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BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

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WILLIAM A. MUNDELL  
CHAIRMAN  
JIM IRVIN  
COMMISSIONER  
MARC SPITZER  
COMMISSIONER

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IN THE MATTER OF THE APPLICATION OF  
LITCHFIELD PARK SERVICE COMPANY FOR  
AN INCREASE IN ITS WATER AND  
WASTEWATER RATES FOR CUSTOMERS  
WITHIN MARICOPA COUNTY, ARIZONA.

DOCKET NO. W-01427A-01-0487  
DOCKET NO. WS-01428A-01-0487

DECISION NO. 65436

OPINION AND ORDER

10 DATE OF HEARINGS: April 3, 2002; September 4, and September 5, 2002  
11 PLACE OF HEARINGS: Phoenix, Arizona  
12 ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes  
13 APPEARANCES: Mr. Richard L. Sallquist, SALLQUIST &  
14 DRUMMOND, P.C., on behalf of Litchfield Park  
15 Service Company;  
16 Mr. William P. Sullivan and Mr. Paul R. Michaud,  
17 MARTINEZ & CURTIS, P.C., on behalf of the City of  
18 Litchfield Park;  
19 Mr. Scott Wakefield, on behalf of the Residential Utility  
20 Consumer Office; and  
21 Mr. Jason Gellman, Staff Attorney, Legal Division, on  
22 behalf of the Utilities Division of the Arizona  
23 Corporation Commission.

**BY THE COMMISSION:**

**I. Introduction**

On June 15, 2001, Litchfield Park Service Company ("LPSCO" or "Company") filed an application for a rate increase for water and wastewater services. LPSCO operates water and wastewater systems with approximately 5,541 and 5,012 test year customers, respectively, in and around the City of Litchfield Park, and including parts of Goodyear, Avondale, and some unincorporated areas of Maricopa County. LPSCO's service territory is in a rapidly expanding area as evidenced by the approximately 66 percent increase in customers since the Company's last rate

1 case test year (1996). LPSCO is a wholly owned subsidiary of SunCor Development Company  
 2 (“SunCor”) which operates as a real estate developer within the LPSCO service territory and in other  
 3 areas. SunCor is a subsidiary of Pinnacle West Capital Corporation.

4 By its application, LPSCO proposed a year 2000 test year with a revenue increase of  
 5 \$875,837, or approximately 52 percent, for water service over test year revenues. For wastewater  
 6 service, the Company proposed an increase in revenues of \$721,214, an increase of approximately  
 7 39.2 percent.

8 Staff filed a letter on July 14, 2001 acknowledging that the Company’s rate filing was  
 9 sufficient. By Procedural Order issued July 27, 2001, the hearing in this matter was scheduled for  
 10 April 3, 2002.

11 The Residential Utility Consumer Office (“RUCO”) was granted intervention by Procedural  
 12 Order issued August 27, 2001. The City of Litchfield Park (“City”) and PebbleCreek Properties  
 13 Limited Partnership (“PebbleCreek”) were granted intervention on December 12, 2001.

14 On April 1, 2002, a Settlement Agreement (“Settlement” or “Stipulation”) was submitted by  
 15 LPSCO, Staff, RUCO, and PebbleCreek<sup>1</sup>. The City did not sign the Stipulation and continues to  
 16 oppose the rate increase. The hearing in this matter was conducted on April 3, 2002.

17 On May 21, 2002, a Recommended Opinion and Order was issued in this matter. The City  
 18 filed Exceptions to the Recommended Order on May 30, 2002. At the Commission’s June 4, 2002  
 19 Open Meeting, the Hearing Division was directed to schedule a hearing to consider the issues raised  
 20 in the City’s Exceptions, after allowing the City an opportunity to conduct discovery. A hearing was  
 21 conducted on September 4 and 5, 2002 regarding the issues raised in the City’s Exceptions. Post-  
 22 hearing Briefs and Reply Briefs were filed by the parties on October 4 and 16, 2002, respectively.

## 23 **II. Terms of the Settlement Agreement**

24 The Settlement provides that LPSCO’s Original Cost Rate Base for this case shall be  
 25 \$5,909,975 for the Water Division and \$8,691,827 for the Wastewater Division. The stipulating  
 26 parties also agree that the Company’s total revenues shall be \$2,411,986 for the Water Division and  
 27

28 <sup>1</sup> A copy of the Settlement Agreement is attached hereto as “Exhibit A.”

1 \$2,198,361 for the Wastewater Division, which represents annual revenue increases of \$728,383 and  
 2 \$360,063 for the Water and Wastewater Divisions, respectively. These proposed revenue increases  
 3 are based on a stipulated rate of return of 8.535 percent, including a cost of equity of 9.494 percent  
 4 and a cost of debt equal to 5.770 percent (Ex. A-6, at 2).

5 The Settlement also provides that, in its next rate application, LPSCO will be required to  
 6 evaluate the efficacy of adding another inverted block to its Water Division rate design. The  
 7 Stipulation further requires LPSCO to allocate certain Additional Charge revenues equally between  
 8 the Water and Wastewater Divisions<sup>2</sup>. The Company must also perform a study, prior to its next rate  
 9 application, "to refine its current 80/20 allocation of General and Administrative Expenses between  
 10 the Water and Wastewater Divisions" and reflect revised allocations in future test year water and  
 11 wastewater operating expenses (*Id.* at 3). Finally, the Settlement requires LPSCO to comply with  
 12 A.A.C. Rules R14-2-411(D) and R14-2-610(D) by maintaining the NARUC system of accounting for  
 13 water and wastewater utilities (*Id.*).

14 Set out below is a summary of the current charges, the Company's proposed charges, and the  
 15 charges agreed to by the stipulating parties.

**RATE DESIGN**  
**WATER DIVISION**

	<u>Current Rates</u>	<u>Company Proposed</u>	<u>Settlement Rates</u>
<b><u>MONTHLY USAGE CHARGE:</u></b>			
5/8" x 3/4" Meter	\$ 5.20	\$ 7.30	\$ 6.75
3/4" Meter	6.40	9.00	8.30
1" Meter	11.25	15.90	14.60
1 1/2" Meter	22.00	31.25	28.60
2" Meter	43.70	62.95	56.50
4" Meter	101.20	144.25	132.00
8" Meter	172.50	242.00	225.00
10" Meter	254.25	362.00	330.00
12" Meter	345.00	483.00	450.00
Construction Water - Hydrants	-	100.00	100.00

28 <sup>2</sup> These charges include establishment of service, reconnection of service, NSF check charges, late charges, and any other charges that are common to both water and wastewater service.

COMMODITY RATES:

All Metered Usage Except Construction

Water Sales:

First 5,000 Gallons – Per 1,000 Gallons	\$0.63	\$1.02	\$0.87
Over 5,000 Gallons – Per 1,000 Gallons	0.88	1.36	1.32
All Construction Water – Per 1,000 Gallons	\$0.88	\$2.50	\$2.50

REFUNDABLE METER CHARGES:

5/8" x 3/4" Meter	\$ 300.00	-	-
3/4" Meters	300.00	\$500.00	\$225.00
1" Meters	325.00	600.00	300.00
1 1/2" Meters	500.00	750.00	500.00
2" Meters	675.00	1,300.00	675.00
Service Lines & Meters Over 2"	1,703.00	-	Cost
Refundable Meter Deposit – Const. Water	Cost		1,500.00

<u>DESCRIPTION</u>	<u>Current Rates</u>	<u>Company Proposed</u>	<u>Settlement Rates</u>
(Followed by Settlement Footnotes)			
Establishment – Regular Hours (1)	\$15.00	\$20.00	\$20.00
Establishment – After Hours (1)	30.00	40.00	40.00
Re-Establishment of Service (1)		*	(2)
Reconnection – Regular Hours (1)	30.00	50.00	50.00
Reconnection – After Hours (1)	45.00	65.00	65.00
Water Meter Test (If Correct) (3)	**	**	25.00
Water Re-read (If Correct)	5.00	5.00	5.00
NSF Check Charge (1)	15.00	20.00	20.00
Deferred Payment Finance Charge – Per Month	-	-	1.50%
Late Charge (4)	1.50%	1.50%	1.50%
Service Calls – Per Hour/After Hours (5)	30.00	40.00	40.00
Deposit Requirements	***	***	(6)
Deposit Interest	***	***	3.50%

NOTES ON SETTLEMENT RATES:

- (1) Service charges for customers taking both water and sewer service are not duplicative.
- (2) Months off system times minimum (R14-2-403D).
- (3) \$25.00 plus cost of test.
- (4) Greater of \$5.00 or 1.5% of unpaid balance
- (5) No charge for service calls during normal working hours.
- (6) Per ACC Rules R14-2-403(B) – Residential – 2 times estimated average bill; Commercial – 2 1/2 times estimated average bill

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NOTES ON CURRENT AND COMPANY PROPOSED RATES:

1 Cost – All meters over 2-inch shall be installed at cost.

2 \* Per Commission Rules (R14-2-403.B)

3 \*\* Months off system times minimum (R14-2-403.D)

4 \*\*\* Per Commission Rules (R14-2-403.D)

5 RATE DESIGN  
 6 WASTEWATER DIVISION

7		Current Rates	Company Proposed	Settlement Rates
8	<u>MONTHLY USAGE CHARGE:</u>			
9	Monthly Residential Service	\$23.20	\$32.55	\$27.20
10	Multi-Unit Housing – Monthly Per Unit	21.70	25.00	25.25
11	Commercial:			
12	Small Commercial – Monthly Service	\$38.30	\$60.00	\$46.00
13	Measured Service:			
13	Regular Domestic:			
14	Monthly Service Charge	\$17.50	\$25.75	\$25.75
14	Rate Per 1,000 Gallons of Water	1.80	2.75	2.25
15	Restaurant, Motels, Grocery Stores & Dry Cleaning Establishments: (1)			
16	Monthly Service Charge	\$17.50	\$25.75	\$25.75
16	Rate Per 1,000 Gallons of Water	2.00	3.25	3.00
17				
18	Wigwam Resort:			
18	Monthly Rate – Per Room	\$21.70	\$25.00	\$25.25
19	Main Hotel Facilities – Per Month	625.00	1,000.00	1,000.00
20	Schools – Monthly Service Rates:			
21	Elementary Schools	\$550.00	\$725.00	\$680.00
21	Middle Schools	550.00	1,000.00	800.00
22	High Schools	550.00	1,000.00	800.00
22	Community College	550.00	1,600.00	1,240.00
23				
24	Effluent (2)	\$52.50	\$52.50	Market Rate

## NOTES:

- 26 (1) Motels without restaurants charged multi-unit MONTHLY rate of \$25.25 per room.
- 27 (2) Maximum effluent rate shall not exceed \$430 per acre-foot based on a potable water
- 28 rate of \$1.32 per thousand gallons.

