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BEFORE THE ARIZONA CORPORATION COMMISSION  
DOCKETED

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1  
2 WILLIAM A. MUNDELL  
3 COMMISSIONER  
4 JIM IRVIN  
5 COMMISSIONER  
6 MARC SPITZER  
7 COMMISSIONER

DOCKETED BY *sd*

8 IN THE MATTER OF THE APPLICATION OF  
9 RIO VERDE UTILITIES, INC. FOR AN  
10 INCREASE IN ITS WATER AND WASTEWATER  
11 RATES FOR CUSTOMERS WITHIN MARICOPA  
12 COUNTY, ARIZONA.

DOCKET NO. WS-02156A-00-0321

13 IN THE MATTER OF THE APPLICATION OF  
14 RIO VERDE UTILITIES, INC. FOR AUTHORITY  
15 TO ISSUE PROMISSORY NOTE(S) AND OTHER  
16 EVIDENCES OF INDEBTEDNESS PAYABLE AT  
17 PERIODS OF MORE THAN TWELVE MONTHS  
18 AFTER THE DATE OF ISSUANCE.

DOCKET NO. WS-02156A-00-0323

DECISION NO. 63585

**OPINION AND ORDER**

12 DATE OF HEARING:

February 13, 2001 (public comment)  
February 21, 2001 (hearing)

13 PLACE OF HEARING:

Phoenix, Arizona

14 PRESIDING JUDGE:

Stephen Gibelli

15 APPEARANCES:

Richard L. Sallquist, SALLQUIST &  
DRUMMOND, P.C., on behalf of Rio Verde  
Utilities, Inc.;

Thomas L. Mumaw, SNELL & WILMER,  
L.L.P., on behalf of the Rio Verde Community  
Association and the Rio Verde Country Club;

Daniel W. Pozefsky, Staff Attorney, on behalf of  
the Residential Utility Consumer Office;

Teena Wolfe, Staff Attorney, Legal Division on  
behalf of the Utilities Division

23 **BY THE COMMISSION:**

24 On May 11, 2000, Rio Verde Utilities, Inc. ("Rio Verde" or "Company") filed with the  
25 Arizona Corporation Commission ("Commission") a rate application and financing application.

26 On June 9, 2000, the Commission's Utilities Division Staff ("Staff") filed a Motion to  
27 Consolidate.

28 On June 9, 2000, Staff filed a letter notifying the Company that its application met the

1 sufficiency requirements outlined in A.A.C. R14-2-103 and classifying the Company as a Class B  
2 utility.

3 On July 7, 2000, a Procedural Order was issued consolidating the matter and setting the  
4 hearing for February 13, 2001.

5 On July 14, 2000, the Residential Utility Consumer Office ("RUCO") filed an Application to  
6 Intervene.

7 On July 25, 2000, the Rio Verde Community Association ("Association") and the Rio Verde  
8 Country Club ("Country Club") (collectively "RVCA") filed a Motion to Intervene. All residents of  
9 Rio Verde are members of the Association and most, but not all, of the Association's members are  
10 members of the Country Club.

11 On July 27, 2000, by Procedural Order, RUCO was granted intervention.

12 On August 14, 2000, by Procedural Order, RVCA was granted intervention.

13 On September 1, 2000, a Procedural Order was issued continuing the matter until February  
14 21, 2001.

15 On February 13, 2001, public comment was taken.

16 On February 21, 2001, a hearing on the consolidated matter was held in Phoenix, Arizona  
17 after public comment was taken.

18 \* \* \* \* \*

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

21 **FINDINGS OF FACT**

22 1. Rio Verde is an Arizona Corporation that was granted Certificates of Convenience and  
23 Necessity in Decision No: 43509, (July 27, 1973) and Decision No. 54080 (June 20, 1984), to  
24 provide water and wastewater service in Maricopa County, Arizona.

25 2. Rio Verde provided water and wastewater service to approximately 1,200 customers  
26 in Maricopa County, Arizona as of the end of the test year, December 31, 1999.

27 3. On May 11, 2000, Rio Verde filed with the Commission an application for a rate  
28

1 increase and an application for financing approval.

2 4. The Company's current rates and charges were authorized in Decision No. 58525  
3 (February 2, 1994), based on a test year ending December 31, 1992.

4 5. On June 9, 2000, the Commission's Utilities Division Staff filed a letter notifying the  
5 Company that its application met the sufficiency requirements outlined in A.A.C. R14-2-103 and  
6 classifying the Company as a Class B utility.

