ORIGINAL

SURCHARGE TARIFF SCHEDULE

UTILITY: **William R. Farr DBA Salome Water Company**
DOCKET NO.: **W-01084A-16-0454**

DECISION NO.: **76100**
EFFECTIVE: **June 1, 2017**

MONTHLY EMERGENCY INTERIM SURCHARGE

Per connection, per month: **$23.10**

For a period of twelve (12) months reducing to $8.27 until permanent rates are established.

The above monthly surcharge will be in addition to the current monthly rates and charges already in effect for the Company.

TARIFF SCHEDULE

Utility: SALOME WATER COMPANY
Docket No. E-1084-84-185

Tariff Sheet No. 2
Decision No. 54602
Effective: August 1, 1985

RATES AND CHARGES

Customer/Minimum Charge/Month:

Residential

	Charge		Gallons
5/8 x 3/4"	$ 8.25	For	1,000
3/4"	$	For	
1"	$	For	
1 1/2"	$	For	
2"	$	For	
3"	$	For	
4"	$	For	
5"	$	For	
6"	$	For	

Commodity Charge (Excess of Minimum):

$ 1.60 Per 1,000 Gallons

Flat Rate $ Per Month

Customer/Minimum Charge/Month:

Commercial, Industrial, Irrigation

	Charge		Gallons
5/8 x 3/4"	$	For	
3/4"	$	For	
1"	$	For	
1 1/2"	$	For	
2"	$	For	
3"	$	For	
4"	$	For	
5"	$	For	
6"	$	For	

Commodity Charge (Excess of Minimum):

$ Per Gallons

Flat Rate $ Per Month

OTHER RATES AND CHARGES APPROVED BY ORDER:

RIFF SCHEDULE (CONT'D)

Utility: SALOME WATER COMPANY
Docket No. E-1084-84-185

Tariff Sheet No. 2
Decision No. 54602
Effective: August 1, 1985

RATES AND CHARGES (CONT'D)

SERVICE LINE & METER INSTALLATION CHARGES (R14-2-405.B.2)

5/8 x 3/4"	$ 100.00	3"	$
3/4"	$ 120.00	4"	$
1"	$ 160.00	5"	$
1 1/2"	$ 300.00	6"	$
2"	$ 400.00		

SERVICE CHARGES

Establishment
(R14-2-403.D.1) $ 10.00

Establishment
(After Hour)
(R14-2-403.D.2) $ 15.00

Reconnection
(Delinquent)
(R14-2-403.D.1) $ 20.00

Meter Test
(R14-2-408.F.1) $ 10.00

Deposit (Interest)
(R14-2-403.B.3) ____ %

Re-establishment
(Within 12 Months)
(R14-2-403.D.1) $ 6 Times Monthly Minimum

NSF Check
(R14-2-409.F.1) $ 10.00

Deferred Payment
(R14-2-409.G.6) ____ %

Re-read
(R14-2-408.C.2) $ 5.00

OTHER RATES AND CHARGES APPROVED BY ORDER:

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

TOM FORESE – Chairman
BOB BURNS
DOUG LITTLE
ANDY TOBIN
BOYD W. DUNN

IN THE MATTER OF THE APPLICATION OF WILLIAM R. FARR DBA SALOME WATER COMPANY FOR APPROVAL OF AN EMERGENCY RATE INCREASE.

DOCKET NO. W-01084A-16-0454

DECISION NO. 76100

OPINION AND ORDER

DATE OF HEARING:	April 12, 2017 (Procedural Conference); and April 21, 2017 (Hearing)
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Scott M. Hesla
APPEARANCES:	Mr. William R. Farr, owner, on behalf of Salome Water Company; and Mr. Robert Geake and Mr. Brian E. Smith, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

* * * * * * * * * *

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

FINDINGS OF FACT

Procedural History

1. On December 8, 2016, the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") filed a request to open this docket to process the forthcoming emergency rate application of William R. Farr d/b/a Salome Water Company ("Salome Water" or "Company").