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1 **III. Issues Raised By City of Litchfield Park**

2 City Manager Horatio Skeete filed testimony regarding the reasons for the City's opposition  
3 to LPSCO's proposed rate increase. In addition, the Mayor of Litchfield Park, J. Woodfin Thomas,  
4 filed a letter on April 3, 2002 describing the City's opposition to the Settlement Agreement<sup>3</sup>. Mayor  
5 Thomas also offered public comments at the beginning of the hearing.

6 Subsequent testimony was filed by Mark Cicchetti, a consultant retained by the City to  
7 analyze the issues raised by Litchfield Park in its Exceptions.

8 The City raises two basic reasons for opposition to the rate increase. First, the City claims  
9 that the relationship between LPSCO and SunCor has resulted in decisions being made that are  
10 beneficial to shareholders but detrimental to ratepayers. As a result, the City believes that the  
11 Company's investment of equity in plant was imprudent because it had less expensive financing  
12 available in the form of hook-up fees, advances, and contributions. Second, the City claims that  
13 Litchfield Park residents are being asked to pay for plant additions that serve new developments  
14 outside the City and that, in some instances, the new plant was installed to serve future customers.  
15 The City recommends that the Commission reject the Settlement Agreement and determine the extent  
16 to which plant additions were imprudently financed.

17 **A. Corporate Relationship Between LPSCO and SunCor and Decisions Regarding**  
18 **Hook-Up Fees, Contributions, and Advances**

19 The City contends that the significant increase in LPSCO's rate base in this case (from  
20 \$1,835,000 to \$5,909,975 for the Water Division and from \$2,250,000 to \$8,691,827 for the  
21 Wastewater Division) is due in part to financial decisions being made by LPSCO that are beneficial  
22 to its parent company's shareholders at the expense of LPSCO's ratepayers. The City claims that,  
23 because SunCor is the sole shareholder of LPSCO, the companies do not deal on an arms-length basis  
24 when making decisions. Mr. Skeete asserts that funds which would normally have been received as  
25 advances, contributions, or connection fees have instead been characterized as equity or loans,  
26 thereby increasing LPSCO's rate base and cost of capital and benefiting SunCor as a real estate

27 \_\_\_\_\_  
28 <sup>3</sup> Mayor Thomas's letter was not admitted into evidence because he did not appear as a sworn witness. However, Mr. Skeete's pre-filed testimony makes essentially the same arguments as were presented by the Mayor's letter (Tr. 11).

1 developer (City Ex. 1, at 3).

2 Although the City acknowledges there is no requirement for hook-up fees, contributions, or  
3 advances, it claims that water and wastewater plant is traditionally installed by developers as an  
4 advance or contribution in aid of construction. According to Mr. Skeete, the Commission has also  
5 approved connection fees as a means of installing backbone plant (*Id.* at 2). Due to its concerns  
6 regarding the relationship between LPSCO and SunCor, and the Company's alleged failure to fund  
7 plant additions through contributions, advances, or hook-up fees, the City requests that the  
8 Commission scrutinize LPSCO's relationship with SunCor and the associated effect on the  
9 Company's ratepayers.

10 The City claims that LPSCO's policy with respect to installation of backbone plant is  
11 detrimental to existing customers. For developments that occur within LPSCO's CC&N area, which  
12 encompasses land owned and developed primarily by SunCor, LPSCO has funded backbone plant  
13 with equity or debt and neither SunCor nor third party developers have been required to provide  
14 advances or contributions to finance the backbone facilities. For new development outside LPSCO's  
15 CC&N area, LPSCO requires substantial contributions and advances to install backbone plant<sup>4</sup>. The  
16 City contends that LPSCO's backbone plant policy favors property owned by SunCor and creates an  
17 arbitrary distinction between SunCor developments and non-SunCor developments. Accordingly, the  
18 City advocates that approval of the Settlement be conditioned on LPSCO being required to adopt the  
19 same policy regarding advances and contributions inside its CC&N area as is imposed on  
20 developments outside its CC&N.

21 According to the City, the function of advances in aid of construction is to provide low cost  
22 capital that does not have to be repaid until customers are in place and producing revenues. The City  
23 claims that use of advances properly places the risk of an unsuccessful development on the developer  
24 instead of ratepayers. The City argues further that, if the Company is currently able to pay for  
25 backbone plant upfront as equity or debt, there is no reason to believe that it will be unable to finance  
26 the cash flow obligations associated with repaying advances.

27 <sup>4</sup> The Company has proposed a \$1,500 hook-up fee for new wastewater connections in situations where a developer  
28 requests inclusion in LPSCO's CC&N area but has not entered into an agreement whereby the developer advances or  
contributes the cost of plant associated with the demand placed on the system by the new development.

1           Because LPSCO's service area has significant ongoing development, the City proposes the  
2 implementation of a hook-up fee of \$300 for all new water customers and \$1,500 for all new  
3 wastewater customers. The City claims that these fees are supported by the fact that LPSCO has  
4 proposed a \$1,500 hook-up fee for new customers outside of its CC&N and because LPSCO had  
5 previously proposed a \$295 water hook-up fee. According to the City, the hook-up fees would  
6 achieve a more equitable result by requiring all new customers to contribute to construction of  
7 backbone facilities. To avoid double collection, the City suggests that developer advances would be  
8 applied as an offset to the hook-up fee obligations within a given development. Mr. Cicchetti stated  
9 that, based on his experience with the Florida Commission, the City's proposal would result in  
10 contributions well below the target of 75 percent used in Florida (City Ex. 4, at 13).

11           LPSCO general manager David Ellis testified that, contrary to the City's claims, the Company  
12 has obtained significant advances from developers. He indicated that, in some instances, these  
13 advances require 100 percent financing of backbone plant, including wells and transmission mains.  
14 Mr. Ellis stated that the per customer water rate base advocated by the Company in this case was  
15 \$1,068, compared to the per customer costs for new water plant of approximately \$2,500 (Ex. A-5, at  
16 6).

17           Mr. Ellis testified that LPSCO is a rapidly growing company that is making the transition  
18 from a small company to a larger one that will need to stand on its own and be adequately capitalized.  
19 He claims that the Company has done a good job of combining equity, tax exempt debt, developer  
20 advances, and contributions to finance the growth necessary to serve the growing population in its  
21 service area (LPSCO Ex. 8, at 3). Mr. Ellis stated that developer advances for areas that have been  
22 added to LPSCO's CC&N far exceed the benefit of the proposed hook-up fees advocated by the City.  
23 According to Mr. Ellis, over reliance on contributed capital, as suggested by Mr. Cicchetti, will  
24 ultimately lead to a financially unhealthy company.

25           Mr. Ellis also disputes the City's contention that an improper relationship exists between  
26 SunCor and LPSCO that is detrimental to the Company's existing ratepayers. Mr. Ellis points out  
27 that LPSCO's CC&N has been expanded to include a number of non-SunCor developers which have  
28 advanced millions of dollars for water and wastewater backbone facilities. He claims that these

1 developer advances have added to the reliability and quality of service of the system, and have saved  
2 existing ratepayers from having to fund much of the needed infrastructure required to serve new  
3 customers. Mr. Ellis added that LPSCO's shareholders have not benefited from the alleged improper  
4 relationship between LPSCO and SunCor, as evidenced by the less than two percent average return  
5 on rate base for LPSCO since its last rate case (*Id.* at 7).

6 RUCO witness Marylee Diaz Cortez supports the Company's position. Ms. Diaz Cortez  
7 explained that line extensions serving new customers are usually supported by contributions in aid of  
8 construction ("CIAC"). She stated that, for backbone plant, the industry standard is generally not to  
9 use CIAC because the utility company could end up with little or no investment upon which to earn a  
10 return. According to Ms. Diaz Cortez, the use of CIAC requires a balancing between requiring  
11 developers to contribute funds to serve new customers and allowing the utility company to have a  
12 rate base that allows the company to earn a fair return on investment. She stated that the Commission  
13 has in the past viewed a CIAC ratio of approximately 20 percent as a reasonable level. In this case,  
14 RUCO reviewed LPSCO's plant additions since its last rate case and found that contributions  
15 represented approximately 22 percent of requested wastewater rate base additions and just under 20  
16 percent for water rate base additions (Tr. 45-48). With respect to the LPSCO/SunCor corporate  
17 relationship, Ms. Diaz Cortez testified that of all the developer-owned utility relationships she has  
18 observed, "this company [LPSCO] has been the most responsible in not reflecting that conflict of  
19 interest through either over or underuse of advances" (*Id.* at 49). Therefore, RUCO concluded that  
20 the City's concerns on this issue were not supported by the record.

21 Staff witness, Brian Bozzo, agreed with RUCO that a significant amount of contributed funds  
22 are included in the application and the Settlement Agreement. He indicated that Staff believes the  
23 level of contributed plant contained in the Settlement Agreement is reasonable (Tr. 66-67).

24 Based on the record evidence, we agree that LPSCO's treatment of developer contributions is  
25 appropriate in this case. As RUCO points out, the use of CIAC versus rate base additions requires a  
26 balancing of interests. On the one hand, it is appropriate to require developers to make contributions  
27 to help finance service lines and associated plant that is constructed to directly serve a new  
28 development. On the other hand, overuse of contributions, especially for backbone plant that benefits

1 all customers, may have negative long-term consequences to the extent the utility company is unable  
 2 to earn a fair return due to a minimal or even negative rate base. *See, e.g., Pima Utility Co., Inc.,*  
 3 *Decision No. 57645 (November 2, 1991) at 3-5; Pima Utility Co., Inc., Decision No. 58743 (August*  
 4 *11, 1994) at 13-17.*

5 Although a developer-owned utility may, in some instances, be cause for concern that the  
 6 developer's projects are put in place solely at ratepayers' expense, we do not believe there is  
 7 sufficient evidence in the record to conclude that such is the case here. In this case, LPSCO's  
 8 proposed rate base additions were offset by contributions of approximately 22 percent for wastewater  
 9 plant and just under 20 percent for water plant.

