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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
CHAIRMAN

WILLIAM A. MUNDELL
COMMISSIONER

JEFF HATCH-MILLER
COMMISSIONER

MIKE GLEASON
COMMISSIONER

KRISTIN K. MAYES
COMMISSIONER

Arizona Corporation Commission

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In the Matter of the Application of Tierra
Linda Homeowners Association, Inc. for a
Certificate of Convenience and Necessity

Docket No. W-04236A-04-0075

**Applicant's Objections to Staff
Report**

On April 9, 2004, the staff report was docketed in connection with the application of the Tierra Linda Homeowners Association for a Certificate of Convenience and Necessity for certain lands in Pima County, Arizona.

While the staff recommended the approval of the application, it proposed some conditions with which the Applicant takes issue.

A. Filing of Franchise Agreements. Item No. 8 of the Executive Summary of the staff report directed Applicant to file its franchise agreements with the Commission within one year following a Commission decision granting Applicant a Certificate of Convenience and Necessity. Applicant wishes to point out that its

1 Franchise, awarded to Applicant by the Pima County Board of Supervisors on March 15,
2 1994, was included with its Application, and is already of record in this case.

3 B. Hook-up Fees. Staff has taken a position in opposition to Applicant's
4 proposal to assess hook-up fees to pay for the water production system, based upon the
5 Commission's "customary practice." Applicant notes that the water system will be owned
6 by the homeowners, and that it is entirely appropriate for the homeowners to contribute to
7 the capital outlay required to build the water production system to serve them.

8 Specifically, Applicant makes the following observations.

9 1. Near the bottom of page 2 of the Staff Report, Staff says that the
10 Applicant "... has proposed a hook-up fee as a general revenue fee." This implies
11 the Company is seeking to treat the hook-up fee as revenue. Applicant, instead, has
12 proposed that the hook-up fee be treated as contributions in aid of construction
13 ("CIAC").

14 2. On the other hand, Staff's schedule ENZ-1 (Rate Base & Rate of
15 Return) includes hook-up fees as CIAC. If it is Staff's intention to disallow hook-
16 up fees, it would be inconsistent to account for those fees in the rate base. The
17 Staff seems to have adopted Applicant's income statement in its calculations, as
18 schedule ENZ-1 includes Applicant's revenue estimates rather than revenues
19 reflecting Staff's rate design. If, however, the Staff's recommendation to disallow
20 the hook-up fees is upheld, the rate design will need to change as well. ENZ-1
21 appears to be incorrect for these reasons. ENZ-1 reflects the proposed hook-up fees
22 but does not show Staff's revenues using Staff's rate design. If hook-up fees are
23 disallowed, the Company must reconsider whether the rates provide sufficient
24 revenues and an adequate rate of return. Hook-up fees were a critical component in
25 the Applicant's analysis and determination of appropriate rates.

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COPY of the foregoing hand-delivered
this 26th day of April, 2004,
to:

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