2. On March 29, 2017, the Company filed its emergency rate application requesting the implementation of an emergency surcharge. The application certifies that notice of this proceeding

was mailed to all customers of record on March 29, 2017.

3. On April 3, 2017, a Procedural Order was issued scheduling a procedural conference to commence on April 12, 2017, for the purpose of discussing the procedural schedule for this matter.

4. On April 11, 2017, one customer filed public comment generally supporting the application.

5. On April 12, 2017, the procedural conference was convened as scheduled, with Staff appearing through counsel, and the Company appearing through its owner, Mr. William Farr. At that time, the parties agreed to schedule a hearing on April 21, 2017.

6. Later, on April 12, 2017, a Procedural Order was issued scheduling a hearing to commence on April 21, 2017, and directing the Company to provide notice of the hearing date to customers.

7. On April 21, 2017, a full public hearing was convened as scheduled, with Staff appearing through counsel, and Salome Water appearing through Mr. Farr. Mr. Farr testified on behalf of the Company, and Mr. Briton Baxter (Public Utilities Analyst) and Mr. Del Smith (Engineer) testified on behalf of Staff. Mr. Farr avowed that public notice of the hearing date had been mailed to customers and posted conspicuously at several locations within the community between April 12 and 13, 2017. At the conclusion of the hearing, the matter was taken under advisement pending submission of a Recommended Opinion and Order for the Commission's final disposition.

Background

8. Salome Water is an Arizona public service corporation providing potable water service to approximately 135 residential and commercial customers in the Town of Salome, located 60 miles west of Wickenburg, in La Paz County, Arizona.

9. The Company's current rates and charges were authorized in Decision No. 54602 (July 19, 1985). Mr. Farr testified that residential customers of Salome Water typically pay approximately $15.00 per month for water service.

10. Mr. Baxter testified that the Commission's Consumer Services database reveals no customer complaints or inquiries filed against the Company.

Water System

11. The Company's water system consists of one well, one pump, one 250,000 gallon storage tank, and a distribution system to serve 135 metered connections.

12. According to an Arizona Department of Environmental Quality ("ADEQ") Compliance Status Report dated April 7, 2017, the Company has no major deficiencies and is currently delivering water that meets the water quality standards required by 40 C.F.R. §§ 141.1, *et seq*. (National Primary Drinking Water Regulations) and A.A.C., Title 18, Chapter 4.

13. Mr. Smith testified that Staff performed a field inspection of the Company's water system on April 13, 2017.[1] During its inspection, Staff discovered that the Company's water system does not have a master meter. As a result, the Company cannot determine non account water and overall water loss on the system. Staff recommends that the Company install a master meter, and that its estimated cost ($4,500) be recovered through the interim emergency surcharge requested in the application.

14. Staff determined during its inspection that the Company's storage tank has reached the end of its useful life and needs to be replaced as soon as possible.[2] Staff recommends that the Company apply to the Water Infrastructure Finance Authority of Arizona ("WIFA") for technical assistance grant money to fund an engineering evaluation of the water system and storage tank replacement. Staff further recommends that the Company file a financing application in connection with its next full permanent rate application to fund the construction costs of replacing the storage tank.

Compliance Issues

15. Mr. Baxter testified that Staff has brought numerous Order to Show Cause ("OSC") proceedings against the Company for failing to file its Annual Reports with the Commission's Utilities Division.[3] According to Mr. Baxter, the OSC proceedings have resulted in nine separate Commission Decisions imposing fines against the Company ranging from $200 to $1,500, for a total of $3,950 in fines.[4] In addition, Mr. Baxter testified that the Company's Certificate of Convenience and Necessity

[1] The field inspection was performed by Staff Engineer, Mr. Andrew Smith.
[2] Mr. Farr testified that ADEQ also recommends that the Company replace the storage tank as soon as possible.
[3] According to Mr. Farr, the expense of hiring an accountant to prepare the Annual Reports was more than the fines imposed by the Commission.
[4] Mr. Farr testified that he has paid some, but not all of the Commission imposed fines.