10 LPSCO also indicated that the majority of new growth in its service area is coming from non-  
 11 SunCor developers. Mr. Ellis testified that SunCor developments constitute 30 to 35 percent of plant  
 12 additions requested in this case. However, the Company expects the ratio of SunCor developments  
 13 will be reduced to approximately 20 percent in the near future (Tr. 88). Further, LPSCO is nearing  
 14 completion of an \$18 million water reclamation facility, of which approximately \$6 million is from  
 15 developer advances (*Id.* at 87). Although that facility is not at issue in this docket, the developer  
 16 contributions indicate a substantial investment in new backbone plant. Based on all of these factors,  
 17 we do not believe there is sufficient evidence to conclude that SunCor has improperly influenced  
 18 LPSCO's decisions on plant additions, or that the level of developer plant contributions is  
 19 inappropriate.

20 However, LPSCO shall adopt the same policy for all developers to eliminate, at a minimum,  
 21 the perception that SunCor influences LPSCO's policies regarding extension requests. Further, in  
 22 LPSCO's next rate case, Staff shall examine whether implementing hook-up fees for both water and  
 23 wastewater connections would be a more equitable means of serving new customers in LPSCO's  
 24 rapidly growing service territory.

25 **B. Plant Investments for New Development and Excess Capacity**

26 The City also argues that the proposed rate increase is based largely on plant additions that  
 27 were constructed to serve new development outside of Litchfield Park. The City claims that, because  
 28 most of the new plant will serve customers that did not exist at the end of the test year, it is unfair to

1 place the burden on existing customers. Mr. Skeete stated that there is a mismatch between  
2 customers served and plant installed which results in existing customers paying a disproportionate  
3 amount of the new plant costs. He added that, because residents of the City represent a significant  
4 part of the Company's rate base, placing the cost of new plant on existing customers has a significant  
5 effect on the ratepayers located in Litchfield Park (City Ex. 2, at 2).

6 The City cites to significant increases in the Company's rate base to support its claim that  
7 Litchfield Park residents are being treated unfairly. City witness Cicchetti testified that LPSCO's  
8 water system Original Cost Less Depreciation Rate Base ("OCRB") increased from \$534,171 as of  
9 March 31, 1993 to \$1,835,000 as of December 31, 1996, and is at \$5,909,975 as of December 31,  
10 2002 under the terms of the proposed Settlement (City Ex. 3, at 4). The City points out that during  
11 1997, 1998, and 1999 no new plant was booked by LPSCO as an advance, despite the fact that the  
12 Company added significant backbone plant since the last rate case, including 2,640 feet of 24-inch  
13 pipe, 15,440 feet of 16-inch pipe, 6,250 feet of 12-inch pipe, 10,283 feet of 8-inch pipe, two  
14 production wells, and one booster pump (*See*, City Ex. 11, JC-1, at 4; Staff Ex. 4, MSJ-1, at 3).

15 In response to the City's concerns, LPSCO witness Ellis testified that the Company's rate  
16 base per customer cost is virtually identical for customers both within and outside of the City of  
17 Litchfield Park (Tr. 82). According to Mr. Ellis, the Company's water rate base per meter at the end  
18 of the test year was \$1,055 for Litchfield Park residents compared to a system average of \$1,068 (Ex.  
19 A-5, at 7). LPSCO concedes that the investment in water and wastewater systems in parts of  
20 Litchfield Park is less than the newer parts of the system due to the age of the system serving  
21 Litchfield Park. However, Mr. Ellis indicated that LPSCO has invested a significant amount of funds  
22 in Litchfield Park for reconstruction and replacement projects. Mr. Ellis points out that LPSCO has  
23 recently undertaken the following maintenance and replacement projects in Litchfield Park:  
24 replacement of approximately 200 fire hydrants; replacement of approximately 160 galvanized water  
25 service lines; replacement and relocation of water lines on Litchfield Road south of Wigwam  
26 Boulevard; rebuilding of sewer lines on Villa Nueva; and replacement of service lines and a booster  
27 pump in the Litchfield Greens subdivision (Ex. A-4, at 17-18; Tr. 83). Mr. Ellis stated that from  
28 1996 through 2000, LPSCO invested almost \$700,000 for new water plant improvements specifically

1 for customers located in the City, and \$463,800 for additional system improvements that benefit all of  
2 the Company's customers. Mr. Ellis added that LPSCO's water and wastewater rates are currently  
3 the lowest of the surrounding communities in the West Valley. Even with the stipulated increases,  
4 the Company's water rates will remain the lowest of the companies examined, and the combined  
5 water and wastewater rates will be fifth of the seven utilities in the area (Tr. 84).

6 Staff witness Bozzo agreed that the rate increases proposed by the Settlement Agreement,  
7 when viewed on an actual dollar increase basis, are reasonable. Mr. Bozzo testified that looking at  
8 the proposed percentage increase alone does not accurately reflect the real rate impact on customers.  
9 He characterized the increase in water rates from the current level of \$5.20 to the proposed \$6.75 per  
10 month, and the increase in wastewater rates from \$24 per month currently to the proposed \$27 per  
11 month, as "modest" (Tr. 69). Mr. Bozzo stated that, even with the proposed increases, LPSCO's  
12 combined water and wastewater rates are among the lowest in the state (Tr. 64). Staff concluded that  
13 the overall rates contained in the Settlement Agreement are reasonable.

14 According to the City, much of the plant installed by LPSCO since 1996 was placed in areas  
15 that had few customers as of the end of the test year. Mr. Cicchetti claimed that many of the facilities  
16 in question were placed in areas where future demand is anticipated. As an example, he stated that  
17 LPSCO incurred costs of \$241,177 for over-sizing a line running to the Stardust development and  
18 \$515,226 for a series of 12 and 16-inch lines installed in Section 33 where a future development for  
19 1,600 customers is planned (City Ex. 5, MAC-5, 6 and 8). The City contends that LPSCO's growth  
20 from 1,567 customers in 1993 to 5,541 at the end of the test year, as well as the expected growth of  
21 more than 600 customers per year for the foreseeable future, is causing existing earlier customers  
22 (especially those in Litchfield Park) to pay a disproportionate share of the Company's growth. The  
23 City suggests that costs associated with current and future growth should be distributed more  
24 equitably between existing customers, future customers, and developers.

25 In order to solve the issue of existing customers paying for plant constructed to serve future  
26 customers, the City suggests that the Commission establish an Allowance for Funds Prudently  
27 Invested ("AFPI"). According to Mr. Cicchetti, AFPI has been utilized in Florida and allows prudent  
28 plant costs associated with expected growth to be passed on to future customers that will be served by

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1 that plant. Under an AFPI system, a carrying charge would be developed to cover the full cost of the  
2 plant to be used by future customers, which would be collected from new customers at the time of  
3 connection (City Ex. 3, at 13-14).

4 Mr. Cicchetti calculated that LPSCO's system had \$1,271,403 of plant for future growth  
5 based on the current plant capacity compared to existing customers. The City recommends that  
6 \$1,271,403 be considered excess capacity and removed from LPSCO's rate base. The City also  
7 proposes that an AFPI be established in this case to allow LPSCO to recover its investment in this  
8 plant from future customers. Under the City's proposal, the AFPI would be a variable fee that would  
9 increase over time to reflect holding costs associated with the plant, and customers connecting to the  
10 system in later years would pay a higher AFPI (City Ex. 4, at 8-9, MAC-2).

11 LPSCO disputes the City's claim that the Company has excess capacity. Mr. Ellis testified  
12 that the City's excess capacity assumption is flawed because the Company's system was actually  
13 deficient under real-time operating conditions (LPSCO Ex. 8, at 13, DWE-5). Mr. Ellis claims that  
14 the City's attempts to extrapolate system excess capacity does not take into consideration the actual  
15 operating requirements imposed on the system. He described the need for system reliability and  
16 backup paths that require water system engineers to account for emergency performance (*Id.*). As an  
17 example, Mr. Ellis described a situation that occurred during the year 2000 test year where LPSCO  
18 lost a well during the summer peak period due to contamination. In that instance, LPSCO was able to  
19 able to avoid curtailments only because it had placed new wells in service that were not yet included  
20 in rate base. In fact, according to Mr. Ellis, LPSCO's system actually reflected a water capacity  
21 deficiency during the test year of approximately 9 percent (Ex. A-15; Tr. 337).

22 LPSCO witness Dan Neidlinger testified that the City's proposed AFPI methodology is  
23 flawed because it assumes that costs imposed by current and future customers can be readily  
24 identified. Mr. Neidlinger stated that, with few exceptions, expansion of backbone plant is designed  
25 to benefit both present and future customers because in a rapidly growing area future customers  
26 quickly become today's customers (LPSCO Ex. 7, at 3). According to Mr. Neidlinger, the AFPI  
27 constitutes a form of retroactive ratemaking since new customers would be required to pay a  
28 connection charge to recover costs incurred for plant installed in prior years. In addition, Mr.

**65436**

1 Neidlinger claims that the AFPI would result in discriminatory charges because customers connecting  
2 to the system in early years would pay minimal fees while those connecting in later periods would  
3 pay significantly higher fees to connect to the system (*Id.* at 4).

4 We do not believe that the record supports the City's claim that LPSCO's system has excess  
5 capacity. Mr. Ellis testified that the individual projects identified by the City were used to serve  
6 existing test year customers, to improve system reliability by looping the system, to increase water  
7 pressure, to provide fire flow capability, and to allow interconnection of the system to a different  
8 portion of the aquifer (Tr. 311-313; LPSCO Ex. 8, at 13).

9 Moreover, as reflected in RUCO's analysis of this issue, the plant additions that are the  
10 subject of this docket do not constitute "excess capacity" which may require some additional  
11 adjustment. Ms. Diaz Cortez testified that RUCO reviews whether plant additions have been  
12 oversized such that current ratepayers are required to pay for capacity until the expected growth is  
13 sufficient to fully utilize the plant. In this case, RUCO found that there was no excess capacity in the  
14 requested plant additions for which rate base inclusion is sought by LPSCO (Tr. 49-50). Ms. Diaz  
15 Cortez added that, from a practical standpoint, some subsidization is inherent in any utility system  
16 unless a separate rate is set for each household.

