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Transcript Exhibit(s)

SW-04123A-03-0692

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MEMORANDUM

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2005 AUG 12 P 1: 15

TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

AZ CORP COMMISSION
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DATE: August 12, 2005

RE: STAFF REPORT FOR THE MARTINEZ LAKE SEWER COMPANY
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND
NECESSITY FOR SEWER SERVICES DOCKET NO. SW-04123A-03-0692

Attached is the Staff Report for the above referenced application. Staff recommends approval of the application subject to several conditions.

EGJ:LAJ:red

Originator: Linda Jaress

Attachment: Original and Thirteen Copies



Service List for: Martinez Lake Sewer Company
Docket No. SW-04123A-03-0692

Mr. Wade Noble
Noble Law Offices
1405 West 16th Street
Yuma, Arizona 85364

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MARTINEZ LAKE SEWER COMPANY

DOCKET NO. SW-04123A-03-0692

APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE
SEWER SERVICE IN YUMA COUNTY, ARIZONA

August 12, 2005

STAFF ACKNOWLEDGEMENT

The Staff Report for Martinez Lake Sewer Company (Docket No. SW-04123A-03-0692) was prepared by the Staff members listed below. Linda Jaress prepared the Staff Report, Marlin Scott, Jr. prepared the Engineering Report and James Dorf prepared the Financial and Regulatory Analysis Report.

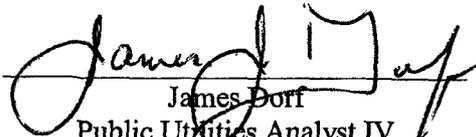
Contributing Staff:



Linda A. Jaress
Executive Consultant II



Marlin Scott, Jr.
Utilities Engineer



James Dorf
Public Utilities Analyst IV

**EXECUTIVE SUMMARY
MARTINEZ LAKE SEWER COMPANY
DOCKET NO. SW-04123A-03-0692**

On September 19, 2003, Martinez Lake Sewer Company ("Martinez Lake" or "the Company") filed an application for approval of a Certificate of Convenience and Necessity ("CC&N") to provide utility wastewater service in an area within Yuma County, Arizona located approximately 30 miles northeast of the City of Yuma. Martinez Lake has projected 200 connections. The requested area covers approximately 138 acres or 0.25 square miles.

The Company proposes to construct a sewer collection system that will consist of 5,194 feet of collection main, 24 manholes, 200 laterals, 1,485 feet of force main and two lift stations. The flow from the Martinez Lake collection system will be transported to the treatment plant belonging to Fisher's Landing Water and Sewer Works ("Fisher's Landing") which is adjacent to Martinez Lake's requested area. Fisher's Landing owns and operates a 75,000 gallon per day wastewater treatment plant and will provide wastewater treatment service to Martinez Lake under a contract. Staff has determined that Fisher's Landing has sufficient capacity to serve Martinez Lakes.

Staff concludes that under certain conditions the requested CC&N of Martinez Lake is in the public interest and should be approved. Staff recommends approval under the following conditions:

1. The Commission's initial decision in this matter should be an "Order Preliminary" whereby, after the Company complies with Decision No. 62091 and recommendations 2, 4, 6, and 9, listed below, the Commission should issue a final order approving the CC&N extension.
2. The Company must file with Docket Control, a copy of Fisher's Landing's Aquifer Protection Permit within one year after a decision is issued in this proceeding.
3. The Company must use the wastewater depreciation rates by individual NARUC category as delineated in Table B of the attached Staff Engineering Report.
4. The Company must file documentation with Docket Control when the Company serves its first customer.
5. The Company must charge Staffs recommended rates and charges as shown in Schedule JJD-3. The Company may collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C. R-14-2-409.D.5.
6. The Company must file in Docket Control a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

7. The Company must file a general rate application within five years from the date its operations commence.
8. The Company must maintain its books and records in accordance with the NARUC Uniform System of Accounts.
9. The Company must submit to Docket Control a copy of its Approval to Construct ("ACT") from Yuma County when received by the Company, but no later than 12 months after the effective date of the order.
10. The Commission should find that the fair value rate base is estimated to be \$473,581 in the fifth year.

Staff further recommends that the Commission's Decision granting this CC&N to Martinez Lake be considered null and void without further order from the Commission should the Company fail to meet conditions 1, 5 and 8 within the time specified.

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Introduction

On September 19, 2003, Martinez Lake Sewer Company ("Martinez Lake" or "the Company") filed an application for approval of a Certificate of Convenience and Necessity ("CC&N") to provide utility wastewater service in an area within Yuma County, Arizona located approximately 30 miles northeast of the City of Yuma. Martinez Lake has projected 200 connections. The requested certificated area covers approximately 138 acres or 0.25 square miles and encompasses most of the area for which Shepard Water Company is certificated to provide water service. Both Shepard and Martinez Lake are owned by the same individuals. The legal area requested by Martinez Lake is reflected on Exhibit 1, attached.

Background

Martinez Lake will provide wastewater service to a resort area called Martinez Lake Resort ("the Resort"). The Resort is a multi-use facility which includes commercial, restaurant, boat dock and rental site facilities. Within the Resort and adjacent to it are approximately 140 lots which will be sold and will provide the vast majority of the hookups to the proposed sewer system. Water service will be provided by Shepard. The owner's representative provided a letter indicating that Mr. and Mrs. Guth are the owners of the property to be serviced by the sewer company and made the request for service.

The Proposed Facilities

The Company proposes to construct a sewer collection system that will consist of 5,194 feet of collection main, 24 manholes, 200 laterals, 1,485 feet of force main and two lift stations. Attached as Exhibit 2 is Staffs Engineering Report which provides a more complete description of the proposed system, the costs of the plant, and a description of Fisher's Landing Water and Sewer Works ("Fisher's Landing"). The collection facilities will allow for the abandonment of existing septic tanks.

The flow from the Martinez Lake collection system will be transported to the treatment plant belonging to Fisher's Landing which is adjacent to Martinez Lake's requested area. Fisher's Landing holds a CC&N to provide wastewater utility service and is currently serving an RV park with 211 available spaces and a mobile home park with 111 available spaces. It owns and operates a 75,000 gallon per day wastewater treatment plant and will provide wastewater treatment service to Martinez Lake under a contract. Staff has determined that Fisher's Landing has sufficient capacity to serve Martinez Lakes.