("CC&N") was revoked by the Commission for failing to file its Annual Reports.

16. Mr. Baxter indicated that Staff is planning to work with the Company to resolve the outstanding Annual Report filings and assist the Company in restoring its CC&N.

17. Mr. Smith testified that the Company is not currently in compliance with the Arizona Department of Water Resources ("ADWR"). Staff therefore recommends that the Company work with ADWR to achieve compliance with departmental requirements governing water providers and/or community water systems.

Emergency Rate Application

18. In its emergency rate application, Salome Water seeks authority to impose an interim emergency surcharge of $19.82 per customer per month, for a period of 12 months, to pay for an estimated $32,103.71 in expenses needed to provide the Company with sufficient income to safely and reliably operate its water distribution system.[5] The Company's estimated expenses include:

- $5,500 in estimated costs to secure the accounting services of the firm Slawson & Associates;
- $8,012.52 in unpaid property taxes owed to La Paz County in 2015 and 2016;
- $2,750 in costs to rewind the backup 3-phase, 75 horsepower ("HP") pump motor;
- $1,010.45 to purchase eight (8) 3/4-inch and three (3) 1-inch replacement meters;
- $12,600 for wages and contingency operating funds.

19. The emergency rate application indicates that the Company has insufficient revenue to continue operating its water system at a compliant level due to outdated rates and rising costs. Salome Water states that "[i]f [it] is not allowed to recover emergency funds to better position the Company financially and operationally, then the Company's ability to continue providing safe and reliable water service to [Salome Water's] customers may be in jeopardy." According to the Company, it does not have adequate repair parts on hand and no means to purchase said supplies should there be a breakdown or failure in the water system. Salome Water states that "[m]any (if not most) of the time these emergencies occur during times when [the Company's] suppliers are not available and [the] closest

[5] Salome derived its requested emergency surcharge rate by dividing the estimated costs, by the number of customers, by twelve (12) months.

supplier is at least a 160-mile roundtrip from the town of Salome."

20. With respect to the requested $12,600 in expenses for wages and contingency operating funds, the Company avows that none of these funds will inure to the personal benefit of Mr. Farr. Rather, the Company states that these funds will be used to compensate the meter reader and other service workers who may be required to perform repairs and maintenance on the water system. The Company estimates payment to the meter reader in the amount of $7,200 ($15.00 per hour for a total of 480 hours), and payment to service workers in the amount of $2,400 ($15.00 per hour for a total of 160 hours). Salome Water states that the remaining $3,000 will be used to manage contingencies and pay down credit card debt that the Company has incurred to keep the water system operational.

21. Mr. Farr testified that the Company owes over $10,000 in credit card debt. Mr. Farr stated that the Company's total credit card debt is divided between the Company's credit card and Mr. Farr's personal credit card.[6] According to Mr. Farr, the Company has been operating at a loss for many years and he has invested thousands of dollars of his own money "just to keep the lights on."

22. Mr. Baxter testified that the current financial condition of the Company constitutes an "emergency" to support the authorization of an interim surcharge. Testifying further, Mr. Baxter indicated that Salome Water is currently operating at a loss and presently lacks the cash flow necessary to adequately maintain the system and provide for contingencies. According to Mr. Baxter, Staff reviewed the estimated costs and determined them to be reasonable and their intended uses to be necessary for the Company to continue providing safe and reliable water service to its customers.

Staff's Recommendations

23. Staff recommends that:

(a) The Commission authorize an interim emergency surcharge of $22.59 per customer per month, for a period of 12 months, to pay for an estimated $36,603.71 in expenses;

(b) The Company install a master meter;

(c) The Company apply to WIFA for technical assistance grant money to fund an

[6] On April 27, 2017, the Company filed comments clarifying that the Company's credit card debt is separate from any credit cards Mr. Farr uses for personal debt.

engineering evaluation of the water system and storage tank replacement;

(d) The Company file a financing application in connection with its next full permanent rate case application to fund the construction costs of replacing the storage tank;

(e) The Company contact the Small Water Ombudsman Group to inquire into available grant money to help fund the hiring of an accountant; and

(f) The Company work with ADWR to achieve compliance with departmental requirements governing water providers and/or community water systems.

