14 structure and to be completed within 90 days after the effective date of this Decision, that would:

- 15 • Govern all operational and financial activities and relationships with and among the
16 parent, owners, family members, and all affiliates (regulated and unregulated);
- 17 • Assure the separation of the traditional roles of regulated utilities and unregulated
18 affiliates;
- 19 • Develop the cost allocation through a cost allocation manual that includes time-
20 keeping for all employees;
- 21 • Address valuing transactions for purchases or sales as well as goods and services
22 provided to or among affiliates;
- 23 • Include competitive bidding practices; and
- 24 • Address financial arrangements between affiliates (regulated and unregulated),
25 whether as notes receivable or notes payable.

26 37. Staff's recommendation set forth in Findings of Fact No. 36 is in the public interest and
27 should be adopted, but should be modified (1) to require Granite and Chino to work with Staff to
28 develop the Code of Affiliate Conduct; (2) to require record keeping regarding common cost items

1 (goods and services) and the extent to which the common cost items are used by or for the water utilities
2 and by or for the Levies' other business operations (rather than a cost allocation manual); and (3) to
3 require Granite and Chino to file copies of the Code of Affiliate Conduct as a compliance item in this
4 matter once Staff has determined that the Code of Affiliate Conduct sufficiently addresses its concerns
5 regarding self-dealing, non-arm's length transactions, creation of unauthorized long-term debt through
6 fund transfers or advances, record-keeping regarding common costs, and any other area included within
7 Staff's recommendation.

8 38. Once the Code of Affiliate Conduct has been filed as a compliance item, Staff should
9 consider whether the public interest would be served by pursuing rulemaking to incorporate the Code
10 of Affiliate Conduct into the Commission's rules, in whole or in part, either for applicability only to
11 water utilities or to a broader group of public service corporations. If Staff determines that such a
12 rulemaking should be pursued, Staff should make such a recommendation to the Commission in the
13 form of a Staff Report, filed in this docket, providing potential rule language and requesting that a new
14 docket be opened in which to pursue such a rulemaking.

15 39. Since Ms. Hunsaker's direct testimony filed in July 2015, Staff has recommended that
16 a penalty be assessed against Granite, pursuant to A.R.S. §§ 40-424 and 40-425, for Granite's failure
17 to appropriately collect revenues as ordered in Decision No. 71869, based upon Granite's failure to
18 collect revenues from Daniel's four accounts as set forth above. Staff did not make a specific
19 recommendation concerning the amount of the penalty.

20 40. A.R.S. § 40-424 authorizes the Commission to hold in contempt and fine any
21 corporation or person for failure to observe or comply with any order, rule, or requirement of the
22 Commission, with the fine to be collected in an amount between \$100 and \$5,000. A.R.S. § 40-425
23 also authorizes the Commission to assess a penalty of \$100 to \$5,000 per offense upon any public
24 service corporation that fails or neglects to obey or comply with any order, rule, or requirement of the
25 Commission, the penalty for which is not otherwise provided.

26 41. Granite violated Decision No. 71869 when it failed to collect payment for Daniel's four
27 accounts at least 122 times between the effective date of the rates approved in Decision No. 71869 and
28 the end of the TY in this matter, after having been expressly ordered in Decision No. 71869 to cease

1 providing water without charge, to cease providing water at a discounted rate, and to provide water
2 only in accordance with the rates and charges that had been specifically authorized by the Commission.
3 For this violation, Granite should be found in contempt and assessed a penalty in the amount of \$1,220.
4 In addition, Granite should be made aware that future violations may result in higher fines.

5 42. In Decision No. 74384, Granite was ordered, beginning in the month of execution of the
6 financing documents for the WIFA loan and continuing monthly until the WIFA loan is paid in full, to
7 set aside \$10 from each customer's bill payment and deposit the funds in a separate interest-bearing
8 account established for the purpose of receiving such set-aside funds.

9 43. Granite executed the financing documents for the WIFA loan in May 2014 but did not
10 begin setting aside and depositing \$10 per customer bill payment until November 2014. By not setting
11 aside and depositing the funds for the WIFA loan in the separate account beginning in May 2014,
12 Granite failed to comply with Decision No. 74384.

