BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

JUL 20 2005

IN THE MATTER OF THE APPLICATION OF EAGLETAIL WATER COMPANY, L.C. FOR A RATE ADJUSTMENT.

DOCKET NO. W-03936A-04-0840

DECISION NO. 67982

ORDER

Open Meeting
July 12 and 13, 2005
Phoenix, Arizona

BY THE COMMISSION:

On November 22, 2004, Eagletail Water Company, L.C. ("Applicant" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase in its water rates and charges.

On December 22, 2004, pursuant to A.A.C. R14-2-103, the Commission's Utilities Division ("Staff") issued a notice of deficiency with respect to the Company's rate application.

On January 31, 2005, pursuant to A.A.C. R14-2-103, Staff issued a notice of sufficiency and classified the Company as a Class E utility.

On December 27, 2004, and January 3, 2005, the Company filed amendments to its rate application.

On April 1, 2005, Staff filed a Staff Report, recommending that the rates proposed by Staff be approved.[1]

* * * * * * * * * *

[1] At the Commission's Open Meeting on May 24, 2005, the Company waived the time frame established by A.A.C. R14-2-103(B), to allow Staff time to file a Revised Staff Report on June 13, 2005, wherein Staff made revisions to its recommendations after a review of documented and updated expenses which were subsequently provided by the Company after the Open Meeting.

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

FINDINGS OF FACT

1. Pursuant to authority granted by the Commission, Applicant is an Arizona limited liability company engaged in the business of providing water service in the Harquahala Valley in an area approximately 64 miles west of Phoenix and 15 miles south of Interstate 10 in western Maricopa County, Arizona.[2]

2. Applicant's present rates and charges for water were approved in Decision No. 64743 (April 17, 2002).

3. On November 22, 2004, the Company filed an application requesting authority to increase its rates and charges for water service.

4. Concurrently with the filing of the application herein, Applicant provided notice to its customers of its proposed rate increase by first class U.S. mail and, in response thereto, one written protest and a five signature petition have been received by the Commission opposing Applicant's proposed increase.

5. On January 31, 2005, Staff filed notice that the Company's rate application had met the Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

6. During the test year ended December 31, 2003 ("TY"), Applicant served 54 metered customers, the majority (38) of which are residential users who are served by 3/4" meters.

7. Average and median meter usage on the 3/4" meters during the TY were 8,045 and 3,618 gallons per month, respectively.

8. Staff conducted an investigation of Applicant's proposed rates and charges for water

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[2] Prior to January 2000, the utility assets of what was then the Eagle Water Company ("Eagle") were owned by four different individuals or entities. In January 2000, the utility assets of Eagle were abandoned and sold at a sheriff's auction to Mr. Randolph Brownell, owner of Sunup Water Company, L.C., doing business as Eagle. The assets were purchased for $80,000 in May 2000 by a group of approximately 20 individuals who formed Applicant. On May 24, 2001, In Decision No. 63684, the Commission approved the issuance of a Certificate of Convenience and Necessity ("Certificate") and a transfer of assets from Mr. Brownell to the Company. Staff indicated in its report that although the Company's present official name is designated as "L.C.", in the future, Applicant will change its official name to reflect an "L.L.C." designation since it is a limited liability company.

service and filed its initial Staff Report on the Company's rate application request on April 1, 2005, which Staff subsequently amended by filing a Revised Staff Report on June 13, 2005, wherein Staff allowed for additional Company expenses of $4,383.

9. The water and rates and charges for Applicant at present, as proposed in the Application and as recommended by Staff are as follows:

	Present Rates	Proposed Rates Company	Staff Initial	Staff Revised
MONTHLY USAGE CHARGE:				
5/8" x ¾" Meter	$21.00	$27.00	$25.50	$27.00
¾" Meter	22.00	30.00	26.50	30.00
1" Meter	37.00	45.00	42.00	45.00
1 ½" Meter	41.00	50.00	45.00	50.00
2" Meter	51.00	61.00	56.00	61.00
3" Meter	88.00	105.00	204.00	204.00
4" Meter	124.00	135.00	637.00	637.00
6" Meter	208.00	220.00	1,275.00	1,275.00
Gallons Included in Minimum	0	0	0	0
Gallonage Charge Per 1,000 gallons	2.30	3.50	n/a	N/A
Gallonage Charge Per 1,000 Gallons				
Tier one – 0 to 3,000 gallons	N/A	N/A	1.00	
Tier two – 3,001 to 8,000 gallons	N/A	N/A	2.80	
Tier three – In excess of 8,000 gallons	N/A	N/A	3.85	
Tier one – 0-3,000 gallons	N/A	N/A		3.20
Tier two – 3,001 to 25,000 gallons	N/A	N/A		4.25
Tier three – In excess of 25,000 gallons	N/A	N/A		4.85
SERVICE LINE AND METER INSTALLATION CHARGES: (Refundable pursuant to A.A.C. R14-2-405)				
5/8" x ¾" Meter	$440.00	$440.00	440.00	$440.00
¾" Meter	510.00	510.00	510.00	510.00
1" Meter	590.00	590.00	590.00	590.00
1 ½" Meter	825.00	825.00	825.00	825.00
2" Meter	1,415.00	1,415.00	1,415.00	1,415.00
3" Meter	2,105.00	2,105.00	2,105.00	2,105.00
4" Meter	3,120.00	3,120.00	3,120.00	3,120.00
6" Meter	5,715.00	5,715.00	5,715.00	5,715.00