Contract with Fisher's Landing

The contract between Fisher's Landing and Martinez Lake calls for a one-time connection fee of \$8,000. Martinez Lake will also pay Fisher's Landing \$2.50 per 1,000 gallons for treatment of wastewater. Pursuant to the contract, the charges for treatment may be adjusted only upon a rate hearing before the Arizona Corporation Commission ("Commission"). Disputes

would be resolved by arbitration or other agreed-upon alternate dispute resolution. There is no limit to the volume of sewage delivered by Martinez Lake to Fisher's Landing and there are provisions in the contract that address the potential need for increased capacity.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Martinez Lake does not currently have a wastewater plant and will only have a wastewater collection system. Therefore, **ADEQ** does not regulate the system. However, Fisher's Landing is regulated by **ADEQ** and is in compliance with **ADEQ** regulation. Staff recommends that Martinez Lake file with Docket Control, a copy of Fisher's Landing's Aquifer Protection Permit within one year after a decision is issued in this proceeding.

Proposed Rates

Attached as Exhibit 3, is the Report of the Financial and Regulatory Analysis Section. Included in the Report is a financial analysis of the Company and, as Schedule JJD-3, a complete list of Staffs recommended rates and charges. Briefly, Staff recommends lower rates than those proposed by the Company. Staffs adjustments to rates are based on generating a more reasonable rate of return. Staffs rates of \$22 per month for residential and \$261 per month for commercial service would result in a rate of return in year five of 10 percent compared to the Company's proposed rates of \$31 for residential and \$350 for commercial resulting in a rate of return of over 22 percent.

Staff also found that the projected fair value rate base in year five is \$473,581.

Consumer Service and Compliance

As previously mentioned, Shepard Water Company is owned by the same person as Martinez Lake. It is logical to assume that under common ownership, the two utilities will be operated in a similar manner. It is therefore prudent to review the compliance of Shepard with the Commission's rules, regulations and decisions and to review the number of complaints filed against it in the determination of whether or not Martinez Lake will be a fit and proper entity to hold a CC&N. Staff reviewed the Consumer Services Division database, and over the past three and one-half years, there were no consumer complaints against Shepard recorded.

However, according to the records of the Commission's Compliance Section, Shepard has not complied with Decision No. 62091, dated November 19, 1999. Some of the requirements of that decision with which Shepard did not comply include requirements to file a rate application, loan documents, progress reports on a Water Infrastructure Finance Authority loan and final design reports and project plans.

Order Preliminary

Staff recommends that Commission should issue an "Order Preliminary" in this docket. This recommendation is based upon the compliance status of Shepard. After Shepard's complete compliance with Decision No. 62091 (as evidenced by a memo to the docket from Commission Staff), and compliance with Staffs other recommendations listed below, the Commission should issue a final order granting the CC&N.

Conclusions and Recommendations

Staff concludes that under certain conditions the requested CC&N of Martinez Lake is in the public interest and should be approved. Staff recommends approval under the following conditions:

1. The Commission's initial decision in this matter should be an "Order Preliminary" whereby, after the Company complies with Decision No. 62091 and recommendations 2, 4, 6, and 9, listed below, the Commission should issue a final order approving the CC&N extension.
2. The Company must file with Docket Control, a copy of Fisher's Landing's Aquifer Protection Permit within one year after a decision is issued in this proceeding.
3. The Company must use the wastewater depreciation rates by individual NARUC category as delineated in Table B of the attached Staff Engineering Report.
4. The Company must file documentation with Docket Control when the Company serves its first customer.
5. The Company must charge Staffs recommended rates and charges as shown in Schedule JJD-3. The Company may collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C. R-14-2-409.D.5.
6. The Company must file in Docket Control a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
7. The Company must file a general rate application within five years from the date its operations commence.
8. The Company must maintain its books and records in accordance with the NARUC Uniform System of Accounts.
9. The Company must submit to Docket Control a copy of its Approval to Construct ("ACT") fi-om Yuma County when received by the Company, but no later than 12 months after the effective date of the order.

10. The Commission should find that the fair value rate base is estimated to be \$473,581 in the fifth year.

Staff further recommends that the Commission's Decision granting this CC&N to Martinez Lake be considered null and void without further order from the Commission should the Company fail to meet conditions 1, 5 and 8 within the time specified.

MEMORANDUM

TO: Jim Fisher
Executive Consultant II
Utilities Division

FROM: Barb Williams *BSW*
Information Technology Specialist
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: October 16, 2004

RE: **MARTINEZSEWER COMPANY [DOCKET NO. SW-4123A-03-06921]**

The area requested by Martinez Sewer Company has been plotted using a revised legal description for Exhibit 'A', which has been docketed. This legal description is attached (along with the original Exhibit 'B') and should be used in place of the original description submitted with the application.

Also attached is a copy of the map for your files.

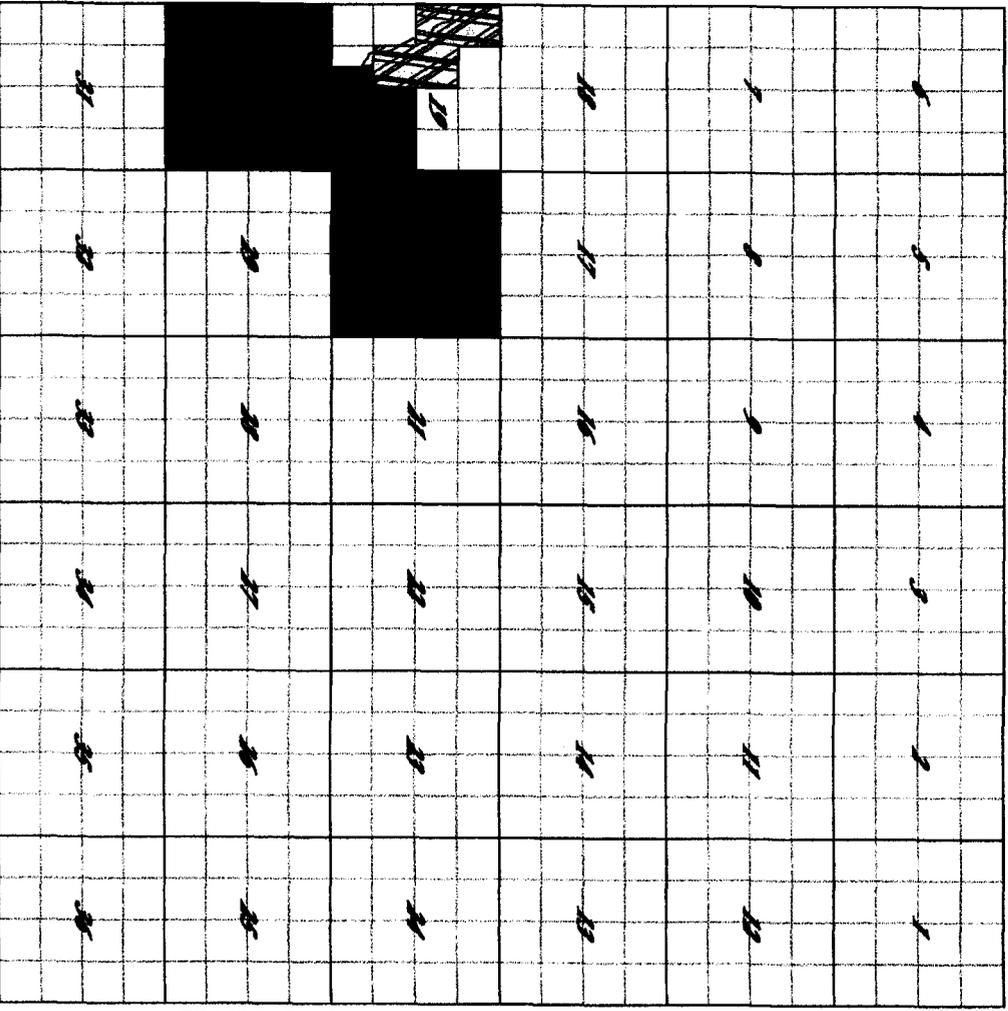
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Attachments