13 44. Since Ms. Hunsaker's direct testimony in July 2015, Staff has recommended that the
14 Commission authorize Staff to install an interim manager for Granite or Chino immediately upon
15 determining that Granite or Chino has violated any part of the Code of Affiliate Conduct, once adopted.

16 45. The Commission is encouraged by reports of Mr. Levie's recognition that the utilities'
17 business operations need to improve and by Dewey's increased involvement with the water utilities
18 and expressed commitment to complying with regulatory requirements. The Commission believes that
19 with an appropriate amount of effort and commitment, and the clarity that should come from the Code
20 of Affiliate Conduct, Granite and Chino should be able to achieve complete compliance with
21 Commission requirements. Thus, Staff should not at this time be provided authority to install an interim
22 manager summarily upon determining that there has been a violation of the not-yet-created Code of
23 Affiliate Conduct. However, we put Granite and Chino on notice that future failures to comply with
24 Commission decisions, with the statutes governing public service corporations (such as A.R.S. §§ 40-
25 301 and 40-302), with the Commission's rules for water utilities (A.A.C. Title 14, Chapter 2, Article
26 4), or with the Code of Affiliate Conduct required herein may result in the issuance of an Order to Show
27 Cause that may include actions up to and including appointment of an Interim Manager.
28

CONCLUSIONS OF LAW

- 1
2 1. Granite is a public service corporation within the meaning of Article XV of the Arizona
3 Constitution and A.R.S. §§ 40-250, 40-251, 40-301, 40-302, 40-424, and 40-425.
- 4 2. Chino is a public service corporation within the meaning of Article XV of the Arizona
5 Constitution and A.R.S. §§ 40-250, 40-251, 40-301, 40-302, 40-424, and 40-425.
- 6 3. The Commission has jurisdiction over Granite and Chino and the subject matter of this
7 consolidated matter.
- 8 4. Notice of Granite and Chino's Rate Applications was provided in accordance with the
9 law.
- 10 5. The funds transferred from Granite to Chino and from Granite to Antelope constituted
11 long-term debt acquired by Chino and Antelope in violation of A.R.S. §§ 40-301 and 40-302.
- 12 6. Granite violated Decision No. 71869 by failing to collect appropriately for the water
13 usage on four accounts held by Daniel on at least 122 separate occasions between September 1, 2010,
14 and December 31, 2013.
- 15 7. Granite was provided adequate due process with regard to Staff's recommendation for
16 penalties to be assessed against Granite under A.R.S. §§ 40-424 and 40-425.
- 17 8. A.R.S. §§ 40-424 and 40-425 authorize the Commission to hold Granite in contempt
18 and to assess a penalty against Granite in the amount of \$1,220 for violating Decision No. 71869 by
19 failing to collect on Daniel's accounts.
- 20 9. Granite and Chino were provided adequate due process with regard to Staff's
21 recommendation for Staff to be provided authority to install an interim manager immediately and
22 summarily if Granite or Chino violates any requirement of the Code of Affiliate Conduct recommended
23 by Staff.
- 24 10. Granite's fair value rate base is as set forth in Findings of Fact No. 18.
- 25 11. Chino's fair value rate base is as set forth in Findings of Fact No. 21.
- 26 12. It is just and reasonable and in the public interest to take the actions described in
27 Findings of Fact Nos. 14, 18, 19, 21, 22, 24, 33, 35, 37, 38, 41, and 45.
- 28 13. The rates and charges and terms and conditions of service authorized herein are just and

1 reasonable and in the public interest.

2 **ORDER**

3 IT IS THEREFORE ORDERED that Granite Mountain Water Company, Inc. is hereby directed
4 to file with the Commission, on or before November 1, 2016, revised schedules of its rates and charges
5 consistent with the rates and charges and terms of service set forth in Findings of Fact No. 19, which
6 shall be effective for all service provided by Granite Mountain Water Company, Inc. on and after
7 November 1, 2016.