SERVICE CHARGES:

Establishment	$30.00	$40.00	30.00	$30.00
Establishment (After Hours)	45.00	55.00	45.00	45.00
Reconnection (Delinquent)	25.00	35.00	25.00	25.00
Reconnection (Delinquent) after hours		60.00	45.00	45.00
Meter Test (If Correct)	30.00	30.00	30.00	30.00
Deposit	Per ACC	Per ACC	*	*
Deposit Interest	Per ACC	Per ACC	*	*
Reestablishment (Within 12 Months)	Per ACC	Per ACC	**	**
NSF Check	0.00	29.00	25.00	25.00
Deferred Payment (Per Month)	1.50%	1.50%	***	***
Meter Reread (If Correct)	20.00	25.00	20.00	20.00
Late Fee (Per Month)	1.50%	1.50%	1.50%	1.50%
Monthly Service Charge for Fire Sprinklers				
4" or Small	0	0	****	****
6"	0	0	****	****
8"	0	0	****	****
10"	0	0	****	****
Larger than 10"	0	0	****	****

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

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

*** Per Commission rule A.A.C. R14-2-409(G).

**** 1.00% of Monthly Minimum for Comparable Sized Meter Connection, but no less than $5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

10. Pursuant to the Revised Staff Report, Applicant's fair value rate base ("FVRB") is determined to be $90,557 which is the same as its original cost rate base. The Company's FVRB reflects a $9,495 increase by Staff of Applicant's proposed FVRB due in large part to a decrease in Applicant's accumulated depreciation and the inclusion of an increase in working capital.

11. Staff, in the Revised Staff Report, reduced Applicant's proposed operating expenses by $16,856 primarily due to adjustments which decrease the following Company expenses: $3,966 for repairs and maintenance; $9,299 for outside services; $1,150 for transportation; $7,685 for miscellaneous; and $2,113 for depreciation.[3]

12. Applicant's present water rates and charges produced operating revenues of $28,481

[3] Significant portions of the reduced expenses were either not verified or non-recurring.

and adjusted operating expenses of $28,158 which resulted in operating income of $323 during the TY or a .36 percent rate of return on FVRB.

13. The water rates and charges Applicant proposed would produce operating revenues of $40,481 and adjusted operating expenses of $28,158 resulting in net operating income of $12,323 or a 13.6 percent rate of return on FVRB.

14. The water rates and charges Staff recommended would produce operating revenues of $40,481 and adjusted operating expenses of $28,158, resulting in net operating income of $12,323 or a 13.6 percent rate of return on FVRB.

15. Applicant's proposed rate schedule would increase the average monthly customer water bill by 43.6 percent, from $40.50 to $58.16, and the median monthly customer water bill by 40.7 percent, from $30.32 to $42.66.

16. Staff's recommended rates would increase the average monthly customer water bill by 43.2 percent, from $40.50 to $58.01, and increase the median monthly customer water bill by 38.0 percent, from $30.32 to $41.85.

17. According to the Revised Staff Report, Applicant is in compliance with its Commission compliance action filings and prior Commission Orders. Additionally, according to Staff, Applicant is current on the payment of its property taxes and its sales taxes, and is providing water which meets the requirements of the Safe Drinking Water Act.

18. Applicant's well produces water which meets the requirements of the Federal Environmental Protection Agency's new arsenic maximum contaminant level, which becomes effective January 23, 2006.

19. During Staff's review of the water rate request, Staff found that Applicant is experiencing excessive water loss of over 53 percent which is substantially higher than the 10 percent loss that Staff considers reasonable. To address this problem, Staff is recommending that $.60 per 1,000 gallons of water sold and collected from the upper two tiers of Staff's proposed commodity charge be deposited into a separate interest bearing account from which funds could only be used to pay for leak repairs. Staff believes that Applicant should generate approximately $2,500 per year for the leak repair fund if funds are set aside in this manner.