7 6. On July 7, 2000, the matters were consolidated by Procedural Order.

8 7. On July 27, 2000, RUCO was granted intervention.

9 8. On August 14, 2000, RVCA was granted intervention.

10 9. On June 8, 2000, the Company filed an Affidavit of Mailing indicating that it mailed  
11 notice of its financing application to its customers on May 30, 2000.

12 10. As part of its application, Rio Verde requested financing in the amount of \$2,469,787  
13 to pay its parent company \$2,198,110 for recently installed water and sewer plant. In its application,  
14 Rio Verde's proposed lender is CoBank, and the terms of the loan include repayment in twenty years  
15 at an interest rate of 9.75%, with a 1.00% origination fee.

16 11. In the application for its water division, Rio Verde proposed an original cost rate base  
17 of \$4,248,575 with an 11.45 percent rate of return yielding an operating income of \$486,388.

18 12. Prior to the hearing, the proposed monthly minimum water rates of each of the parties  
19 were as follows:

<u>Meter Size</u>	<u>Present rates</u>	<u>Company proposed</u>	<u>Staff proposed</u>	<u>RUCO proposed</u>	<u>RVCA proposed</u>
5/8x 3/4" Meter	\$7.00	\$10.00	\$10.00	\$7.60	\$9.00
3/4 " Meter	7.00	10.00	10.00	7.60	9.00
1" Meter	7.00	10.00	10.00	7.60	9.00
1 1/2" Meter	N/A	-	31.67	-	-
2" Meter	40.00	53.33	53.33	39.00	80.00
3" Meter	N/A	-	109.67	-	-
4" Meter	50.00	166.67	166.00	126.00	100.00
6" Meter	100.00	333.33	333.00	258.00	200.00

Commodity rate	\$1.28	\$1.69	\$1.69	\$1.56	\$1.51
Hook-up fees	\$500	\$1,000	\$1,000	\$1,500	\$2,000

13. In the application for its wastewater division, Rio Verde proposed an original cost rate base of \$2,967,530 with a 10.56 percent rate of return yielding a required operating income of \$313,341.

14. Prior to the hearing, the proposed wastewater rates of each of the parties were as follows:

<u>Customer Class</u>	<u>Present rates</u>	<u>Company proposed</u>	<u>Staff proposed</u>	<u>RUCO proposed</u>	<u>RVCA proposed</u>
Residential	\$34.00	\$47.10	\$46.63	\$43.00	\$40.98
Commercial	75.00	150.00	150.00	140.00	100.00
Commercial – Restaurant	75.00	200.00	200.00	187.00	150.00
Effluent Sales (per 1,000 gallons)	0.80	1.15	1.15	1.02	0.94

15. At the hearing, the Company, RUCO, the Association, the Country Club, and Staff (collectively “the parties”) announced that they had reached a settlement agreement. The parties agreed to the following terms:

	<u>Water</u>	<u>Sewer</u>
Fair Value Rate Base	\$3,837,811	\$2,548,714
Adjusted Test Year Operating Income	\$228,437	\$140,775
Current Rate of Return	5.95%	5.52%
Required Operating Income	\$398,398	\$252,698
Required Rate of Return	10.38%	9.91%
Operating Income Deficiency	\$169,961	\$111,923
Gross Revenue Conversion Factor	1.6286	1.6286
Increase in Gross Revenue Required	\$276,801	\$182,279

16. The parties also agreed to the following terms:

- a. Rio Verde will consider requesting “tiered” rates in its next rate application.
- b. Rio Verde will withdraw its request for the Commission to institute a Central Arizona Project water adjustment clause. The surcharge presently in effect would be suspended as of the effective date of the rates proposed by this agreement. If the Court of Appeals remands the matter to the Commission for further proceedings, a surcharge may be reinstated in accordance with a

subsequent order of the Commission.