8 IT IS FURTHER ORDERED that Chino Meadows II Water Company, Inc. is hereby directed
9 to file with the Commission, on or before November 1, 2016, revised schedules of its rates and charges
10 consistent with the rates and charges and terms of service set forth in Findings of Fact No. 22, which
11 shall be effective for all service provided by Chino Meadows II Water Company, Inc. on and after
12 November 1, 2016.

13 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. and Chino Meadows
14 II Water Company, Inc. shall each notify its customers of the revised schedules of rates and charges
15 authorized herein by means of an insert in its next scheduled billing, in a form acceptable to the
16 Commission's Utilities Division Staff.

17 IT IS FURTHER ORDERED that Chino Meadows II Water Company, Inc. shall, within 90
18 days of the effective date of this Decision, as a compliance item in this docket, file either (a) a report
19 containing a detailed analysis and plan to reduce water loss to 10 percent or less or (b) if Chino
20 Meadows II Water Company, Inc. believes that it is not cost effective to reduce its water loss to 10
21 percent or less, a detailed cost benefit analysis to support its opinion.

22 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. and Chino Meadows
23 II Water Company, Inc. shall each allocate common costs incurred throughout each year based upon
24 the customer counts of Granite Mountain Water Company, Inc.; Chino Meadows II Water Company,
25 Inc.; and Antelope Lakes Water Company as of January 1 of the year.

26 IT IS FURTHER ORDERED Granite Mountain Water Company, Inc. and Chino Meadows II
27 Water Company, Inc. are each required to collect all receivables due from any affiliates within 24
28 months after the effective date of this Decision.

1 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. and Chino Meadows
2 II Water Company, Inc. shall each cease making any personal loans or advances with their respective
3 funds, with the only exception being that reasonable payroll advances may be made for employees who
4 are not related to any of the Levies by blood or marriage.

5 IT IS FURTHER ORDERED that Chino Meadows II Water Company, Inc. shall pay off its
6 notes payable to affiliates within 24 months after the effective date of this Decision.

7 IT IS FURTHER ORDERED that Chino Meadows II Water Company, Inc. shall obtain specific
8 authorization from the Commission for indebtedness payable at periods of more than 12 months,
9 including amounts appearing in affiliate payable accounts.

10 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. and Chino Meadows
11 II Water Company, Inc. shall each file a permanent rate application within three years after the effective
12 date of this Decision, with both rate applications to use the same test year.

13 IT IS FURTHER ORDERED that if the Levies determine that it would be advantageous and in
14 the public interest for Granite Mountain Water Company, Inc. and Chino Meadows II Water Company,
15 Inc. or all three of the water utilities to be consolidated, each rate application filed as required by the
16 immediately preceding ordering paragraph may include a proposal for consolidation through merger
17 or other means.

18 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. and Chino Meadows
19 II Water Company, Inc. shall work with the Commission's Utilities Division to develop a Code of
20 Affiliate Conduct that includes provisions to:

- 21 • Govern all operational and financial activities and relationships with and among the
22 owners, family members, and all affiliates (regulated and unregulated);
- 23 • Assure the separation of the traditional roles of regulated utilities and unregulated
24 affiliates;
- 25 • Require time-keeping for all employees, with records of the time spent performing tasks
26 for the water utilities and the Levies' other business operations;
- 27 • Require record keeping regarding common cost items (goods and services) and the
28 extent to which the common cost items are used by or for the water utilities and by or

1 for the Levies' other business operations;

- 2 • Address valuing transactions for purchases or sales as well as goods and services
3 provided to or among affiliates;
- 4 • Include competitive bidding practices; and
- 5 • Address financial arrangements between affiliates (regulated and unregulated),
6 including notes receivable or notes payable.

7 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. and Chino Meadows
8 II Water Company, Inc. shall, within 90 days after the effective date of this Decision, reach agreement
9 with Staff regarding the contents and language of the Code of Affiliate Conduct described in the
10 preceding ordering paragraph and file, as a compliance item in this matter, copies of the Code of
11 Affiliate Conduct.