cc: Docket Control
Mr. Wade Noble
Deb Person (Hand Carried)
File

COUNTY: Yuma

RANGE 21 West



TOWNSHIP 5 South



WS-4047 (1)



Fisher's Landfill Water and Sewer Works, LLC



W-1537 (1)

Shepard Water Company, Inc.



Martinez Lake Sewer Company
 Docket No. SW-4123-03-692
 Application for Sewer CCAN

Martinez Lake Sewer Company
SW-04123A-03-0692

EXHIBIT "A"

That portion of Lot 4 of Section 19, Township 5 South, Range 21 West, Gila and Salt River Base and Meridian, Yuma County Arizona, More particularly described as follows:

Beginning at the Southeast corner of Section 19, Township 5 South, Range 21 West; thence North 65 degrees 44 minutes 56 Seconds West a distance of 3,220.64 feet to a point on the North line of Lot 4; Thence along the north line of said Lot 4 south 89 degrees 56 minutes 12 seconds West a distance of 427.32 feet to the TRUE POINT OF BEGINNING; Thence continuing South 89 degrees 56 minutes 12 seconds West a distance of 422.89 feet; Thence South 35 degrees 16 minutes 34 seconds East a distance of 65.00 feet; Thence South 13 degrees 25 minutes 34 seconds East a distance of 83.06 feet; Thence South 71 degrees 07 minutes 47 seconds East a distance of 110.67 feet; Thence south 59 degrees 05 minutes 55 seconds East a distance of 340.39 feet; thence North 00 degrees 57 minutes 07 seconds West a distance of 246.06 feet; thence North 19 degrees 47 minutes 17 seconds West a distance of 78.71 feet; Thence North 00 degrees 00 minutes 43 seconds West a distance of 24.84 feet to the TRUE POINT OF BEGINNING.

Containing 2.0966 Acres more or less.

EXHIBIT "B"

LEGAL DESCRIPTION

THAT PORTION OF LOTS 1, 2, AND 3 AND THE SE 1/4, NW 1/4 OF SECTION 19, TOWNSHIP 5 SOUTH, RANGE 21 WEST, G.&S.R.B.&M., YUMA COUNTY ARIZONA, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE SE CORNER OF SECTION 19, TOWNSHIP 5 SOUTH, RANGE 21 WEST THENCE WESTERLY A DISTANCE OF 2639.26 TO THE S 1/4 CORNER OF SECTION 19 T.5S., R21W, THENCE N00°05'00"W A DISTANCE OF 1319.77 TO THE SE CORNER OF LOT 3, BEING THE NE CORNER OF LOT 4 (IN LAKE) AND THE TRUE POINT OF BEGINNING;

**THENCE N89°57'20"W ALONG THE NORTH LINE OF LOT 4, A DISTANCE OF 1108.68' TO A POINT;
THENCE N05°30'00"W A DISTANCE OF 523.87 TO A POINT;
THENCE N29°45'00"W A DISTANCE OF 815.10' TO A POINT;
THENCE N19°45'00"E A DISTANCE OF 389.40' TO A POINT;
THENCE N59°45'01"W A DISTANCE OF 576.00' TO A POINT;
THENCE N29°29'55"W A DISTANCE OF 290.40' TO A POINT;
THENCE N09°59'55"W A DISTANCE OF 244.20' TO A POINT;
THENCE N56°51'10"W A DISTANCE OF 521.56 TO A POINT;
THENCE NORTHERLY A DISTANCE OF 1320.00' TO THE NW CORNER OF LOT 1;
THENCE S89°56'00"E A DISTANCE OF 1227.60' TO THE NE CORNER OF LOT 1;
THENCE SOUTHERLY A DISTANCE OF 1320.00' TO THE SE CORNER OF LOT 1;
THENCE S89°57'00"E A DISTANCE OF 1320.00' TO THE NE CORNER, SE 1/4, NW 1/4;
THENCE S00°05'00"E A DISTANCE OF 2662.80' TO THE TRUE POINT OF BEGINNING;
CONTAINING 134.4990 ACRES MORE OF LESS.**

MEMORANDUM

DATE: August 4, 2005

TO: Linda Jaress
Executive Consultant III

FROM: Marlin Scott, Jr. *msj*
Utilities Engineer

RE: Martinez Lake Sewer Company
Docket No. SW-04123A-03-0692(CC&N)

Introduction

Martinez Lake Sewer Company ("Company") has submitted a Certificate of Convenience and Necessity ("CC&N") application to provide sewer service in Yuma County. The requested sewer service area is approximately 30 miles northeast of Yuma and is approximately 1/4 square-mile in area.

Existing Wastewater Treatment Plant

The Company is proposing to transport its sewer flow to Fisher's Landing Water and Sewer Works' ("Fisher's) existing 75,000 gallon per day ("GPD") wastewater treatment plant. Fisher's was granted a CC&N to provide water and sewer service in Decision No. 64998 (June 26, 2002) and is currently providing sewer service to two commercial properties.

Company's Proposed Sewer System

The Company is proposing to construct a sewer collection system that will consist of 5,194 feet of collection main, 24 manholes, 200 laterals, 1,485 feet of force main, and two lift stations. The flow from this collection system will be transported to the Fisher's plant.

