

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

ORIGINAL OPEN MEETING ITEM



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EXECUTIVE SECRETARY

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ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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APR 03 2001

DATE: April 3, 2001

DOCKET NO: WS-02156A-00-0321

TO ALL PARTIES: WS-02156A-00-0323

DOCKETED BY	
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Enclosed please find the recommendation of Administrative Law Judge Stephen Gibelli. The recommendation has been filed in the form of an Opinion and Order on:

RIO VERDE UTILITIES, INC.
(RATES/FINANCING)

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 ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

APRIL 12, 2001

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 Working Session and Open Meeting to be held on:

APRIL 17, 2001 AND APRIL 18, 2001

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL
3 COMMISSIONER

4 JIM IRVIN
5 COMMISSIONER

6 MARC SPITZER
7 COMMISSIONER

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. _____

OPINION AND ORDER

19 DATE OF HEARING:

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

20 PLACE OF HEARING:

Phoenix, Arizona

21 PRESIDING JUDGE:

Stephen Gibelli

22 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 a 11.45 percent rate of return yielding an operating income of \$486,461.

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

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

4 13. In the application for its wastewater division, Rio Verde proposed an original cost rate
5 base of \$2,967,530 with a 10.56 percent rate of return yielding a required operating income of
6 \$313,371.

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

9	<u>Customer</u>	<u>Present</u>	<u>Company</u>	<u>Staff</u>	<u>RUCO</u>	<u>RVCA</u>
10	<u>Class</u>	<u>rates</u>	<u>proposed</u>	<u>proposed</u>	<u>proposed</u>	<u>proposed</u>
11	Residential	\$34.00	\$46.42	\$50.30	\$43.15	\$40.90
12	Commercial	75.00	150.00	150.00	143.00	100.00
13	Commercial – Restaurant	75.00	200.00	200.00	190.00	150.00
14	Effluent Sales (per 1,000 gallons)	0.80	1.17	1.17	1.12	0.94

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

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

28 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>
<u>Monthly Usage Charges</u>		
<u>Residential and Commercial</u>		
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	-	1,750.00
	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	Cost	Cost
10	customer request		
	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
 16 shall be no charge if there is no physical work performed.
 17 (e) for residential customers – two times the average bill; for non-residential customers –
 18 two and one-half times the average bill.
 19 (f) this charge does not apply if water service is paid with the same NSF check used to pay
 20 for wastewater service for which a NSF fee is charged. Only one NSF charge per check
 21 shall apply.

19. The water rates proposed by the parties would increase the median 5/8" x 3/4" meter
 18 bill by 41.6 percent from \$16.70 to \$23.64, and the average 5/8" x 3/4" meter bill by 39.0 percent
 19 from \$19.40 to \$26.98.

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

23	<u>Customer Classification</u>	<u>Present Rates</u>	<u>Settlement Rates</u>
24	Residential	\$34.00	\$44.00
25	Commercial	75.00	200.00
	Commercial – Restaurant	75.00	300.00
	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
28	Re-Establishment (Within 12 months)	(a)	(a)

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
5	Deferred Payment finance charge (per month)	1.50%	1.50%
	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	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.

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

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

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

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

22 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 applications.

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

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

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

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

15 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

16
17
18 CHAIRMAN

COMMISSIONER

COMMISSIONER

19
20 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
21 Secretary of the Arizona Corporation Commission, have
22 hereunto set my hand and caused the official seal of the
23 Commission to be affixed at the Capitol, in the City of Phoenix,
24 this ____ day of _____, 2001.

25 _____
BRIAN C. McNEIL
EXECUTIVE SECRETARY

26 DISSENT _____
27
28

1 SERVICE LIST FOR: RIO VERDE UTILITIES, INC.

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

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28

SUMMARY OF FILING

	Present Rates		Proposed Rates	
	Company As Filed	Staff As Adjusted	Company As Filed	Staff As Adjusted
Revenues				
Sewer Revenues	\$ 538,937	\$ 538,937	\$ 752,894	\$ 807,125
Hook-Up Fees	70,000	70,000	70,000	-
Miscellaneous Service Revenue	2,341	2,341	2,341	2,341
TOTAL OPERATING REVENUE	\$ 611,278	\$ 611,278	\$ 825,235	\$ 809,466
Operating Expenses				
Operation And Maintenance	\$ 395,226	\$ 347,667	\$ 395,226	\$ 347,668
Depreciation	91,101	76,889	91,101	76,889
Taxes Other Than Income		35,821		35,821
Income Tax	(58,474)	4,298	25,568	82,146
TOTAL OPERATING EXPENSES	\$ 427,853	\$ 464,675	\$ 511,895	\$ 542,524
Operating Income/(Loss)	\$ 183,425	\$ 146,603	\$ 313,340	\$ 266,942
Rate Base - O.C.R.B.	\$ 2,967,530	\$ 2,760,524	\$ 2,967,530	\$ 2,760,524
Rate Of Return - O.C.R.B.	6.18%	5.31%	10.56%	9.67%
REQUIRED OPERATING INCOME	N/A	N/A	\$ 313,340	\$ 266,942