17 As discussed above, no excess capacity was determined to exist by either Staff or RUCO,  
18 even after conducting thorough audits of LPSCO's system. It is notable that both Staff and RUCO  
19 had found excess capacity in prior LPSCO cases, and had recommended disallowance of the plant  
20 associated with that extra capacity. With respect to the projects cited by the City, we believe LPSCO  
21 adequately explained that the plant for which rate base recognition is sought was constructed to  
22 improve system efficiency and reliability and was used and useful in rendering utility service to  
23 customers. Based on the record evidence, we find that the plant contained in the Settlement  
24 Agreement was used and useful and, therefore, properly includable in rates.

25 Because we find that no excess capacity existed during the test year, it is unnecessary to  
26 address the City's AFPI proposal. However, even if we had made a finding of excess capacity in this  
27 case, the appropriate remedy would be disallowance from rate base of the plant that is not used and  
28 useful.

**65436**

1 The record reflects that, although a greater initial investment is required to serve new  
 2 developments, there is a long-term benefit to the system to the extent that costs can be spread over a  
 3 larger customer base (Tr. 36). We do not believe that Litchfield Park residents are being treated  
 4 unfairly. As Mr. Ellis points out, the rate base investment per customer is nearly identical whether  
 5 customers live in the City or in one of the other areas of LPSCO's service territory. The record also  
 6 indicates that the investment in plant to serve new areas of development is at least partially offset by  
 7 the additional maintenance and replacement projects that are required for the older plant facilities  
 8 located in Litchfield Park. We do not believe it is realistic to develop small discrete segments within  
 9 customer rate classes in order to identify the costs that each segment of customers imposes on the  
 10 system. Accordingly, we do not believe the City's arguments on this issue are supported by the  
 11 record.

#### 12 Depreciation Adjustment

13 In its Reply Brief, LPSCO stated that Paragraph 6 of the Settlement Agreement should be  
 14 modified to change the effective date of the proposed depreciation rates set forth in the Stipulation.  
 15 The Company argues that because the effective date of the rates established in this case has been  
 16 delayed, it is unreasonable to make the effective date of the new depreciation rates effective  
 17 retroactively to January 1, 2002, as set forth in the Stipulation. LPSCO proposes that the depreciation  
 18 rates effective date should be changed to January 1, 2003, to reflect the date when the Company  
 19 would begin receiving revenues to support the new higher depreciation rates. LPSCO represents that  
 20 neither Staff nor RUCO oppose such a revision to the Settlement Agreement.

21 LPSCO's request to amend the Settlement to delay the effective date of the new depreciation  
 22 rates is reasonable and shall be approved. The Settlement Agreement shall be amended consistent  
 23 with the Company's recommendation. Adoption of this revised depreciation rate effective date does  
 24 not affect any other terms of the Agreement.

25 \* \* \* \* \*

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

**FINDINGS OF FACT**

1  
2 1. LPSCO is engaged in the business of providing water and wastewater utility service in  
3 Maricopa County. LPSCO is a wholly owned subsidiary of SunCor Development Company, which  
4 is a subsidiary of Pinnacle West Capital Corporation.

5 2. LPSCO operates water and wastewater systems serving approximately 5,541 and  
6 5,012 customers, respectively, in and around the City of Litchfield Park, and including parts of  
7 Goodyear, Avondale, and some unincorporated areas of Maricopa County.

8 3. On June 15, 2001, LPSCO filed an application with the Commission to increase its  
9 water and wastewater rates in its service area.

10 4. On July 13, 2001, Staff issued a letter finding that LPSCO's application met the  
11 sufficiency requirements set forth in A.A.C. R14-2-103.

12 5. By Procedural Order issued July 27, 2001, the hearing in this matter was scheduled to  
13 commence on April 3, 2002.

14 6. LPSCO provided notice of the hearing to its customers through a direct mailing, as  
15 directed by the July 27, 2001 Procedural Order.

16 7. Intervention was granted to RUCO, PebbleCreek, and the City of Litchfield Park.

17 8. On April 1, 2002, a Settlement Agreement was filed on behalf of LPSCO, Staff,  
18 RUCO, and PebbleCreek. Litchfield Park opposes the Settlement.

19 9. The hearing commenced as scheduled on April 3, 2002.

20 10. On May 21, 2002, a Recommended Opinion and Order was issued in this matter.

21 11. At the Commission's June 4, 2002 Open Meeting, the Hearing Division was directed  
22 to schedule a hearing to consider the issues raised in Exceptions filed by Litchfield Park.

23 12. Additional hearings were conducted on September 4 and 5, 2002. Post hearing Briefs  
24 and Reply Briefs were filed by the parties on October 4 and 16, 2002, respectively.

25 13. Based on the Stipulation, adjusted Original Cost Rate Bases of \$5,909,975 for the  
26 Water Division, and \$8,691,827 for the Wastewater Division, are reasonable and shall also serve as  
27 the respective Divisions' Fair Value Rate Bases.

28 14. Pursuant to the Settlement Agreement, total revenues of \$2,411,986 for the Water

1 Division and \$2,198,361 for the Wastewater Division, which represent increases in annual revenues  
2 of \$728,383 and \$360,063, respectively, are reasonable for purposes of this proceeding.

3 15. A fair and reasonable rate of return on fair value rate base is 8.535 percent, based on a  
4 cost of equity of 9.494 percent and a cost of debt equal to 5.770 percent.

5 16. LPSCO's depreciation rates, for both the Water and Wastewater Divisions, shall be as  
6 proposed by Staff in its February 5, 2002 Staff Report. Implementation of these depreciation rates  
7 shall be effective as of January 1, 2003.

8 17. The Settlement rate design and rates and charges, as set forth in Attachments B and C  
9 to the Settlement Agreement, are reasonable.

10 18. LPSCO shall evaluate and consider the efficacy of adding another inverted block to its  
11 Water Division rate design as part of its next rate application.

12 19. LPSCO shall allocate Additional Charge revenues equally between the Water and  
13 Wastewater Divisions.

14 20. Prior to filing its next rate application, LPSCO shall perform a study to refine its  
15 current 80/20 allocation of General and Administrative Expenses between the Water and Wastewater  
16 Divisions.

17 21. LPSCO shall be required to impose the same main extension policy for developers  
18 within and outside the Company's CC&N area.

19 22. LPSCO shall file, by April 15, 2003, tariffs for hook-up fees for both water and  
20 wastewater connections for Commission consideration and possible approval.

21 23. LPSCO shall comply with A.A.C. Rules R14-2-411(D) and R14-2-610(D) by  
22 maintaining the NARUC system of accounting for water and wastewater utilities.

### 23 CONCLUSIONS OF LAW

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

26 2. The Commission has jurisdiction over the Company and of the subject matter of the  
27 application.

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

1 4. The rates and charges for each system, as attached hereto in Attachments B and C to  
2 the Settlement Agreement (Exhibit A) and incorporated by reference herein, are reasonable and  
3 should be approved.

4 **ORDER**

5 IT IS THEREFORE ORDERED that the Settlement Agreement filed on April 1, 2002 by the  
6 Litchfield Park Service Company, Staff, the Residential Utility Consumers Office, and PebbleCreek  
7 Properties Limited Partnership is reasonable and shall be adopted, subject to the modification of the  
8 depreciation rate effective date as discussed above and by removal of Section K, Off-Site Facilities  
9 Hook-Up Fee – Wastewater, as found on Sheet Nos. 21 through 23 on Attachment C to the  
10 Settlement Agreement.

11 IT IS FURTHER ORDERED that Litchfield Park Service Company is hereby directed to file  
12 with the Commission on or before December 4, 2002 revised schedules of rates and charges  
13 consistent with Attachments B and C to the Settlement Agreement and the discussion herein.

14 IT IS FURTHER ORDERED that the revised schedule of rates and charges shall be effective  
15 for all service rendered on and after December 6, 2002.

16 IT IS FURTHER ORDERED that Litchfield Park service Company shall notify its customers  
17 of the revised schedules of rates and charges authorized herein by means of an insert in its next  
18 regularly scheduled billing, in a form acceptable to Staff.

19 IT IS FURTHER ORDERED that Litchfield Park Service Company shall file, by April 15,  
20 2003, tariffs for hook-up fees for both water and wastewater connections for Commission  
21 consideration and possible approval.

22 IT IS FURTHER ORDERED that Litchfield Park Service Company's Curtailment Plan Tariff  
23 is hereby approved.

24 ...  
25 ...  
26 ...  
27 ...  
28 ...

1 IT IS FURTHER ORDERED that Litchfield Park Service Company shall file with the  
2 Commission within 60 days from the effective date of this Decision a copy of the notice it sends to its  
3 customers of the new rates and charges.

4 IT IS FURTHER ORDERED that this Decision shall be come effective immediately.

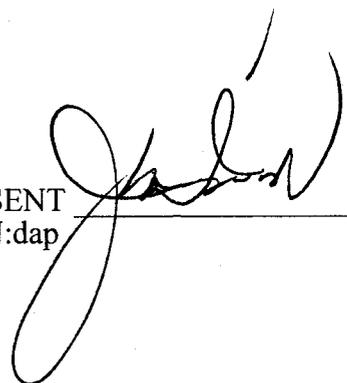
5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6  
7   
8 CHAIRMAN

9 \_\_\_\_\_  
10 COMMISSIONER

11   
12 COMMISSIONER

13 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
14 Secretary of the Arizona Corporation Commission, have  
15 hereunto set my hand and caused the official seal of the  
16 Commission to be affixed at the Capitol, in the City of Phoenix,  
17 this 9th day of December 2002.

18   
19 DISSENT  
20 DDN:dap

21   
22 BRIAN C. McNEIL  
23 EXECUTIVE SECRETARY

1 SERVICE LIST FOR: LITCHFIELD PARK SERVICE COMPANY  
2 DOCKET NOS.: W-01427A-01-0487 and SW-01428A-01-0487

3  
4 Richard L. Sallquist  
5 SALLQUIST & DRUMMOND  
6 2525 E. Arizona Biltmore Circle, Suite 117  
7 Phoenix, Arizona 85016  
8 Attorneys for Litchfield Park Service Co.