- c. The hook-up fees are to be increased in this case from \$500 to \$1,000 for the water system and from \$1,000 to \$1,500 for the sewer system. Hook-up fees included in revenues are to be \$35,000 for water revenue and \$52,500 for sewer revenue. Any money collected above these figures will be considered contributions in aid of construction ("CIAC"). It is understood that the remaining hook-up fees still included in revenue are to be removed from revenue at the next rate case and treated as CIAC.
- d. Rio Verde is authorized to issue promissory notes and other evidence of indebtedness to CoBank or any other established lending institution under terms and conditions no less favorable to Rio Verde, in the total amount of \$2,469,787, for the purposes set forth in the Application. Of the \$2,469,787, \$1,290,389 shall be for water facilities and \$1,179,398 shall be for wastewater facilities. The promissory notes shall be at an interest rate not to exceed 9.75%, with no less than a twenty-year amortization. All final documentation will be filed with the Commission within thirty days following the closing of the subject loans.
- e. Rio Verde agrees to a three-year moratorium from the effective date of the subject rates before putting any subsequent plenary rate case increase into effect.

17. Staff acknowledged on the record that the Commission may make modifications to the proposed settlement. Staff recognized that if the parties have any objections to any potential modifications that the Commission may make, the parties should timely file an application for rehearing under A.R.S. §40-253. Staff believes that if the parties do not file such an application, that the parties should be deemed to have accepted any modification made by the Commission and to have accepted that such modification to the terms of the proposal are not substantial and that therefore, the Commission's order does adopt substantially all of the terms of the proposed settlement.

18. Rio Verde's present water rates and charges as well as the settlement's proposed rates and charges are as follows:

	<u>Present Rates</u>	<u>Settlement Rates</u>
<b><u>Monthly Usage Charges</u></b>		
<b><u>Residential and Commercial</u></b>		
5/8" x 3/4" Meter	\$7.00	\$9.00
3/4" Meter	7.00	9.00
1" Meter	7.00	9.00
1 1/2" Meter	N/A	32.00
2" Meter	40.00	70.00
3" Meter	N/A	110.00
4" Meter	50.00	175.00
6" Meter	100.00	300.00

1	<u>Irrigation</u>		
	5/8" x 3/4" Meter	N/A	9.00
2	3/4" Meter	N/A	9.00
	1" Meter	N/A	9.00
3	1 1/2" Meter	N/A	32.00
	2" Meter	N/A	70.00
4	3" Meter	N/A	110.00
	4" Meter	50.00	175.00
5	6" Meter	100.00	300.00
	6" Meter – Potable	100.00	300.00
6	8" Meter	200.00	600.00
	12" Meter	400.00	1,050.00
7			
	<u>Standpipe and Construction</u>		
8	5/8" x 3/4" Meter	7.00	0
	3/4" Meter	7.00	0
9	1" Meter	7.00	0
	1 1/2" Meter	N/A	0
10	2" Meter	40.00	0
	3" Meter	N/A	0
11	4" Meter	50.00	0
	6" Meter	100.00	0
12			
	Gallons in Minimum	1,000	0
13			
	<u>Commodity Charge (per 1,000 gallons over</u>		
14	<u>minimum</u>		
	Residential and Commercial Customers	\$1.28	\$1.59
15	Irrigation, all except potable	0.88	1.08
	Irrigation – potable	1.28	1.59
16	Standpipe and Construction	1.28	2.39
	Irrigation Surcharge when potable water is	0.40	0.51
17	used (per 1,000 gallons)		
18	Interior Sprinkler Rate (when separate line	-	(a) \$5.00
	services sprinkler system)		
19			
	<u>Service Line and</u>		
20	<u>Meter Installation Charges</u>		
	5/8" x 3/4" Meter	\$275.00	\$410.00
21	3/4" Meter	300.00	455.00
	1" Meter	325.00	520.00
22	1 1/2" Meter	475.00	740.00
	2" Meter	650.00	1,800.00
23	2" Meter Turbo	-	1,235.00
	3" Meter	1,475.00	2,340.00
24	3" Meter Turbo	-	1,705.00
	4" Meter	2,450.00	3,405.00
25	4" Meter Turbo	-	2,700.00
	6" Meter	4,350.00	6,510.00
26	6" Meter Turbo	-	5,035.00
	Meters larger than 6"	-	Cost
27			
	Main extension tariff (Rule R14-2-406B)	Cost	Cost
28			

1	Hook-Up Fees for New Service	\$500.00	(b) \$1,000.00
2	<u>Other Service Charges</u>		
	Establishment	\$25.00	\$25.00
3	Establishment (after hours)	50.00	50.00
	Re-Establishment (within 12 months)	(c)	(c)
4	Re-Establishment (after hours)	40.00	40.00
	Reconnection (delinquent)	(d)	(d)
5	Reconnection (delinquent and after hours)	30.00	30.00
	Meter Test (If Correct)	25.00	45.00
6	Meter Re-Read	5.00	5.00
	Minimum Deposit Requirement (residential)	(e)	(e)
7	Minimum Deposit Requirement (non-residential)	(e)	(e)
8	Deposit Interest (annual)	6.00%	6.00%
	NSF Check (f)	10.00	25.00
9	Deferred Payment Finance Charge, per month	1.50%	1.50%
	Charge of Moving Customer Meter, per customer request	Cost	Cost
10	Late Payment Charge	1.50%	1.50%