Capacity

The number of service laterals (connections) and monthly wastewater flows were not recorded in Fisher's 2003 Annual Report. Therefore, in its analysis, Staff used an estimated 150 GPD per connection to determine that Fisher's 75,000 GPD plant could serve up to 500 connections. Fisher's system currently serves two commercial properties, a RV Park and Mobile Home Park ("MHP") having 214 and 111 available spaces,

respectively. Fisher's indicated that the RV Park and MHP are usually 70% occupied, which would equate to 227 occupied spaces in order to determine wastewater flows from the two commercial properties. The Company has predicted an additional 200 connections for its requested area, resulting in projected total service connections of 427 served by Fisher's plant. Staff concludes that the Fisher's wastewater plant has the capacity to serve the Company's requested area.

Cost Analysis

The Company submitted a total estimated project cost for its proposed plant-in-service at \$518,242. Staff has reviewed the proposed plant-in-service as shown in Table A and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes.

Table A, Proposed Plant-in-Service

Acct. No.	Martinez Lake Sewer Co. Plant-in-Service	Company Cost	Company Total
351	Organization	\$ -	\$ -
352	Franchise		
360	Collection Sewers - Force		169,788
	4" force main, 995 ft.	9,950	
	6" force main, 490 ft.	5,880	
	Small lift station	40,000	
	Big lift station	80,000	
	Engineering & contingency @ 25%	33,958	
361	Collection Sewers - Gravity		248,455
	8" sewer line, 4,822 ft.	96,440	
	6" sewer line, 372 ft.	6,324	
	Manholes, 24 each	96,000	
	Engineering & contingency @ 25%	49,691	
363	Services to Customers		100,000
	Laterals, 200 each	80,000	
	Engineering & contingency @ 25%	20,000	
		\$ 518,243	\$ 518,243

Arizona Department of Environmental Quality ("ADEQ") Compliance

Company's Compliance Status

The Company does not have any plant facilities at this time, therefore, ADEQ does not regulate the wastewater system and the compliance status is not applicable.

Company's Approval to Construct

The Company has not received its Certificate of Approval to Construct ("ATC") for construction of the facilities from the delegated Yuma County. Staff recommends that the Company file with Docket Control a copy of this ATC when received by the Company, but no later than 12 months after the effective date of the order granting this application.

Fisher's Compliance Status

Fisher's wastewater system is in compliance with ADEQ regulation.

Fisher's Aquifer Protection Permit

Since an Aquifer Protection Permit ("APP") represents a fundamental authority for the designation of a wastewater service area and a wastewater provider, Staff recommends that the Company file with Docket Control a copy of Fisher's APP within one year after a decision is issued in this proceeding.

Depreciation Rates

Staff has developed typical and customary Wastewater Depreciation Rates within a range of anticipated equipment life. These rates are presented in Table B and it is recommended that the Company use these depreciation rates by individual NARUC category as delineated in the attached Table B.

Summary

Conclusions

- A. Staff concludes that the Company's proposed collection system will have adequate infrastructure to serve the requested area.
- B. Staff concludes that the Fisher's 75,000 GPD wastewater plant has the capacity to serve the Company's requested area.
- C. Staff concludes that the proposed plant facilities and cost are reasonable and appropriate. However, no "used and useful" determination of this plant-in-service

was made, and no particular future treatment should be inferred for rate making or rate base purposes.

- D. The Company does not have any plant facilities at this time, therefore, ADEQ does not regulate the wastewater system and the compliance status is not applicable.
- E. Fisher's wastewater system is in compliance with ADEQ regulation.

Recommendations

1. Staff recommends that the Company file with Docket Control a copy of the ATC when received by the Company, but no later than 12 months after the effective date of the order granting this application.
2. Staff recommends that the Company file with Docket Control a copy of Fisher's APP within one year after a decision is issued in this proceeding.
3. Staff recommends that the Company use the wastewater depreciation rates by individual NARUC category as delineated in the attached Table B.

Table B. Wastewater Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers-- Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

MEMORANDUM

TO: Linda Jaress

FROM: James J. Dorf 

DATE: August 10, 2005

RE: IN THE MATTER OF MARTINEZ LAKE SEWER COMPANY'S
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND
NECESSITY - DOCKET NO. SW-04123A-03-0692

Introduction

On September 19, 2003, Martinez Lake Sewer Company ("Company") filed its application for a Certificate of Convenience and Necessity to provide wastewater service in Yuma County. The requested service area is approximately 30 miles northeast of Yuma, Arizona and is approximately $\frac{1}{4}$ square mile in area. On March 31, 2005, the Company filed a request to waive the time clock rules associated with the filing for the tariff amendment. The Company has proposed its initial rates and provided pro forma financial information for its first five years of operations.

Staff recommends approval of its proposed initial rates and service charges as reflected on Schedule JJD-3.

Staff Analysis

The Company has provided pro forma financial information regarding its estimates for the first five years of operation (Schedule JJD-2).

Operating Expenses:

The Company is proposing to transport its wastewater flow to Fisher's Landing Water & Sewer Works, L.L.C. ("Fisher") to which the Company will be inter-connected. The Company has a Sewer Facility Use Agreement ("Agreement") with Fisher. Staff reviewed the estimated gallonage and per customer charges provided for in the Agreement. The Company's estimate for sewage disposal costs appears reasonable and is consistent with the Agreement. The Company's estimates for its other operating costs appear reasonable and consistent with its operations.

Operating Revenue:

The Company's estimated revenue was based upon a flat rate of \$31.00 per month for residential and \$350.00 per month for commercial customers. These rates will produce estimated revenues of \$161,400 in year five. Based on Staff's pro forma rate base for year five, the Company's estimated operating income of \$104,100 will produce an estimated return on original cost rate base ("OCRB") of 22.12 percent.

The Company's proposed return was based on an estimate of recapturing its capital costs amortized over 20 years at 6 percent. That would result in an annual recovery of approximately \$44,553, although the Company's calculation yielded \$42,768. The Company would also realize an additional amount of pretax income, up to \$61,332 in year five (See Schedule JJD-2). Staff will recommend lower rates to produce a more reasonable return on OCRB.

Staff recommends a flat residential rate of \$22.00 per month and a commercial rate of \$261.00 per month. This will provide estimated annual revenues of approximately \$115,000 in year five and will yield an estimated return on OCRB of 10.00 percent (Schedule JJD-1). Staff also compared its proposed residential rate to those published in the Arizona Water & Residential Rate Survey for 2003 published by the Water Infrastructure Finance Authority. The monthly median was \$17.12 for the state of Arizona, and \$21.50 for systems with less than 500 customers. For smaller systems the monthly cost ranged from a low of \$5.00 to a high of \$80.00.