9 David Ellis  
10 LITCHFIELD PARK SERVICE CO.  
11 111 W. Wigwam Blvd.  
12 Litchfield Park, Arizona 85340

13 Dan L. Neidlinger  
14 NEIDLINGER & ASSOCIATES, LTD.  
15 3020 N. 17<sup>th</sup> Drive  
16 Phoenix, Arizona 85015

17 Scott Wakefield  
18 RUCO  
19 1110 W. Washington, Suite 200  
20 Phoenix, Arizona 85007

21 William P. Sullivan  
22 Paul R. Michaud  
23 MARTINEZ & CURTIS  
24 2712 North Seventh Street  
25 Phoenix, AZ 85006-1090

26 Jim Poulos  
27 9532 East Riggs Road  
28 Sun Lakes, AZ 85248

Norman James  
FENNEMORE CRAIG  
3003 North Central Ave., Suite 2600  
Phoenix, AZ 85012-2913

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

Ernest Johnson, Director  
Utilities Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

1 WILLIAM A. MUNDELL  
 CHAIRMAN  
 2 JIM IRVIN  
 COMMISSIONER  
 3 MARC SPITZER  
 COMMISSIONER

BEFORE THE ARIZONA CORPORATION COMMISSION

5 IN THE MATTER OF THE APPLICATION ) DOCKET NO. W-01427A-01-0487  
 6 OF LITCHFIELD PARK SERVICE ) DOCKET NO. WS-01428A-01-0487  
 COMPANY FOR AN INCREASE IN ITS )  
 7 WATER AND WASTEWATER RATES FOR ) SETTLEMENT AGREEMENT  
 CUSTOMERS WITHIN MARICOPA )  
 8 COUNTY, ARIZONA. )

9 Applicant Litchfield Park Service Company ("Applicant"), Intervenors Residential  
 10 Utility Consumer Office ("RUCO"), City of Litchfield Park ("City") and Pebble Creek  
 11 Properties Limited Partnership ("PPLP") and Arizona Corporation Commission, Utilities  
 12 Division, staff ("Staff"), each a party (and collectively the "Parties") to Arizona Corporation  
 13 Commission Docket Nos. W-01427A-01-0487 and SW-01428A-01-0487 captioned IN THE  
 14 MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY FOR AN  
 15 INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN  
 16 MARICOPA COUNTY, ARIZONA (the "Application"), hereby stipulate and agree to the  
 17 following settlement provisions in connection with Applicant's request for adjustments to its  
 18 rates and charges for water and wastewater utility service. The following terms and conditions  
 of this Agreement are intended to resolve all the issues among the undersigned parties in a  
 manner consistent with the public interest.

Terms and Conditions

19 The Parties to this Agreement include Applicant, Intervenors and Staff, who hereby agree  
 20 to the following:

21 1. Statement of Intentions and Admissions. Applicant, Intervenors and Staff hereby  
 22 agree that the purpose of this Agreement is to resolve contested matters in Docket Nos. W-  
 23 01427A-01-0487 and SW-01428A-01-0487 in a manner consistent with the public interest. The  
 24

1 Parties further recognize that: (1) this Agreement acts as a procedural device to propose the  
2 Parties' settlement terms to the Commission; and (2) this Agreement has no binding force or  
3 effect until finally approved by an order of the Commission. - Nothing contained in this  
4 Agreement is an admission by any Party that any of the positions taken, or that might be taken by  
5 each in this proceeding, is unreasonable or unlawful. In addition, acceptance of this Agreement  
6 by any of the Parties is without prejudice to any position taken by any Party in these proceedings.

7 2. Settlement Schedule. Applicant, Intervenors, and Staff hereby agree that the settlement  
8 concerning all financial and other accounting aspects of the Application reached between the  
9 Parties is illustrated on the schedule attached hereto as Attachment A and incorporated herein by  
10 this reference (the "Settlement Schedule"). Applicant, Intervenors, and Staff hereby  
11 acknowledge and agree that the figures set forth in the Settlement Schedule are the result of  
12 negotiation and do not necessarily reflect the position of any Party to this Agreement.

13 3. Adjusted Rate Base. Applicant, Intervenors, and Staff hereby agree to an adjusted  
14 Original Cost Rate Base of \$5,909,975 for the Water Division, and \$8,691,827 for the  
15 Wastewater Division, which shall be the respective Fair Value Rate Bases.

16 4. Total Revenue. Applicant, Intervenors, and Staff hereby agree to total revenues of  
17 \$2,411,986 for the Water Division and \$2,198,361 for the Wastewater Division, which amount  
18 includes an annual increase in revenues of \$728,383 and \$360,063 for the Water Division and  
19 Wastewater Division, respectively.

20 5. Rate of Return. Applicant, Intervenors, and Staff hereby agree to an overall rate of return  
21 of 8.535 percent, which is based on a cost of equity of 9.494 percent and a cost of debt equal to  
22 5.770 percent. This agreed upon rate of return is the result of negotiation.

23 6. Depreciation Rates. Applicant, Intervenors, and Staff hereby agree that the Applicant  
24 will use the Water and Wastewater Division depreciation rates as proposed by Staff in the Staff  
Report of February 5, 2002. for the purpose of calculating and recording depreciation expense  
for both Divisions. The implementation of these depreciation rates shall be retroactive to  
January 1, 2002.

1 7. Rates and Rate Design. Applicant, Intervenor, and Staff hereby agree to the rate design  
2 attached hereto as Attachment B and incorporated herein by this reference. The formal Tariff  
3 incorporating these rates and charges is attached hereto as Attachment C.

4 8. Allocation Water Rate Tiers. Applicant will evaluate and consider the efficacy of adding  
5 another inverted block to its Water Division rate design as part of its next rate application.

6 9. Allocation of Service Charges. Applicant agrees to allocate certain Additional Charge  
7 revenues equally between the Water Division and the Wastewater-Division. These charges  
8 include establishment of service, reconnection of service, NSF check charges, late charges and  
any other charges common to both water and wastewater service.

9 10. Allocation of General and Administrative Expenses. Prior to filing its next rate  
10 application, Applicant shall perform a study to refine its current 80/20 allocation of General and  
11 Administrative Expenses between the Water and Wastewater Divisions. The analysis shall be  
12 conducted on an account-by-account basis. Revised allocations will be reflected in future test-  
13 year water and wastewater operating expenses.

14 11. NARUC Accounting. Applicant agrees to comply with AAC Rule R14-2-411(D) and  
15 610 (D) by maintaining the NARUC system of accounting for water and wastewater utilities,  
respectively.

16 12. Staff Authority. The Parties recognize that: (1) the Staff does not have the power to  
17 bind the Commission; and (2) for purposes of settlement, the Staff acts in the same manner as a  
18 party in proceedings before the Commission.

19 13. Commission Authority to Modify. Each provision of this Agreement is in consideration  
20 and support of all other provisions, and expressly conditioned upon acceptance by the  
21 Commission without material change; provided, however, that the Parties further recognize that  
22 the Commission will evaluate the terms of this Agreement, and that after such evaluation the  
23 Commission may require immaterial modifications to the terms hereof before accepting this  
24 Agreement.

1 14. Commission Approval. In the event that the Commission adopts an order approving all  
2 of the terms of this Agreement without material change, such action by the Commission  
3 constitutes approval of the Agreement, and thereafter the Parties shall abide by its terms.

4 15. Effect of Modification by the Commission. In the event that any Party objects to any  
5 modification to the terms of this Agreement made by the Commission in an order approving this  
6 Agreement, such Party shall timely file an Application for Rehearing under A.R.S. § 40-253. In  
7 the event that a Party does not file such an application, that Party shall be deemed: (i) to have  
8 accepted any modifications made by the Commission; and (ii) to have conclusively and  
9 irrefutably accepted that any modifications to the terms of this Agreement are not material and  
therefore the Commission order does adopt the terms of this Agreement without material change.

10 16. Application for Rehearing. If any Party to this Agreement files an Application for  
11 Rehearing and alleges that the Commission has failed to approve all terms of the Agreement  
12 without material change, then such application shall be deemed a withdrawal of the Agreement,  
13 and the Parties shall request a Procedural Order setting Applicant's original Application for  
14 hearing. Such hearing shall be without prejudice to the position of any Parties, and this  
15 Agreement and any supporting documents relating thereto shall not be admitted into evidence for  
16 any purpose nor used by the Commission in its final consideration of the issues raised in this  
Docket.

17 17. Appeal of Commission Decision. If a Party's Application for Rehearing alleges that the  
18 Commission has failed to approve all terms of this Agreement without material change, and the  
19 Application for Rehearing is denied, either by Commission order or by operation of law, and  
20 such Party still objects to any modification to the terms of this Agreement made by the  
21 Commission, that Party shall timely file an appeal of the Commission's decision pursuant to  
22 A.R.S. § 40-254 or § 40-254.01, as appropriate. In the event that the Party does not file such an  
23 appeal, it shall be deemed: (i) to have accepted any modifications made by the Commission; and  
24 (ii) to have conclusively and irrefutably accepted that any modifications to the terms of this

1 Agreement are not material and therefore the Commission's order approves the Agreement  
2 without material change.

3 18. Limitations. The terms and provisions of this Agreement apply solely to and are  
4 binding only in the context of the provisions and results of this Agreement and none of the  
5 positions taken in this Agreement by any of the Parties may be referred to, cited to, or relied  
6 upon by any other Party in any fashion as precedent or otherwise in any proceeding before the  
7 Commission or any other regulatory agency or before any court of law for any purpose except in  
8 furtherance of the purpose and results of this Agreement.

9 19. Definitive Text. The "Definitive Text" of this Agreement shall be the text adopted by the  
10 Commission in an order adopting substantially all the terms of this Agreement including all  
11 modifications made by the Commission in such order.

12 20. Severability. Each of the terms of the Definitive Text of this Agreement are in  
13 consideration and support of all other terms. Accordingly, such terms are not severable.

14 21. Support and Defend. The Parties pledge to support and defend this Agreement before the  
15 Commission. If this Agreement enters into force the Parties will support and defend this  
16 Agreement before any court or regulatory agency in which it may be at issue.

17 22. Counterparts. This Agreement shall be executed simultaneously or in counterparts, each of  
18 which shall be deemed an original, but all of which together shall constitute one and the same  
19 agreement.