12 IT IS FURTHER ORDERED that the Commission's Utilities Division shall, once the Code of
13 Affiliate Conduct has been filed as a compliance item, consider whether the public interest would be
14 served by pursuing rulemaking to incorporate the Code of Affiliate Conduct into the Commission's
15 rules, in whole or in part, either for applicability only to water utilities or to a broader group of public
16 service corporations and, if Staff determines that such a rulemaking should be pursued, make such a
17 recommendation to the Commission in the form of a Staff Report, filed in this docket, providing
18 potential rule language and requesting that a new docket be opened in which to pursue such a
19 rulemaking.

20 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. is hereby held in
21 contempt of the Commission, under A.R.S. § 40-424, for violating Decision No. 71869 by failing to
22 collect payment for water usage on four separate accounts held by Daniel Levie, at least 122 times
23 between September 1, 2010, and December 31, 2013.

24 IT IS FURTHER ORDERED that pursuant to A.R.S. §§ 40-424 and 40-425, Granite Mountain
25 Water Company, Inc. shall pay to the Commission's Business Office, in the form of a certified or
26 cashier's check made out to the Arizona Corporation Commission, a penalty in the amount of \$1,220.

27 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. is hereby put on
28 notice that future violations of Commission Decisions may result in higher fines.

1 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. and Chino Meadows
2 II Water Company, Inc. are hereby put on notice that future failures to comply with Commission
3 decisions, with the statutes governing public service corporations (such as A.R.S. §§ 40-301 and 40-
4 302), with the Commission's rules for water utilities (A.A.C. Title 14, Chapter 2, Article 4), or with
5 the Code of Affiliate Conduct required herein may result in the issuance of an Order to Show Cause
6 that may include actions up to and including appointment of an Interim Manager.

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

8 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

9
10
11 CHAIRMAN

COMMISSIONER

12
13 COMMISSIONER

COMMISSIONER

COMMISSIONER

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

20 JODI JERICH
EXECUTIVE DIRECTOR

21 DISSENT _____

22
23 DISSENT _____
24 SH:rt

1 SERVICE LIST FOR:

GRANITE MOUNTAIN WATER COMPANY, INC.
AND CHINO MEADOWS II WATER COMPANY,
INC.

2
3 DOCKET NO.:

W-02467A-14-0230 AND W-02370A-14-0231

4 Craig A. Marks
CRAIG A. MARKS, PLC
10645 N. Tatum Blvd, Suite 200-676
5 Phoenix, AZ 85028
Attorney for Granite Mountain Water Company, Inc.