24. Mr. Farr testified that the Company has no objection to Staff's recommendations.

Resolution

25. As described in Attorney General ("AG") Opinion No. 71-17 (May 25, 1971), it is appropriate for the Commission to grant interim rates as an emergency measure when (1) sudden change brings hardship to a company, (2) the company is insolvent, (3) the condition of the company is such that its ability to maintain service pending a formal rate determination is in serious doubt, or (4) the Commission will be unable to grant permanent rate relief within a reasonable time. In *Scates v. Arizona Corporation Commission*, the Arizona Court of Appeals recognized this standard and, additionally, that (1) a bond must be posted to protect the company's customers and allow for refund in the event that the interim rates are excessive, and (2) the granting of interim rates must be followed by a full rate case in which just and reasonable rates are established after the fair value of the company's property is determined.[7] The *Scates* test was cited with approval in *Residential Utility Consumer Office v. Arizona Corporation Commission*, 20 P.3d 1169, 1173 (Ariz. App. 2001) ("*Rio Verde*").

26. We find that the Company's current financial condition and inability to maintain and repair its water system constitutes an "emergency" within the definition set forth in AG Opinion No. 71-17, as discussed and approved in the *Scates* and *Rio Verde* cases cited herein, and that the implementation of interim rates is necessary to enable the Company to provide safe and reliable service to its customers.

[7] 578 P.2d 612, 616 (Ariz. App. 1978).

27. We find that it is in the public interest to allow the Company to recover the expenses requested in its application through the implementation of an interim emergency surcharge. The expenses identified in the application, as well as the cost of installing a master meter, are reasonable and will enable Salome Water to continue providing safe and reliable service to its customers.

28. Consistent with the foregoing, we find that it is just and reasonable, and in the public interest, to authorize Salome Water to implement an interim emergency surcharge of $23.10 per month per customer, of which $14.83 will be collected for a period of twelve (12) months and be used to pay off the existing credit card debt and to make the Company current on all property taxes, and $8.27 for a period of eighteen (18) months or until permanent rates are established in a full rate case proceeding, whichever occurs first.

29. We will require the Company to file a full permanent rate case no later than June 1, 2018, with a test year ending December 31, 2017. We will also require the Company to file a financing application to fund the replacement of the storage tank no later than June 1, 2018.

30. We further require the Company to file with the Commission, on a monthly basis, an accounting of interim emergency surcharge monies collected and disbursed, including the reason(s) for the disbursement, for the prior month.

31. We are concerned with Mr. Farr's testimony at the hearing that he is using his personal credit card to pay for some Company expenses. Since comingling Company funds with personal funds is fraught with legal and logistical complications, we direct Mr. Farr to immediately cease this practice, and order that all Company funds be held separate from personal funds on a going forward basis.

CONCLUSIONS OF LAW

1. William R. Farr d/b/a Salome Water Company is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. Title 40, Chapter 2.

2. The Commission has jurisdiction over William R. Farr d/b/a Salome Water Company and the subject matter of the emergency rate application.

3. Notice of the emergency rate application was provided in accordance with the law.

4. William R. Farr d/b/a Salome Water Company is facing an "emergency" within the definition set forth in AG Opinion No. 71-17, as discussed and approved in the *Scates* and *Rio Verde*

cases cited herein.

5. It is just and reasonable and in the public interest to approve the emergency rate application of William R. Farr d/b/a Salome Water Company, as discussed herein.

6. Approval of William R. Farr d/b/a Salome Water Company's application for emergency interim rate relief, as described herein, is consistent with the Commission's authority under the Arizona Constitution, applicable statutes, and applicable case law.

7. The interim rates approved herein are reasonable and in the public interest, subject to the requirements and conditions discussed herein.