11

- 12 (a) or 1.00% of monthly minimum charge whichever is greater.  
 13 (b) all Hook-Up Fees in excess of 35 per year are to be treated as contributions.  
 14 (c) minimum charge times the number of full months disconnected.  
 15 (d) actual cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.  
 16 (e) for residential customers – two times the average bill; for non-residential customers – two and one-half times the average bill.  
 17 (f) this charge does not apply if water service is paid with the same NSF check used to pay for wastewater service for which a NSF fee is charged. Only one NSF charge per check shall apply.

17

18 19. The water rates proposed by the parties would increase the median 5/8" x 3/4" meter  
 19 bill by 34.45 percent from \$18.52 to \$24.90 and the average 5/8" x 3/4" meter bill by 34.02 percent  
 20 from \$19.33 to \$25.91.

20

21 20. Rio Verde's present sewer rates and charges as well as the settlement's proposed rates  
 22 and charges are as follows:

22

23	<u>Customer Classification</u>	<u>Present Rates</u>	<u>Settlement Rates</u>
	Residential	\$34.00	\$44.00
24	Commercial	75.00	200.00
	Commercial – Restaurant	75.00	300.00
25	Effluent Sales (per 1,000 gallons)	0.80	0.97
26	<u>Other Service Charges</u>		
	Establishment	\$25.00	25.00
27	Establishment (After Hours)	50.00	50.00
	Re-Establishment (Within 12 months)	(a)	(a)
28			

1	Re-Establishment (After Hours)	40.00	40.00
	Reconnection (Delinquent)	(b)	(b)
2	Reconnection (Delinquent and After Hours)	30.00	30.00
3	Minimum Deposit Requirement	(c)	(c)
	Deposit Interest (annual)	6.00%	6.00%
4	NSF Check	10.00	25.00
	Deferred Payment finance charge (per month)	1.50%	1.50%
5	Late Payment Charge (per month)	1.50%	1.50%
6	Main Extension Tariff (per Rule R14-2-406B)	Cost	Cost
7	Hook-Up Fee for New Service	1,000.00	(d) \$1,500.00

- 8 (a) Minimum charge times the number of full months disconnected.  
9 (b) Actual cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.  
10 (c) Residential customers – two times the average bill. Non-residential customers – two and one-half times the average bill. The Company does not normally require a deposit prior to the provision of service. However, in the event a customer is disconnected for non-payment, this deposit is required.  
11 (d) All Hook-Up Fees in excess of 35 per year are to be treated as contributions.  
12

13 21. The wastewater rates proposed by the parties would increase residential bills from  
14 \$34.00 to \$44.00 for an increase of 29.4 percent. The proposed rates would increase commercial  
15 sewer rates from \$75.00 to \$200.00 for an increase of 166.67 percent.

16 22. Rio Verde has indicated that it is current on all of its property and sales taxes.

17 23. Rio Verde is in compliance with the Arizona Department of Environmental Quality  
18 (“ADEQ”) and Maricopa County regulations. Maricopa County has determined that this system is  
19 currently delivering water that does not exceed any MCL (maximum contaminant level) and meets  
20 the quality standards of the Safe Drinking Water Act.

21 24. Rio Verde is in good standing with the Arizona Department of Water Resources  
22 (“ADWR”) and has met all of their requirements.

23 25. Rio Verde is in compliance with all of its monitoring and reporting requirements.  
24

### CONCLUSIONS OF LAW

25 1. Rio Verde is a public service corporation within the meaning of Article XV of the  
26 Arizona Corporation Commission and A.R.S. Sections 40-250, 40-251, 40-301, 40-302 and 40-303.

27 2. The Commission has jurisdiction over Rio Verde and of the subject matter of the  
28

1 applications.

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

3 4. The settlement terms, as well as the rates and charges authorized hereafter are just and  
4 reasonable and should be adopted.