The Company has also proposed certain Service Charges. Staff recommends adoption of its Service Charges as they are consistent with those of other company service charges recently approved by the Commission.

Staff recommends that the Company be required to file for new rates within five years from the date its operations commence. This will provide Staff with an opportunity to review the appropriateness of its rates and charges.

Staff's Recommendation

Staff recommends:

1. approval of its rates and charges as shown on Schedule JJD-3. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C. R14-2-409.D5.
2. that the Company docket with the Commission a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
3. that the Company be required to file a general rate application within five years from the date its operations commence.
4. that the Company utilize the depreciation rates delineated in the Engineering Report.
5. that the Company maintains its books and records in accordance with the NARUC Uniform System of Accounts.

PRO FORMA REVENUE REQUIREMENT

Line No.	Description	Year 5	
		Company Original Cost	Staff Original Cost
1	Adjusted Rate Base	\$473,581	\$473,581
2	Adjusted Operating Income	\$104,768	\$47,335
3	Current Rate of Return (L2/L1)	22.12%	10.00%
5	Required Operating Income	\$93,735	\$47,335
6	Operating Expenses	\$67,665	\$67,665
7	Revenue Requirement	\$161,400	\$115,000

PRO FORMA OPERATING INCOME

LINE NO.	DESCRIPTION	COMPANY					STAFF Year 5
		Year 1	Year 2	Year 3	Year 4	Year 5	
1	Operating Revenues:						
2	Residential	\$81,840	\$93,000	\$92,300	\$111,600	\$148,800	\$105,600
3	Commercial	12,600	12,600	12,600	12,600	12,600	9,400
4	Other Sewer Revenues	11,045	1,545	1,295			
5	Total Operating Revenue*	105,485	107,145	106,195	124,200	161,400	115,000
6							
7	Operating Expenses:						
8	Effluent disposal	23,000	16,800	18,300	19,800	25,800	25,800
9	Management	12,000	12,000	12,000	12,000	12,000	12,000
10	Maintenance Labor & Repairs	7,200	7,200	7,200	7,200	7,200	7,200
11	Accounting and Legal	6,600	6,600	6,600	6,600	6,600	6,600
12	Other Expenses	2,700	2,700	2,700	2,700	2,700	2,700
13	Depreciation	3,000	3,000	3,000	3,000	3,000	10,365
14	Property Taxes	54,500	48,300	49,800	51,300	57,300	3,000
15	Total Operating Expenses						67,665
16							
17	Operating Income	\$50,986	\$58,846	\$66,396	\$72,900	\$104,100	\$47,335
18	Company Proposed Return*	42,768	42,768	42,768	42,768	42,768	
19	Income	\$8,218	\$16,078	\$23,628	\$30,132	\$61,332	\$47,335

*Company's Proposed Return is approximately a 6.25% return on an Original Cost Rate Base of \$518,243

PROPOSED RATES

<u>Monthly Usage Charge</u>	<u>-Proposed Rates-</u>	
	<u>Company</u>	<u>Staff</u>
Residential	\$31.00	\$26.00
Commercial	\$350.00	\$261.00
<u>Service Charges</u>		
Establishment	\$50.00	\$100.00
Establishment (After Hours)		\$100.00
Reconnection (Delinquent)	\$75.00	\$100.00
Deposit	\$50.00	
Deposit Interest	6.00%	
Re-Establishment (Within 12 Months)	\$100.00	
NSF Check	\$30.00	
Deferred Payment		
Late Fee	\$5.00	

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)
*** 1.5% per month.

Noble Law Offices

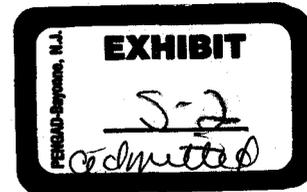
1405 W. 16th Street Yuma Arizona 85364

(928)343-9447 Fax (928)343-9483

noblew@mindspring.com

WADE NOBLE, Esq.

July 26, 2005



Mr. David M. Ronald
Attorney, Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

RECEIVED

**Re: Martinez Lake Sewer Company
Docket No. SW-04123A-03-0692**

AUG 01 2005

LEGAL DIV.
ARIZ. CORPORATION COMMISSION

Dear Mr. Ronald:

Below is the response of the applicant regarding your request for information dated July 11, 2005:

LAJ 1-1 **The contract between Martinez Lakes and Fisher's Landing is not dated and does not have an expiration date. Please provide a dated copy and explain why it does not have an expiration date.**

The contract is dated July 9, 2003 and a copy of the dated contract is attached hereto. There is no termination date for the contract because it is for a permanent service. After flowage begins, there was no concept that flowage would terminate.

LAJ 1-2 **The request for service provided to Staff is a request for service from the resort. Does the resort comprise the entire requested CC&N area? If not, provide requests for service for the other portions of the requested area.**

Please review the map. Mr. Guth, the owner of Martinez Lake Resort, and the applicant herein, owns almost all of the developed anticipated connections. Martinez Lake Resort is a multi-use facility which includes some commercial, a restaurant and boat dock, and rental sites. Within Martinez Lake Resort and

Mr. David M. Ronald
July 26, 2005
Page two

adjacent to Martinez Lake Resort, there are over 140 rental sites at Martinez Lake Resort that will be converted into subdivided lots. The subdivided lots, commercial and restaurant, represent over 90 percent of the possible hookups to the system. Private lot owners within the certificated area will be offered the opportunity to connect to sewer and water but will not be required to connect subsequent post certificate sales of lots.

LAJ 1-3 Please provide updates to Martinez Lakes' application including an update of costs, the status of an Approval to Construct from Arizona Department of Environmental Quality to construct and the status of a Section 208 amendment from the County government.

The application regarding the system before ADEQ is pending and has been suspended until the Arizona Corporation Commission issues a Certificate of Convenience and Necessity. No Approval to Construct from ADEQ will be granted until a CC&N is received. The cost update is being provided directly from the Project Engineer Bruce Jacobson of Jacobson Engineering. Please confirm whether or not you have received the cost update. Mr. Jacobson was also going to provide the update status as to any Section 208 amendment from Yuma County.

LAJ 1-4 Is Shepard currently charging the \$5.00 surcharge permitted by the Decision in its last rate case?

The Decision and Order dated November 19, 1999 in the Shepard Water Company permitted the \$5.00 surcharge. The \$5.00 surcharge is not currently being collected nor has it been collected in the past.