20 IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the \_\_\_\_\_  
21 day of March, 2002.

22 LITCHFIELD PARK SERVICE COMPANY

ARIZONA CORPORATION  
COMMISSION UTILITIES DIVISION  
STAFF

23 By: [Signature]

By: \_\_\_\_\_

24 Its: ATTORNEY

Its: \_\_\_\_\_

1 Agreement are not material and therefore the Commission's order approves the Agreement  
2 without material change.

3 18. Limitations. The terms and provisions of this Agreement apply solely to and are  
4 binding only in the context of the provisions and results of this Agreement and none of the  
5 positions taken in this Agreement by any of the Parties may be referred to, cited to, or relied  
6 upon by any other Party in any fashion as precedent or otherwise in any proceeding before the  
7 Commission or any other regulatory agency or before any court of law for any purpose except in  
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18 which shall be deemed an original, but all of which together shall constitute one and the same  
19 agreement.

20 IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the \_\_\_\_\_  
21 day of March, 2002.

22 LITCHFIELD PARK SERVICE COMPANY

ARIZONA CORPORATION  
COMMISSION UTILITIES DIVISION  
STAFF

23 By: [Signature]

By: [Signature]

24 Its: Attorney

Its: ATTORNEY

RESIDENTIAL UTILITY CONSUMER

CITY OF LITCHFIELD PARK

OFFICE

By: \_\_\_\_\_  
Its: \_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

PEBBLE CREEK PROPERTIES  
LIMITED PARTNERSHIP

By: *Don D. Jan*  
Its: *Attorney*

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RESIDENTIAL UTILITY CONSUMER  
OFFICE

CITY OF LITCHFIELD PARK

By: *Judy Fulkerson*  
Its: *Director*

By: \_\_\_\_\_  
Its: \_\_\_\_\_

PEBBLE CREEK PROPERTIES  
LIMITED PARTNERSHIP

By: \_\_\_\_\_  
Its: \_\_\_\_\_

LITCHFIELD PARK SERVICE COMPANY  
 ACC Docket Nos. W-01427A-01-0487 & SW-01428A-01-0487  
 Test Year Ended December 31, 2000

## Settlement Summary

DESCRIPTION	TOTAL COMPANY	WATER DIVISION	SEWER DIVISION
Rate Base	\$14,601,802	\$5,909,975	\$8,691,827
Rate of Return Requirement	8.535%	8.535%	8.535%
Required Operating Income	\$1,246,264	\$504,416	\$741,847
Operating Income Deficiency	\$646,575	\$432,685	\$213,890
Revenue Conversion Factor	1.6834	1.6834	1.6834
Increase in Gross Revenues	\$1,088,446	\$728,383	\$360,063
Percentage Increase	30.91%	43.26%	19.59%

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LITCHFIELD PARK SERVICE COMPANY  
 ACC Docket Nos. W-01427A-01-0487 & SW-01428A-01-0487  
 Test Year Ended December 31, 2000

Settlement Rates - Water Division

DESCRIPTION	RATE
MONTHLY SERVICE CHARGES:	
5/8" X 3/4" Meters	\$6.75
3/4" Meters	8.30
1" Meters	14.60
1 1/2" Meters	28.60
2" Meters	56.50
4" Meters	132.00
8" Meters	225.00
10" Meters	330.00
12" Meters	450.00
Construction Water - Hydrants	100.00
COMMODITY RATES:	
All Metered Usage Except Construction	
Water Sales:	
First 5,000 Gallons - Per 1,000 Gallons	\$0.87
Over 5,000 Gallons - Per 1,000 Gallons	\$1.32
All Construction Water - Per 1,000 Gallons	\$2.50
REFUNDABLE METER CHARGES:	
3/4" Meters	\$225.00
1" Meters	300.00
1 1/2" Meters	500.00
2" Meters	675.00
Service Lines & Meters Over 2"	Cost
Refundable Meter Deposit - Const. Water	\$1,500.00

DECISION NO. 65436

LITCHFIELD PARK SERVICE COMPANY  
 ACC Docket Nos. W-01427A-01-0487 & SW-01428A-01-0487  
 Test Year Ended December 31, 2000

Settlement Rates - Sewer Division

DESCRIPTION	RATE
Monthly Residential Service	\$27.20
Multi-Unit Housing - Monthly Per Unit	\$25.25
Commercial:	
Small Commercial - Monthly Service	\$46.00
Measured Service:	
Regular Domestic:	
Monthly Service Charge	\$25.75
Rate Per 1,000 Gallons of Water	\$2.25
Restaurants, Motels, Grocery Stores & Dry Cleaning Establishments: (1)	
Monthly Service Charge	\$25.75
Rate Per 1,000 Gallons of Water	\$3.00
Wigwam Resort:	
Monthly Rate - Per Room	\$25.25
Main Hotel Facilities - Per Month	\$1,000.00
Schools - Monthly Service Rates:	
Elementary Schools	\$680.00
Middle Schools	800.00
High Schools	800.00
Community College	1,240.00
Effluent (2)	Market Rate

NOTES:

- (1) Motels without restaurants charged multi-unit monthly rate of \$25.25 per room  
 (2) Maximum effluent rate shall not exceed \$430 per acre-foot based on a potable water rate of \$1.32 per thousand gallons.

LITCHFIELD PARK SERVICE COMPANY  
 ACC Docket Nos. W-01427A-01-0487 & SW-01428A-01-0487  
 Test Year Ended December 31, 2000

Other Rates and Service Charges - Settlement

DESCRIPTION	RATE -
Establishment of Service - Regular Hours (1)	\$20.00
Establishment of Service - After Hours (1)	40.00
Re-Establishment of Service (1)	(2)
Reconnection - Regular Hours (1)	\$50.00
Reconnection - After Hours (1)	65.00
Water Meter Test (If Correct) (3)	25.00
Water Re-read (If Correct)	5.00
NSF Check Charge (1)	20.00
Deferred Payment Finance Charge - Per Month	1.50%
Late Charge (4)	1.50%
Service Calls - Per Hour/After Hours (5)	\$40.00
Deposit Requirements	(6)
Deposit Interest	3.50%

NOTES:

- (1) Service charges for customers taking both water and sewer service are not duplicative.
- (2) Months off system times minimum (R14-2-403D)
- (3) \$25.00 plus cost of test
- (4) 1.50% of unpaid balance
- (5) No charge for service calls during normal working hours
- (6) Per ACC Rules (R14-2-403D) - Residential - 2 times est. average bill  
 Commercial - 2 1/2 times est. average bill.

DOCKET W-01427 & WS-01428

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# TARIFF

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Issued \_\_\_\_\_, 2002

Effective \_\_\_\_\_, 2002

ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

60001.00000.19

Attachment C to Settlement Agreement

DECISION NO. 65436

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Dave Ellis, General Manager  
 Litchfield Park Service Company  
 111 W. Wigwam Blvd.  
 Litchfield Park, AZ 85340

DOCKET W-01427 & WS-01428

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ISSUED BY:

Dave Ellis, General Manager  
 Litchfield Park Service Company  
 111 W. Wigwam Blvd.  
 Litchfield Park, AZ 85340

DOCKET W-01427

Cancelling Sheet No.

Applies to all WATER service areas

## PART ONE

STATEMENT OF CHARGES  
WATER SERVICE

## I. RATES

In Opinion and Order No. \_\_\_\_\_, dated \_\_\_\_\_, 2002, the Commission approved the following rates and charges to become effective with \_\_\_\_\_, 2002 usage.

<u>Meter Size</u> Inches	<u>Usage Included in</u> <u>Minimum Charge</u> Gallons	<u>Minimum</u> <u>Charge</u> Per Month
A. General Residential, Commercial, Industrial, and Irrigation Service		
5/8" x 3/4" Meter	-0-	6.75
3/4" Meter	-0-	8.30
1" Meter	-0-	14.60
1 1/2" Meter	-0-	28.60
2" Meter	-0-	56.50
4" Meter	-0-	132.00
8" Meter	-0-	225.00
10" Meter	-0-	330.00
12" Meter	-0-	450.00

The rate for use in addition to the minimum stated above shall be the same for all sizes of meters. Additional usage shall be at the following rate per 1,000 gallons:

<u>Consumption</u>	<u>Rate</u>
0-5,000	\$0.87
over 5,000	\$1.32

Issued \_\_\_\_\_, 2002

Effective \_\_\_\_\_, 2002

ISSUED BY:

Daye Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

60001.00000.19

65436

DECISION NO. \_\_\_\_\_

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES  
WATER SERVICE

B. Construction Water <sup>1</sup>	Usage Included in <u>Minimum Charge</u> Gallons	Minimum <u>Charge</u> Per Month
2" Hydrant Meter <sup>2</sup>	-0-	\$100.00

The rate for use in addition to the minimum stated above shall be the same for all sizes of meter. Additional usage shall be at the rate of \$2.50 per 1,000 gallons.

(i) HYDRANT RELOCATION:

When a Construction Meter is relocated to another hydrant or agreed upon location at the request of the Customer, there shall be a \$50 charge.

(ii) ON PEAK USE PREMIUM:

No construction water shall be used during the Company's peak hour demand periods as set forth below unless specifically allowed by the Company in writing:

Daily	5:00 AM to 9:00 AM
-------	--------------------

Use of construction water during the above periods shall result in a usage premium of \$2,000 for the first incident and \$5,000 for the second incident. On the third incident, construction water service will be terminated and no longer available to that customer or site for a minimum of 180 days.

<sup>1</sup> Construction water service shall be provided as an "as available" basis and is subject to interruption if such service would adversely impact on the water systems operation.

<sup>2</sup> Hydrant meters shall have a non-interest bearing deposit of \$1,500.00, refundable upon return of meter in good condition and payment of final bill.

Issued \_\_\_\_\_, 2002

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

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Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES  
WATER SERVICE

(iii) UNAUTHORIZED CONSTRUCTION WATER USAGE: - - -

Any Developer, builder, contractor or subcontractor who uses water from a Company hydrant without first having formally requested such service and before paying the applicable charges under this Tariff, shall be subject to a stipulated water usage charge of \$1,000 for the first occurrence, and \$5,000 for the second and subsequent occurrences. The Company may refuse all water service to the property on which the unauthorized water usage occurred until the usage charge is paid and service properly established.