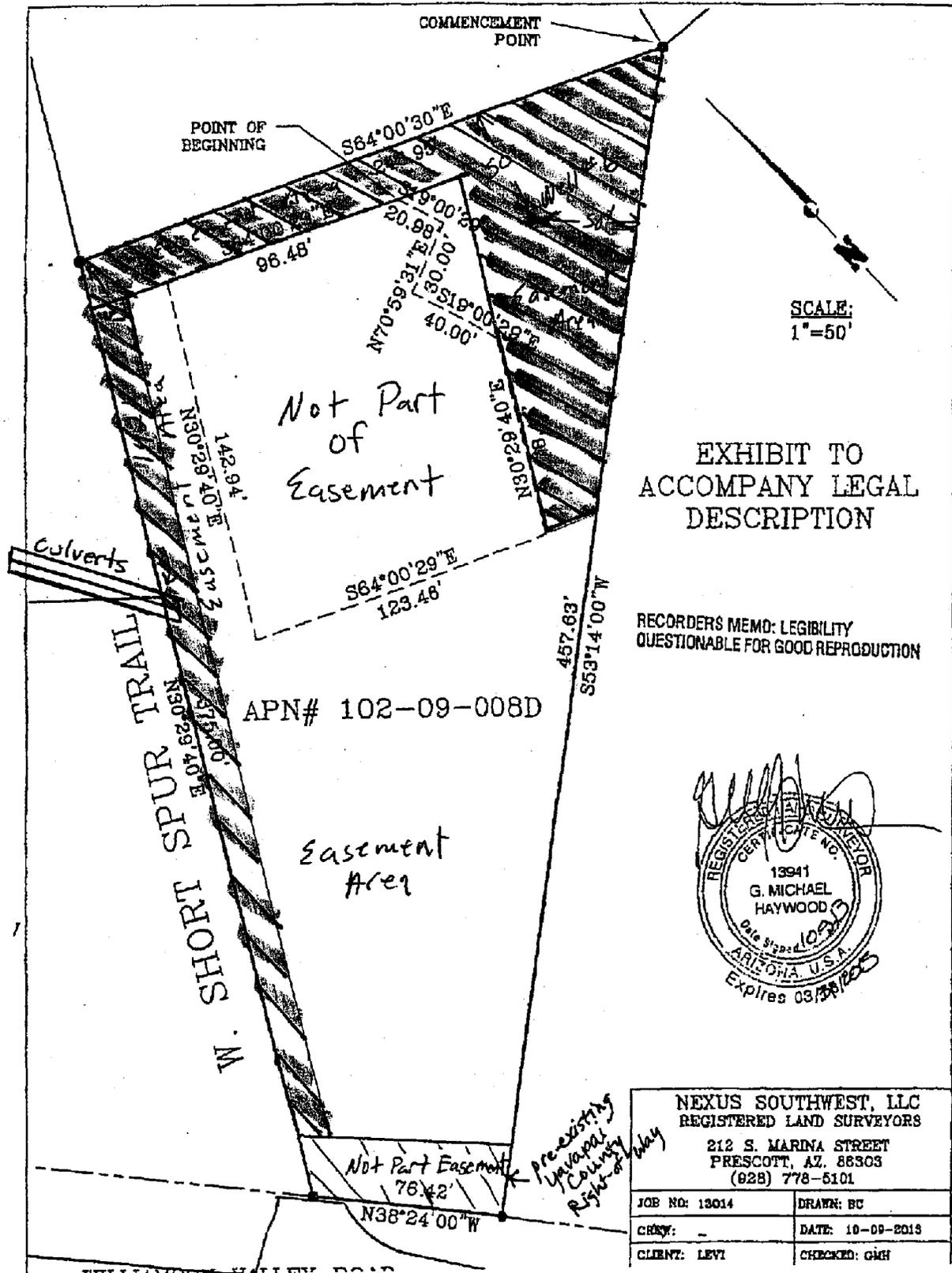
6
7 Tim Carter
2701 Boone Court
8 Prescott, AZ 86305

9 Janice Alward, Chief Counsel
Bridget Humphrey, Staff Attorney
10 Matthew Laudone, Staff Attorney
Legal Division
ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
Phoenix, AZ 85007

12
13 Tom Broderick, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
14 1200 West Washington Street
Phoenix, AZ 85007

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EXHIBIT 1



NEXUS SOUTHWEST, LLC
REGISTERED LAND SURVEYORS
212 S. MARINA STREET
PRESCOTT, AZ. 86303
(928) 778-5101

JOB NO: 13014	DRAWN: BC
CHKY: -	DATE: 10-09-2013
CLIENT: LEVI	CHECKED: GMH

EXHIBIT 2

ATTESTATION

First and Last Name: _____ Title: _____

First day involved in management/operations of GMWC: _____

I hereby attest, under oath or affirmation:

1. That I have read the Arizona statutes pertaining to public service corporations (Arizona Revised Statutes, Title 40, Chapter 2);
2. That I have read the Arizona Corporation Commission rules pertaining to water utilities (Arizona Administrative Code Title 14, Chapter 2, Article 4);
3. That I understand that Granite Mountain Water Company, Inc. ("GMWC") must read each meter on its water system every month and must bill each account on its water system for service every month;
4. That I understand that GMWC must charge for all water provided on its system in accordance with GMWC's tariff on file with the Commission; and
5. That I understand that GMWC is prohibited from issuing stocks and stock certificates, bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months after the date of execution/issuance without first obtaining a Commission order approving such issuance.

Signature: _____ Date: _____

State of Arizona
County of _____

Subscribed and sworn (or affirmed) before me this _____ day of _____, 20_____.

(seal)

Notary Public