LAJ 1-5 If Shepard is out of compliance with any previous Commission decisions, provide dates of planned compliance and the steps Shepard will take to be in compliance with those decisions.

In order to respond to LAJ 1-5, a description of the relationship among Shepard Water Company, Martinez Lake Sewer Company, and the subdivision of the Martinez Lake Resort is necessary. Shepard Water Company is now owned by John Guth. Mr. Guth had not purchased Shepard Water Company prior to the

Mr. David M. Ronald
July 26, 2005
Page three

entry of the Decision and Order *In the Matter of the Application of Shepard Water Company for Financing Approval; In the Matter of the Application of Shepard Water Company for an Increase in Rates* Docket No. W-01537A-99-0100; Docket No. W-01537A-99-0296; Decision No. 62091. Mr. Guth is also the owner of Martinez Lake Sewer Company and Martinez Lake Resort.

After completing the purchase of the Shepard Water Company, Mr. Guth determined to subdivide Martinez Lake Resort and sell the rental spaces in Martinez Lake Resort as lots. As part of the subdivision plan, Mr. Guth determined to pave the streets and install a sewer system. The water system improvement project would be constructed in compliance with the street improvement and sewer projects.

The WIFA loan has been obtained but the water system improvement project has not begun. The water system improvement project has been delayed pending approval by the Corporation Commission of the Application for the Martinez Lake Sewer Company Certificate of Convenience and Necessity. The approval of the Certificate of Convenience and Necessity from the Arizona Corporation Commission is necessary in order to obtain the approval to construct the sewer system. The construction of the sewer system and the improvement of the water system are part of the subdivision development plan which includes paving the streets.

Accordingly, no progress has been made as the project has not begun because the Corporation Commission has not acted on the Martinez Lake Sewer Company application for a Certificate of Convenience and Necessity.

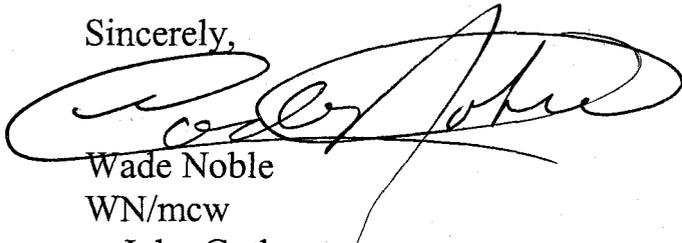
Mr. David M. Ronald

July 26, 2005

Page four

The WIFA loan documents, having been finalized, are filed with the Director of the Utilities Division simultaneously with this response.

Sincerely,

A handwritten signature in black ink, appearing to read "Wade Noble", written over a horizontal line. The signature is fluid and cursive, with a large loop at the end.

Wade Noble

WN/mcw

c: John Guth

Bruce Jacobson

Brian Bozzo

**MARTINEZ LAKE SEWER COMPANY
FISHER'S LANDING WATER & SEWER WORKS, L.L.C.**

SEWER FACILITY USE AGREEMENT

Date: July 9, 2003

Parties: Martinez Lake Sewer Company ("MLSC")
Star Route # 4, Box 41
Martinez Lake, AZ 85365

Fisher's Landing Water & Sewer Works, L.L.C. ("Fishers")
P. O. Box 72188
Yuma, AZ 85365

RECITALS:

1. Martinez Lake Sewer Company, ("MLSC") is an Arizona corporation organized to, among other things, develop, own, and operate a sewer service.

2. Fisher's Landing Water & Sewer Works, L.L.C. ("Fishers") is an Arizona limited liability corporation adjacent to MLSC which owns and operates a sewer service under a Certificate of Convenience and Necessity issued by the Public Utilities Division of the Arizona Corporation Commission.

3. MLSC seeks a Certificate of Convenience and Necessity from the Public Utilities Division of the Arizona Corporation Commission to operate a sewer service for commercial and residential customers at Martinez Lake Resort.

4. MLSC is unable to develop treatment facilities for its sewage and requires Fisher's treatment facilities to treat its sewage in order to obtain a Certificate of Convenience and Necessity.

5. Fisher's and MLSC have agreed MLSC may connect to Fisher's sewer facilities and

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AUG 01 2005

Fisher's will receive and dispose of MLSC's sewage.

AGREEMENT:

1. Recitals: The recitals above stated are incorporated in this agreement.
2. Delivery and Receipt: Fisher's agrees to receive all sewage from MLSC. Fisher's will discharge MLSC's sewage to Fisher's existing primary treatment ponds. There shall be no limit or restriction on the volume of sewage delivered by MLSC to Fisher's.
3. Point of Delivery: The point of delivery for MLSC sewage to Fisher's shall be at or near the "speed bump" on North Martinez Lake Road at the boundary of Martinez Lake Resort. MLSC shall, at its sole cost and expense, construct all necessary facilities for delivery of MLSC sewage to the point of delivery by October 1, 2003. Fisher's shall make good faith efforts to have the connection point at the point of delivery ready for MLSC sewage by October 1, 2003 or as soon thereafter as MLSC has constructed its facilities and Fisher's has completed its facilities. MLSC shall be responsible for operation, maintenance, repair and replacement of the its line to the point of delivery.
4. Metering: MLSC sewage shall be metered at the point of delivery. The meter shall be acquired and installed by MLSC. The meter shall be read monthly. The meter maintenance and repair costs shall be equally shared by Fisher's and MLSC. MLSC shall pay all meter replacement and installation costs.
5. Charges: MLSC shall, within ten days of receipt of quarterly statements from Fisher's, pay to Fisher's \$2.50 per 1000 gallons for MLSC sewage delivered to Fisher's at the point of delivery. There shall be no "minimum charge" or "capacity charge". There shall be a one-time connection fee in the amount of \$8,000.00 as established by the Arizona Corporation

Commission. The fee shall be paid within ten days of the completed connection to the point of delivery. Charges may be adjusted only upon a rate hearing before the Arizona Corporation Commission.

6. Additional Treatment Facilities: If additional treatment facilities, beyond Fisher's current primary treatment ponds, are required by the Public Utilities Division of the Arizona Corporation Commission, Fisher's may increase the charges paid by MLSC only after a rate hearing before the Public Utilities Division of the Arizona Corporation in which the volume share of Fisher's sewage and MLSC sewage is shown by competent evidence. Any increase in the charges payable by MLSC for sewage delivered to Fisher's shall be determined by the pro-rata volume of sewage from the respective companies.