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Issued \_\_\_\_\_, 2002

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES  
WATER SERVICE

II. TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-409(D)(5).

Issued \_\_\_\_\_, 2002

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES  
WATER SERVICE

III. ADDITIONAL CHARGES<sup>3</sup>

A.	Establishment of Service Per Rule R14-2-403D (new customer charge, in addition to E, L and M below)	\$ 20.00
	1. If after hours	\$ 40.00
B.	Re-establishment of Service Per Rule R14-2-403D (same customer, same location within 12 months)	Note <sup>4</sup>
C.	Reconnection of Service Per Rule R14-2-403D	\$ 50.00
	1. If after hours	\$ 65.00
D.	Charge for Moving Meter at Customer Request Per Rule R14-2-405B	Cost <sup>5</sup>

<sup>3</sup> Additional charges authorized in Paragraph III A, B, C, H, I and J shall not be duplicated for dual service customers.

<sup>4</sup> Number of months off system times the monthly minimum.

<sup>5</sup> See Sheet No. 9.

Issued \_\_\_\_\_, 2002

Effective \_\_\_\_\_, 2002

ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES  
WATER SERVICE

E.	Minimum Deposit Requirement Per Rule R14-2-403B	
	1. Residential customer	(2 times estimated average monthly bill)
	2. Non residential customer	(2-1/2 times estimated maximum monthly bill)
	3. Deposit Interest (per annum)	3.5%
F.	Meter test per Rule, If correct Per Rule R14-2-408F	\$25.00 plus cost of test
G.	Meter Reread Per Rule R14-2-408C	\$ 5.00
H.	Charge for NSF Check Per Rule R14-2-409F	\$ 20.00
I.	Deferred Payment Finance Charge Per month	1.5%

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Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES  
WATER SERVICE

J. Late Payment Charge  
Per Month

See Notes<sup>6 7 8</sup>

K. Service Calls, per hour  
After hours only

\$40.00<sup>9</sup>

<sup>6</sup> 1.5% per month of unpaid balance.

<sup>7</sup> Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All Late Payment Charges shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the Late Payment Charge by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the Late Payment Charges by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation of other Tariff or Rule provisions. All customers whose service is terminated for failure to pay the Late Payment Charges are subject to the Company's reconnection charges set forth in the Company's tariff.

<sup>8</sup> This charge shall not apply if the customer has arranged for a Deferred Payment Plan.

<sup>9</sup> For service problem found to be on Customer's side of meter. Company will not repair problem.

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES  
WATER SERVICE

L. Meter Advance Policy<sup>10 11</sup>

Advance<sup>12 13</sup>

3/4" Meter	\$225.00
1" Meter	\$300.00
1 1/2" Meter	\$500.00
2" Meter	\$675.00

Service Lines and Meters over 2" Cost<sup>14</sup>

M. Main Extension Tariff Per Rule R14-2-406B Cost<sup>14</sup>

<sup>10</sup> New Service is not available through 5/8" x 3/4" meters.

<sup>11</sup> The Meter Box/Vault will be provided by Company and installed by the Developer/Customer.

<sup>12</sup> The Developer or Customer shall install the service line from the main to the property line in accordance with Company construction standards. This cost may be refundable under a Main Extension Agreement.

<sup>13</sup> Refundable per Rule R14-2-405B.

<sup>14</sup> Per Sheet No. 9.

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES  
WATER SERVICE

IV. PERMITTED COSTS

A. Costs shall be verified by invoice.

B. For services that are provided by the Company at costs, cost shall include labor, materials, other charges incurred, and overhead not to exceed 10%. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.

C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.

D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the provision of the service or after the Company's receipt of invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date. However, if the actual cost is more than five percent (5%) greater than the total amount paid, the customer will only be required to pay five percent (5%) more than the total amount paid, unless the Company can demonstrate that the increased costs were beyond its control and could not be foreseen at the time the estimate for the total amount paid was made.

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES  
WATER SERVICE

E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for water facilities under which the Customer advances or contributes funds or facilities to the Company.

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

Applies to all WATER service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS  
WATER SERVICE

I. CROSS-CONNECTION CONTROL

A. Purpose.

To protect the public water supply in the Company's water supply in the Company's water system from the possibility of contamination caused by backflow through unprotected cross-connections by requiring the installation and periodic testing of backflow-prevention assemblies pursuant to the provisions of the Arizona Administrative Code, Title 14, Chapter 2, Section 405.B.6 as adopted by the Arizona Corporation Commission, and Title 18, Chapter 4, Section 115, as adopted by the Arizona Department of Environmental Quality, or Maricopa County Environmental Services Division, as those regulations may be revised from time to time.

B. Inspections.

The customers shall cooperate fully with the Company in its efforts to investigate and determine the degree of potential health hazard to the public water supply which may result from conditions existing on the customer's premises.

C. Requirements.

In compliance with the Rules and Regulations of the Arizona Corporation Commission and the Arizona Department of Environmental Quality, specifically A.A.C. R14-2-405.B.6 and A.A.C. R18-4-115 relating to backflow prevention:

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

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Applies to all WATER service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS  
WATER SERVICE

1. The Company may require a customer to pay for and have installed, maintain, test and repair a backflow-prevention assembly if A.A.C. R18-4-115.B or C applies.

2. A backflow-prevention assembly required to be installed by the customer under this tariff shall comply with the requirements set forth in A.A.C. R18-4-115.D and E.

3. The Company shall give any customer who is required to install and/or test a backflow-prevention assembly written notice of said requirement. If A.A.C. R14-2-410.B.1.a. is not applicable, the customer shall be given thirty (30) days in which to comply with this notice. If the customer can show good cause as to why he cannot install the device within thirty (30) days, the Company or the Arizona Corporation Commission Staff may grant additional time for this requirement.

4. Testing shall be in conformance with the requirements of A.A.C. R18-4-115.F. and Maricopa County Environmental Services Division. The Company shall not require an unreasonable number of tests.

5. The customer shall provide the Company with records of installation and testing. For each backflow-prevention assembly, these records shall include:

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

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Applies to all WATER service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS  
WATER SERVICE

- a. assembly identification number and description;
- b. location;
- c. date(s) of test(s);
- d. description of repairs made by tester; and
- e. tester's name and certificate number.

D. Discontinuance of Service.

In accordance with A.A.C. R14-2-407 and 410 and provisions of this tariff, the Company may terminate service or deny service to a customer who fails to install and/or test a backflow-prevention assembly as required by this tariff.

1. In the event the backflow-prevention assembly has not been installed or fails any test and A.A.C. R14-2-410.B.1.a. is applicable, the Company may terminate service immediately and without notice. The backflow-prevention assembly shall be installed and repaired by the customer and retested before service is restored.

2. In the event the backflow-prevention assembly has not been installed or fails any test and A.A.C. R14-2-410.B.1.a. is not applicable, the backflow-prevention assembly shall be installed and/or repaired by the customer and tested within fourteen (14) days of written notice by the Company. Failure to install or to remedy the deficiency or dysfunction of the assembly, or failure to retest shall be grounds for termination of water utility service in accordance with A.A.C. R14-2-410.

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

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Applies to all WATER service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS  
WATER SERVICE

II. INTERRUPTIBLE SERVICE; COMPANY'S LIABILITY  
LIMITATIONS

A. The Company will supply only such water at such pressures as may be available from time to time as a result of the normal operation of its water system. The Company will maintain a minimum water pressure of 20 p.s.i. and will not guarantee a specific gallons per minute flow rate at any public fire hydrants or fire sprinkler service. In the event service is interrupted, irregular or defective, or fails from causes beyond the Company's control or through ordinary negligence of its employees or agents, the Company will not be liable for any injuries or damages arising therefrom.

III. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-401 through A.A.C. R14-2-411 will be controlling of Company procedures, unless specific Commission Order(s) provide otherwise.

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

Applies to all WASTEWATER service areas

PART THREE

STATEMENT OF CHARGES  
WASTEWATER SERVICE

I. RATES

In Opinion and Order No. \_\_\_\_\_, dated \_\_\_\_\_, 2002, the Commission approved the following rates and charges to become effective with \_\_\_\_\_, 2002 billings:

<u>Description</u>	<u>Rate</u>
Residential Service – Per Month	\$ 27.20
Multiple Unit Service – Per Unit/Month	25.25
MUS – Wigwam – Per Unit/Month	25.25
Wigwam – Main Building	1,000.00
Elementary School	680.00
Middle School	800.00
High School	800.00
Community College	1,240.00

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
- 111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

---

Applies to all WASTEWATER service areas

## PART THREE

STATEMENT OF CHARGES  
WASTEWATER SERVICE

Commercial:	
Flat Rate Small Commercial – Per Month	46.00
Measured Service:	
Regular Domestic:	
Monthly Service Charge	25.75
Rate Per 1,000 Gallons of Water Usage	2.25
Restaurants, Motels, Grocery Stores & Dry Cleaners:	
Monthly Service Charge	25.75
Rate Per 1,000 Gallons of Water Usage	3.00
Effluent or Reclaimed Water – Per Acre Foot	Market Rate <sup>15</sup>

<sup>15</sup> Maximum effluent rate shall not exceed \$430 per acre-foot based on a potable water rate of \$1.32 per thousand gallons.

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Issued \_\_\_\_\_, 2002

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ISSUED BY:

Dave Ellis, General Manager  
 Litchfield Park Service Company  
 111 W. Wigwam Blvd.  
 Litchfield Park, AZ 85340

Applies to all WASTEWATER service areas

PART THREE

STATEMENT OF CHARGES  
WASTEWATER SERVICE

II. TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

III. ADDITIONAL CHARGES<sup>16</sup>

A.	Establishment of Service per Rule R14-2-603D (new customer charge, in addition to D, I and J below)	\$20.00 <sup>17</sup>
1.	If after hours	40.00
B.	Re-establishment of Service per Rule R14-2-603D (same customer, same location within 12 months)	Note <sup>18</sup>
C.	Reconnection of Service	50.00
	Per Rule R14-2-603D	
1.	If after hours	65.00

<sup>16</sup> Additional charges authorized in Paragraph III A, B, C, E, F and G shall not be duplicated for dual service customers.

<sup>17</sup> Initial monthly billing under PART THREE I to new wastewater service for homes under construction shall commence no sooner than 30, and no more than 60 days after the water meter is installed. Wastewater billing to new service at existing locations shall be pro-rated from the start of service.