5 5. The financing approved herein is for lawful purposes, within Rio Verde's corporate  
6 powers, is compatible with the public interest, with sound financial practices, with proper  
7 performance by Rio Verde of service as a public service corporation, and will not impair Rio Verde's  
8 ability to perform that service.

9 6. The financing approved herein is for the purposes stated in the application and is  
10 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably  
11 chargeable to operating expenses or to income.

12 **ORDER**

13 IT IS THEREFORE ORDERED that the settlement terms as stated in Findings of Fact Nos.  
14 14, 15, 16, 17, and 19 are reasonable and shall be adopted.

15 IT IS FURTHER ORDERED that Rio Verde Utilities, Inc. shall file on or before May 1,  
16 2001, a schedule of rates and charges consistent with the settlement rates listed in Findings of Fact  
17 Nos. 17 and 19.

18 IT IS FURTHER ORDERED the aforementioned rates shall become effective as of May 1,  
19 2001.

20 IT IS FURTHER ORDERED that Rio Verde Utilities, Inc. shall notify its customers of the  
21 rates and charges authorized herein and the effective date of same by means of an insert in its next  
22 regular monthly billing.

23 IT IS FURTHER ORDERED that Rio Verde Utilities, Inc. shall file with the Commission  
24 within 60 days from the effective date of this Decision a copy of the notice it sends to its customers  
25 of the new rates and charges.

26 IT IS FURTHER ORDERED that Rio Verde Utilities, Inc. shall collect from its customers  
27 their proportionate share of any Privilege, Sales, or Use Tax where appropriate, as provided for in  
28

1 A.A.C. R14-2-608.D.3.

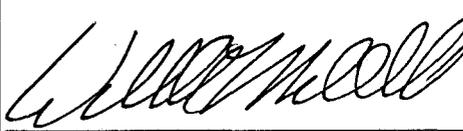
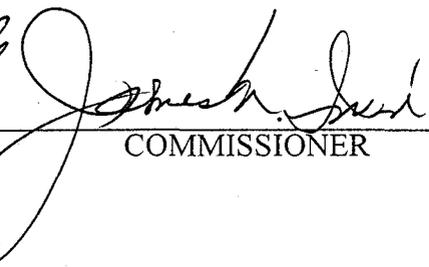
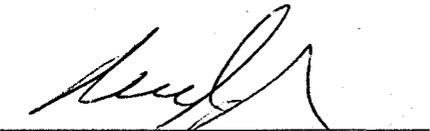
2 IT IS FURTHER ORDERED that Rio Verde is authorized to issue promissory notes and  
3 other evidence of indebtedness to CoBank or any other established lending institution under terms  
4 and conditions no less favorable to Rio Verde, in the total amount of \$2,469,787, for the purposes set  
5 forth in the Application. Of the \$2,469,787, \$1,290,389 shall be for water facilities and \$1,179,398  
6 shall be for wastewater facilities. The promissory notes shall be at an interest rate not to exceed  
7 9.75%, with no less than a twenty-year amortization. All final documentation will be filed with the  
8 Commission within thirty days following the closing of the subject loans.

9 IT IS FURTHER ORDERED that Rio Verde Utilities, Inc. is hereby authorized to engage in  
10 any transactions and to execute any documents necessary to effectuate the authorization of its  
11 financing as set forth in Findings of Fact 16(d).

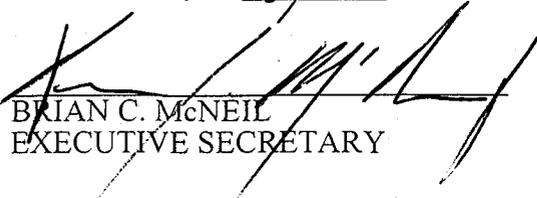
12 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not  
13 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
14 proceeds derived thereby for purposes of establishing just and reasonable rates.

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

16 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

17   
18   
19   
CHAIRMAN COMMISSIONER COMMISSIONER

21 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
22 Secretary of the Arizona Corporation Commission, have  
23 hereunto set my hand and caused the official seal of the  
24 Commission to be affixed at the Capitol, in the City of Phoenix,  
25 this 24<sup>th</sup> day of April, 2001.

26   
BRIAN C. McNEIL  
EXECUTIVE SECRETARY

27 DISSENT \_\_\_\_\_  
28 SG:dap

1 SERVICE LIST FOR: RIO VERDE UTILITIES, INC.

2 DOCKET NO. W-02156A-00-0321, ET AL

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