7. Dispute Resolution: Any controversy or claim arising out of or relating to this agreement or its breach shall be settled by arbitration or such other agreed-upon alternate dispute resolution. The parties may agree to the American Arbitration Association and its rules. Any alternate dispute resolution reached may be submitted to any court having jurisdiction for entry by judgment. In the resolution of any controversy or claim, the successful or prevailing party shall be entitled to recover its costs and attorney's fees.

8. Notices: All notices under or in connection with this Agreement will be in writing and will be sufficient if delivered in person, by certified mail, or by facsimile transmission, as follows:

To: "MLSC"

Martinez Lake Sewer Company
Star Route # 4, Box 41
Martinez Lake, AZ 85365

and

Wade Noble
Noble Law Offices
1405 W. 16th Street
Yuma, AZ 85364

To: "Fisher's"

Fisher's Landing Water & Sewer Works, L.L.C. ("Fishers")
P. O. Box 72188
Yuma, AZ 85365

and

Kenneth L. Allen
Attorney at Law
3250-3 Highway 82
P. O. Box 466
Sonoita, AZ 85637

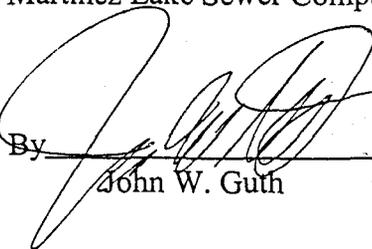
9. Entire Agreement: This Agreement constitutes the entire agreement between Fisher's and MLSC with respect to the subject matters of this Agreement and supersedes all negotiations, preliminary agreements and prior understandings of the parties with respect to such subject matters.

10. Amendment and Waiver: No amendment, change or modification of this Agreement will be effective unless made in writing and signed by both parties. Any waiver must be in writing and will be effective only to the extent specifically set forth in that writing.

11. Governing Law: This Agreement will be interpreted and construed in accordance with the laws of the State of Arizona.

Martinez Lake Sewer Company

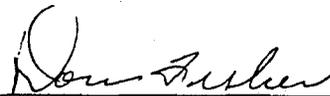
By



John W. Guth

Fisher's Landing Water & Sewer Works, L.L.C.

By



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Page 1

MARINEZLAKE MARTINEZ LAKE RESORT(SEWER)
ACC Asset Detail 1/01/02 - 12/31/02

FYE: 12/31/2002

Asset #	Property Description	Date In Service	ACC Cost	ACC Sec 179 Exp c	ACC Sal Value	ACC Prio Depreciation	ACC Current Depreciation	ACC End Depreciation	ACC Net Book Value	ACC Method	ACC Period
Group: 354-STRUCTURES & IMPRV											
2	Manholes	1/01/02	87,000.00	0.00c	0.00	0.00	2,900.00	2,900.00	84,100.00	S/L	30.0
9	Estimated Engineering & Continge	1/01/02	99,400.63	0.00c	0.00	0.00	3,313.35	3,313.35	96,087.28	S/L	30.0
	354-STRUCTURES & IMPRV		186,400.63	0.00c	0.00	0.00	6,213.35	6,213.35	180,187.28		
Group: 360-COLLECTION SWRS. FORC											
4	3FT Force Main	1/01/02	5,915.00	0.00c	0.00	0.00	118.30	118.30	5,796.70	S/L	50.0
5	4FT Force Main	1/01/02	3,187.50	0.00c	0.00	0.00	63.75	63.75	3,123.75	S/L	50.0
6	6FT Force Main	1/01/02	28,000.00	0.00c	0.00	0.00	560.00	560.00	27,440.00	S/L	50.0
	360-COLLECTION SWRS. FORC		37,102.50	0.00c	0.00	0.00	742.05	742.05	36,360.45		
Group: 363-SERVICES TO CUSTOMERS											
3	4Ft Sewer Service	1/01/02	60,000.00	0.00c	0.00	0.00	1,200.00	1,200.00	58,800.00	S/L	50.0
	363-SERVICES TO CUSTOMERS		60,000.00	0.00c	0.00	0.00	1,200.00	1,200.00	58,800.00		
Group: 371-PUMPING EQUIPMENT											
7	Small Lift Station	1/01/02	60,000.00	0.00c	0.00	0.00	7,500.00	7,500.00	52,500.00	S/L	8.0
8	Big Lift Station	1/01/02	60,000.00	0.00c	0.00	0.00	7,500.00	7,500.00	52,500.00	S/L	8.0
	371-PUMPING EQUIPMENT		120,000.00	0.00c	0.00	0.00	15,000.00	15,000.00	105,000.00		
Group: 382-OUTFALL SEWER LINES											
1	8Ft Sewer Line	1/01/02	93,500.00	0.00c	0.00	0.00	3,116.67	3,116.67	90,383.33	S/L	30.0
	382-OUTFALL SEWER LINES		93,500.00	0.00c	0.00	0.00	3,116.67	3,116.67	90,383.33		
	Grand Total		497,003.13	0.00c	0.00	0.00	26,272.07	26,272.07	470,731.06		



**MARTINEZ LAKE SEWER COMPANY
3 YEAR OPERATING BUDGET**

Expenses	Month	Year 1	Year 2	Year 3
Effluent disposal ¹	1250	23,000 ²	16,800	18,300
Electricity	200	2,400	2,400	2,400
Maintenance Labor (contract)	500	6,000	6,000	6,000
Repair	100	1,200	1,200	1,200
Insurance	25	300	300	300
Real Estate Taxes	250	3,000	3,000	3,000
Govt Reports	250	3,000	3,000	3,000
Accounting	250	3,000	3,000	3,000
Legal	50	600	600	600
Management	1,000	12,000	12,000	12,000
Return and Recapture ³	3,564	42,768	42,768	42,768
Total	7439	97,268	91,068	92,568

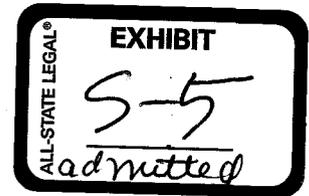


¹ Assuming 6 million gallons a year at \$2.50 per 1000 gallons (see Sewer Facility Use Agreement, Exhibit "I"); \$5.00 monthly for residential and \$50 for commercial. Year one estimate is based on 220 residences and 3 commercial. Year two estimate is based on 250 residences and 3 commercial. Year three estimate is based on 275 residences and 3 commercial.

² Includes a one-time \$8,000 connection fee. See Sewer Facility Use Agreement, Exhibit "I".

³ Return and recapture of construction costs of \$518,242.50 amortized at 6% over 20 years.

COMPLIANCE DELINQUENCIES



UTILITY: Shepard Water Company
DOCKET: W-01537A-99-0100 **DECISION NO:** 62091
ACTION: File quarterly updates on construction progress.