<sup>18</sup> Number of months off system times the sum of the monthly minimum.

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

DOCKET WS-01428

Cancelling Sheet No.

Applies to all WASTEWATER service areas

PART THREE

STATEMENT OF CHARGES  
WASTEWATER SERVICE

D.	Deposit Requirement <sup>19</sup> per Rule R140-2-603B	
1.	Residential customer	(2 times estimated average monthly bill)
2.	Non-residential customer	(2-1/2 times estimated maximum monthly bill)
3.	Deposit Interest	3.5%
E.	Charge for NSF Check per Rule R14-2-608E <sup>20</sup>	\$20.00
F.	Deferred Payment Finance Charge, per month <sup>21</sup>	1.5%

<sup>19</sup> The Company does not normally require a deposit prior to the provision of service. However, if the service is not in the property owner's name, this deposit is required. Also in the event service is disconnected due to nonpayment, this deposit may be required.

<sup>20</sup> This charge shall not apply if wastewater service is paid with the same NSF check used to pay for water service for which a NSF fee is charged.

<sup>21</sup> Deferred payments for wastewater service are only available if established in connection with deferred payments for water service under PART ONE, III(I) of this tariff.

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Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

DOCKET WS-01428

Cancelling Sheet No.

Applies to all WASTEWATER service areas

PART THREE

STATEMENT OF CHARGES  
WASTEWATER SERVICE

G.	Late Payment, Per Month, per Rule R14-2-608F	See Notes <sup>22 23 24</sup>
H.	Service Calls, per hour After hours only	\$40.00 <sup>25</sup>
I.	Service Lateral Connection Charge-All Sizes <sup>26</sup>	See Note <sup>27</sup>
J.	Main Extension Tariff, per Rule R14-2-606B	Cost <sup>28</sup>

<sup>22</sup> 1.5% per month of the unpaid balances.

<sup>23</sup> This charge shall not apply if the customer has arranged for a Deferred Payment Plan.

<sup>24</sup> Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All Late Payment Charges shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the Late Payment Charge by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the Late Payment Charges by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation of other Tariff or Rule provisions. All customers whose service is terminated for failure to pay the Late Payment Charges are subject to the Company's reconnection charges set forth in the Company's tariff.

<sup>25</sup> For service problem found to be on Customer's side of lot line. Company will not repair problem.

<sup>26</sup> The Customer/Developer shall install or cause to be installed all Service Laterals as a non-refundable contribution to the Company. Gross-up taxes, if any, shall be paid by the Company. The Company shall own the Service Lateral up to the Customer's property line. The Customer shall own the Service Lateral beyond that point. The Company shall maintain and operate the Service Lateral only from the connection to the main line in the street or right-of-way up to its interconnection with the Customer's Service Lateral at the edge of the right-of-way, beyond which maintenance is the Customer's responsibility

<sup>27</sup> Per Sheet No. 24.

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

Applies to all WASTEWATER service areas

PART THREE

STATEMENT OF CHARGES  
WASTEWATER SERVICE

<sup>28</sup> All Main Extensions shall be completed at cost per Sheet No. 24 and shall be non-refundable Contributions-in-Aid-of-Construction.

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Dave Ellis, General Manager  
Litchfield Park Service Company  
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Litchfield Park, AZ 85340

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K. Off-Site Facilities Hook-Up Fee-Wastewater

1. Applicability: In addition to any other Commission approved charges and requirements for Service Lateral Connection Charges and on-site facilities to be installed pursuant to Main Extension Agreements, the following Off-Site Facilities Hook-Up Fee is applicable to all new Service Connections located within property that is located in the Certificate of Convenience and Necessity Extension Areas of the Company for which Off-Site Facilities cost have not been paid by the Applicant under separate agreement. Extension Areas are defined as the geographic area added to the Company's Certificate of Convenience and Necessity by Commission Order after the effective date of this Tariff.
2. Purpose: To equitably apportion the costs of off-site wastewater facility development among all new Service Connections.
3. Definitions:

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new Service Connections.

"Company" means Litchfield Park Service Company.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of wastewater facilities to Company to serve new Service Connections, or install wastewater facilities to serve new Service Connections and transfer ownership of such wastewater facilities to Company.

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"Off-Site Facilities" means treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenance necessary for proper operation, including engineering and design costs. Off-Site Facilities may also include lifts stations, force mains, trunk collection mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of Applicant.

"Residential Equivalent Units" or "REU's" mean the gallonage inflow to the Company's treatment facilities generated by a single-family residential customer, 320 gallons per day.

"Service Connection" means and includes all Service Connections for single-family residential or other uses, regardless of service lateral size.

- 4. Off-Site Facilities Hook-Up Fee: Each new Service Connection shall pay the total Off-site Facilities Hook-up Fee based on the following:

4" Service Laterals	\$1,500 per service connection
All Commercial Properties or Non-Standard Residential Service Laterals	\$1,500 per REU

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5. Terms and Conditions:

- A. Time of Payment: In addition to the amounts to be advanced pursuant to a Main Extension Agreement, the Applicant for new wastewater services shall pay the Company the Off-Site Facilities Hook-Up Fee as determined by service lateral size, number of connections or REU's of any commercial or non-standard residential facilities to be installed pursuant to the Main Extension Agreement. Payment of the Off-Site Facilities Hook-Up Fee shall be made at the time of execution of the Main Extension Agreement.
- B. Off-Site Facilities Hook-Up Fee Refund: The total Off-Site Hook-Up Fee amounts collected by the Company pursuant to the Off-Site Facilities Hook-Up Fees shall be refundable advances in aid of construction pursuant to Commission Rule for a period of fifteen (15) years equal to 10% of the total gross annual revenue from wastewater sales to each bona fide consumer whose service line is connected to main lines covered by a main extension agreement, after which the non-refunded balance shall become a contribution in aid of construction to the Company.
- C. Trust Account: All funds collected by the Company as Off-Site Facilities Hook-Up Fees shall be accounted for separately and used for the purpose of paying for the costs of Off-Site Facilities, including repayment of loans obtained for the installation of Off-Site Facilities.
- D. Disposition of Excess Funds: After all necessary and desirable Off-Site Facilities are constructed utilizing funds collected pursuant to the Off-Site Facilities Hook-Up Fee or the Off-Site Facilities Hook-Up Fee has been terminated by order of the Commission, any funds remaining shall be expended as approved by the Director of the Utilities Division of the Commission.
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Litchfield Park Service Company  
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PART THREE

STATEMENT OF CHARGES  
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IV. - PERMITTED COSTS

- A. Costs shall be verified by invoice.
- B. For services that are provided by the Company at cost, cost shall include labor, materials, other charges incurred, and overhead. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.
- C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.
- D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date.
- E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.
- F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for wastewater facilities under which the Customer advances or contributes funds or facilities to the Company.

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Dave Ellis, General Manager  
Litchfield Park Service Company  
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PART FOUR

STATEMENT OF TERMS AND CONDITIONS  
WASTEWATER SERVICE

I. CUSTOMER DISCHARGE TO SYSTEM

A. Service Subject to Regulation

The Company provides wastewater service using treatment and collection facilities that are regulated by numerous county, state and federal Statutes and Regulations. Those Regulations include limitations as to domestic strength wastewater and the type of wastewater that may be discharged into the system by any person directly or indirectly connected to the plant.

B. Waste Limitations

The Company has established the permissible limits of concentration as domestic strength wastewater and will limit concentration for various specific substances, materials, waters, or wastes that can be accepted in the sewer system, and to specify those substances, materials, waters, or wastes that are prohibited from entering the sewer system. Each permissible limit so established shall be placed on file in the business office of the Company, with a copy filed with the Commission. No person shall discharge, or cause to be discharged, any new sources of inflow including, but not limited to, storm water, surface water, groundwater, roof runoffs, subsurface drainage, cooling water, or polluted industrial process waters into the sanitary sewer. The Company will require an affidavit from all commercial and industrial customers, and their professional engineer, stating that the wastewater discharged to the system does not exceed domestic strength.

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
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PART FOUR

STATEMENT OF TERMS AND CONDITIONS  
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C. Inspection and Right of Entry

Every facility that is involved directly or indirectly with the discharge of wastewater to the Treatment Plant may be inspected by the Company as it deems necessary. These facilities shall include but not be limited to sewers; sewage pumping plants; all processes; devices and connection sewers; and all similar sewerage facilities. Inspections may be made to determine that such facilities are maintained and operated properly and are adequate to meet the provisions of these rules. Inspections may include the collection of samples. Authorized personnel of the Company shall be provided immediate access to all of the above facilities or to other facilities directly or indirectly connected to the Treatment Plant at all reasonable times including those occasioned by emergency conditions. Any permanent or temporary obstruction to easy access to the user's facility to be inspected shall promptly be removed by the facility user or owner at the written or verbal request of the Company and shall not be replaced. No person shall interfere with, delay, resist or refuse entrance to an authorized Company representative attempting to inspect any facility involved directly or indirectly with a discharge of wastewater to the Treatment Plant. Adequate identification shall be provided by the Company for all inspectors and other authorized personnel and these persons shall identify themselves when entering any property for inspection purposes or when inspecting the work of any contractor.

All transient motor homes, travel trailers and other units containing holding tanks must arrive at the Company's service area in an empty condition. Inspection will

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Litchfield Park Service Company  
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DOCKET WS-01428

Cancelling Sheet No.

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**PART FOUR****STATEMENT OF TERMS AND CONDITIONS  
WASTEWATER SERVICE**

be required of said units prior to their being allowed to hookup to the wastewater system.

**D. Termination of Water Service for Violation of Wastewater Rules and Regulations**

The Company is authorized to discontinue water service to any person connected to both its water and sewer systems who violates the Company's wastewater terms and conditions as set forth in this PART FOUR or in any way creates a public health hazard or the likelihood of such a public health hazard. This termination authority does not apply to non-payment for water or wastewater services.

**II. RULES AND REGULATIONS**

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-601 through A.A.C. R14-2-609 will be controlling of Company procedures, unless specifically approved tariffs or Commission Order(s) provide otherwise.

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ISSUED BY:

Dave Ellis, General Manager  
Litchfield Park Service Company  
111 W. Wigwam Blvd.  
Litchfield Park, AZ 85340

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**DECISION NO. \_\_\_\_\_**