20. Staff additionally recommended that the Commission order the following:

- that Applicant notify its customers of the water rates and charges approved hereinafter and their effective date by means of an insert in its next monthly billing and file a copy of the notice sent to its customers with the Compliance Section of the Utilities Division ("Compliance Section");
- that Applicant file, within 30 days of the effective date of this Decision, with the Commission's Docket Control, a copy of the schedule of its approved rates and charges;
- that Applicant adopt the depreciation rate table as set forth in Exhibit 4 to the Engineering Report attached to the Staff Report;
- that Applicant file, annually after the effective date of this Decision, yearly reports within 30 days of the end of each calendar year, with the Commission's Docket Control, which indicate the quantity of water pumped and sold each month during the year and the efforts taken to reduce water loss, such as number of leaks repaired;
- that the Company develop a plan to reduce water loss to less than 10 percent before its next rate case;
- that Applicant be ordered to segregate $.60 per 1,000 gallons of usage included in the commodity charge of the two upper tiers and deposit these funds into a separate interest-bearing account from which funds can only be expended for leak repairs;
- that Applicant file quarterly reports with the Commission's Docket Control listing the revenue collected and all disbursements made from the leak repair fund and the type of repairs completed. The first report shall be due for the first calendar quarter after the rates go into effect and filed within 30 days after the end of each calendar quarter thereafter;
- that the Company implement and maintain its records in accordance with the NARUC Uniform System of Accounts and within 60 days of the effective date of this Decision, file an affidavit with the Commission's Docket Control indicating compliance with the requirement to use NARUC standards; and
- that Applicant, in addition to the collection of its regular rates and charges, collect from its customers their proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409(D).

21. We find that Applicant must charge rates that allow it to operate in a viable fashion in order to be able to provide reliable service to its customers. We agree with Staff's recommendations

and find that Staff's revised proposed rates which are projected to provide a rate of return of approximately 13.6 percent are just and reasonable under the circumstances described herein.

CONCLUSIONS OF LAW

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

2. The Commission has jurisdiction over Applicant and the subject matter of the application.

3. Notice of the application was provided in the manner prescribed by law.

4. Under the circumstances discussed herein, the rates and charges for Applicant as authorized hereinafter are just and reasonable and should be approved without a hearing.

5. Staff's recommendations, as set forth in Findings of Fact No. 20 are reasonable and should be adopted.

6. Based on our findings and in light of Staff's recommendations, no hearing is necessary.

ORDER

IT IS THEREFORE ORDERED the Eagletail Water Company, L.C. is hereby directed to file on or before August 1, 2005, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x ¾" Meter	$27.00
¾" Meter	30.00
1" Meter	45.00
1 ½" Meter	50.00
2" Meter	61.00
3" Meter	204.00
4" Meter	637.50
6" Meter	1,275.00

Gallonage Charge Per 1,000 Gallons	
Tier One – 0 to 3,000 gallons	$3.20
Tier Two – 3,001 to 25,000 gallons	4.25
Tier Three – In excess of 25,000 gallons	4.85

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

5/8" x ¾" Meter	$440.00
¾" Meter	510.00
1" Meter	590.00
1 ½" Meter	825.00
2" Meter	1,415.00
3" Meter	2,105.00
4" Meter	3,120.00
6" Meter	5,715.00

SERVICE CHARGE:

Establishment	$30.00
Establishment (After Hours)	45.00
Reconnection (Delinquent)	25.00
Reconnection (Delinquent) after hours	45.00
Meter Test (If Correct)	30.00
Deposit	*
Deposit Interest	*
Reestablishment (Within 12 Months)	**
NSF Check	25.00
Deferred Payment (Per Month)	***
Meter Reread (If Correct)	20.00
Late Fee (Per Month)	1.50%

Monthly Service Charge for Fire Sprinklers

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

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

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

*** Per Commission rule A.A.C. R14-2-205(G).

**** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that Eagletail Water Company, L.C. notify its customers of the water rates and charges approved hereinafter and their effective date by means of an insert in its next monthly billing and file a copy of the notice when sent to its customers with the Compliance Section

of the Utilities Division.

IT IS FURTHER ORDERED that the above water rates and charges shall be effective for all service provided after August 1, 2005.

IT IS FURTHER ORDERED that Eagletail Water Company, L.C. shall comply with Staff's recommendations as set forth in Findings of Fact No. 20.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 18th day of July, 2005.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

DISSENT _____

SERVICE LIST FOR: EAGLETAIL WATER COMPANY, L.L.C.

DOCKET NO.: W-03936A-04-0840

Susan Haas
Eagletail Water Company, L.L.C.
P.O. Box 157
Tonopah, AZ 85354

Christopher Kempley, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Ernest G. Johnson, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007