ORDER

IT IS THEREFORE ORDERED that William R. Farr d/b/a Salome Water Company is authorized to assess, as a separate line item on each customer's monthly bill, an interim emergency surcharge of $23.10 per month per customer, of which $14.83 will be collected for a period of twelve (12) months and be used to pay off the existing credit card debt and to make the Company current on all property taxes, and $8.27 for a period of eighteen (18) months or until permanent rates are established in a full rate case proceeding whichever comes first, for the reasons described herein.

IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall, before implementing the interim emergency surcharge approved herein, provide to the Commission's Business Office the original of a cashier's check made out to the Arizona Corporation Commission in the amount of $10.00.

IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall file with Docket Control, as a compliance item in this docket, on the same date the original cashier's check is provided to the Commission's Business Office, an original and 1 copy of a notice stating that the cashier's check has been provided to the Commission's Business Office.

IT IS FURTHER ORDERED that the interim emergency surcharge shall become effective on June 1, 2017, or on the first day of the month following William R. Farr d/b/a Salome Water Company's compliance with the requirements to provide the cashier's check to the Commission's Business Office and to file notice thereof, whichever is later.

IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall, within

thirty (30) days after the effective date of this Decision, mail or deliver notice of the approved interim emergency surcharge to its customers, in a form and manner acceptable to the Commission's Utilities Division, by means of an insert in the Company's next scheduled billing.

IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall file with Docket Control, as a compliance item in this docket, a revised tariff reflecting the approved interim emergency surcharge within thirty (30) days of the effective date of this Decision.

IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall open a separate bank account to retain all interim emergency surcharge revenues authorized herein.

IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall file with Docket Control, as a compliance item in this docket, starting with July 2, 2017, and continuing on a monthly basis, an accounting of all interim emergency surcharge monies received and disbursed, including the reason(s) for disbursement, for the prior month. Further the Company shall provide for Staff's review, monthly credit cards statements for all credit cards used to pay Company expenses.

IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall file with Docket Control, in a new docket, no later than June 1, 2018, a full permanent rate case application prepared using a test year ending December 31, 2017.

IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall file with Docket Control, in a new docket, no later than June 1, 2018, a financing application to fund the construction costs of replacing the storage tank.

IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall file with Docket Control, as a compliance item in this docket, on the same date that it files a full permanent rate case application in a new docket, notice that the full permanent rate case application has been filed.

IT IS FURTHER ORDERED that the interim emergency surcharge approved herein shall be interim and that funds collected through the interim emergency surcharge rate are subject to true-up and refund if surcharge revenues at the end of twelve (12) or eighteen (18) months are not disbursed for the reasons discussed herein.

IT IS FURTHER ORDERED that all funds of William R. Farr d/b/a Salome Water Company shall remain separate and distinct from the personal funds of its owner and any employee(s) on a going

forward basis.

IT IS FURTHER ORDERED that any funds of William R. Farr d/b/a Salome Water Company currently commingled with the personal funds of its owner and any employee(s) must be segregated by the time the Company files its full permanent rate case.

IT IS FURTHER ORDERED that Staff from the Small Water Ombudsman Group will assist the Company with all Commission reporting requirements, and ensuring that the Company's accounting records are in compliance with Commission requirements prior to the Company filing a full permanent rate case application.

IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall apply to the Water Infrastructure Finance Authority of Arizona for technical assistance grant money to fund an engineering evaluation of the water system and storage tank replacement within sixty (60) days of the date of this Decision.

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IT IS FURTHER ORDERED that William R. Farr d/b/a Salome Water Company shall work with Staff from the Small Water Ombudsman Group and the Arizona Department of Water Resources to achieve compliance with departmental requirements governing water providers and/or community water systems no later than June 1, 2018.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN FORESE COMMISSIONER DUNN

COMMISSIONER TOBIN COMMISSIONER LITTLE COMMISSIONER BURNS

IN WITNESS WHEREOF, I, TED VOGT, Executive Director 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 22nd day of May 2017.

TED VOGT
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
SMH/rt

SERVICE LIST FOR: WILLIAM R. FARR D/B/A SALOME WATER COMPANY

DOCKET NO.: W-01084A-16-0454

William R. Farr
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