COMPLIANCE DUE DATE: 2/21/2000 **Compliance Past Due**

UTILITY: Shepard Water Company
DOCKET: W-01537A-99-0100 **DECISION NO:** 62091
ACTION: File a rate application after twelve months of meter readings from the residential customers.

COMPLIANCE DUE DATE: **Compliance Past Due**

UTILITY: Shepard Water Company
DOCKET: W-01537A-99-0100 **DECISION NO:** 62091
ACTION: File with the Utilities Division Director, within 30 days of finalization, a copy of all loan documents which set forth the terms of the proposed long-term debt if not previously filed.

COMPLIANCE DUE DATE: **Compliance Past Due**

UTILITY: Shepard Water Company
DOCKET: W-01537A-99-0100 **DECISION NO:** 62091
ACTION: The Phase I surcharge terminates when Staff has reviewed the progress report to be filed by the Company and deemed it acceptable.

COMPLIANCE DUE DATE: **Compliance Past Due**

UTILITY: Shepard Water Company
DOCKET: W-01537A-99-0100 **DECISION NO:** 62091
ACTION: The Phase II surcharge of \$10.00 per month per connection commences once Staff has deemed the progress report acceptable.

COMPLIANCE DUE DATE: **Compliance Past Due**

COMPLIANCE DELINQUENCIES

UTILITY: Shepard Water Company

DOCKET: W-01537A-99-0100 **DECISION NO:** 62091

ACTION: File a progress report with the Utilities Division Director after it borrows the funds from WIFA for Phase I, or \$150,950 to authorize the Phase Two surcharge.

COMPLIANCE DUE DATE: **Compliance Past Due**

UTILITY: Shepard Water Company

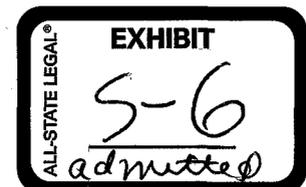
DOCKET: W-01537A-99-0100 **DECISION NO:** 62091

ACTION: Keep the Commission updated on the progress of the plant upgrade project by providing copies of the final design report and project plans.

COMPLIANCE DUE DATE: **Compliance Past Due**

Table A. Proposed Plant-in-Service (REVISED)

Acct. No.	Martinez Lake Sewer Co. Plant-in-Service	Company Cost	Company Total
351	Organization	\$ -	\$ -
352	Franchise	-	-
360	Collection Sewers – Force		307,188
	4" force main, 490 ft.	7,840	
	6" force main, 995 ft.	17,910	
	Small lift station	50,000	
	Big lift station	100,000	
	Underground electrical service	50,000	
	Allowance for rock excavation	20,000	
	Engineering & contingency @ 25%	61,438	
361	Collection Sewers - Gravity		540,000
	8" sewer line, 6,100 ft.	183,000	
	6" sewer line, 500 ft.	11,000	
	Manholes, 30 each	150,000	
	Cleanout, 10 each	8,000	
	Allowance for rock excavation	80,000	
	Engineering & contingency @ 25%	108,000	
363	Services to Customers		150,000
	4"-Laterals, 200 each	120,000	
	Engineering & contingency @ 25%	30,000	
		\$ 997,188	\$ 997,188



PRO FORMA REVENUE REQUIREMENT

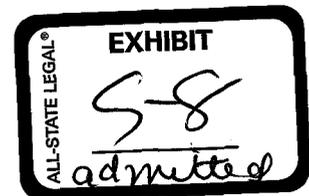
Line No.	Description	Year 5		Staff
		Company Original Cost	Staff Original Cost	Revised Original Cost
1	Adjusted Rate Base	\$473,581	\$473,581	\$904,631
2	Adjusted Operating Income	\$104,768	\$47,335	\$90,463
3	Current Rate of Return (L2/L1)	22.12%	10.00%	10.00%
5	Required Operating Income	\$93,735	\$47,335	\$90,463
6	Operating Expenses	\$67,665	\$67,665	\$77,444
7	Revenue Requirement	\$161,400	\$115,000	\$106,907



PROPOSED RATES

<u>Monthly Usage Charge</u>	-Proposed Rates-		Staff
	Company	Staff	Revised
Residential	\$31.00	\$22.00	32.12
Commercial	\$350.00	\$261.00	381.11
<u>Service Charges</u>			
Establishment	\$50.00	\$30.00	\$30.00
Establishment (After Hours)		\$40.00	\$40.00
Reconnection (Delinquent)	\$75.00	\$30.00	\$30.00
Deposit	\$50.00	*	*
Deposit Interest	6.00%	*	*
Re-Establishment (Within 12 Months)	\$100.00	**	**
NSF Check	\$30.00	\$25.00	\$25.00
Deferred Payment		***	***
Late Fee	\$5.00	*	*

- * Per Commission Rules (R14-2-403.B)
- ** Months off system times the minimum (R14-2-403.D)
- *** 1.5% per month.



PRO FORMA OPERATING INCOME

LINE NO.	DESCRIPTION	COMPANY					STAFF Year 5	STAFF REVISED Year 5
		Year 1	Year 2	Year 3	Year 4	Year 5		
1	Operating Revenues:							
2	Residential	\$81,840	\$93,000	\$102,300	\$111,600	\$148,800	\$105,600	\$154,187
3	Commercial	12,600	12,600	12,600	12,600	12,600	9,400	13,720
4	Other Sewer Revenues	11,046	1,546	1,296				
5	Total Operating Revenue	105,486	107,146	116,196	124,200	161,400	115,000	167,907
6								
7	Operating Expenses:							
8	Effluent disposal	23,000	16,800	18,300	19,800	25,800	25,800	25,800
9	Management	12,000	12,000	12,000	12,000	12,000	12,000	12,000
10	Maintenance Labor & Repairs	7,200	7,200	7,200	7,200	7,200	7,200	7,200
11	Accounting and Legal	6,600	6,600	6,600	6,600	6,600	6,600	6,600
12	Other Expenses	2,700	2,700	2,700	2,700	2,700	2,700	2,700
13	Depreciation	3,000	3,000	3,000	3,000	3,000	3,000	3,200
14	Property Taxes							19,944
15	Total Operating Expenses	54,500	48,300	49,800	51,300	57,300	67,665	77,444
16								
17	Operating Income	\$50,986	\$58,846	\$66,396	\$72,900	\$104,100	\$47,335	\$90,463
18	Company Proposed Return*	42,768	42,768	42,768	42,768	42,768		
19	Income	\$8,218	\$16,078	\$23,628	\$30,132	\$61,332	\$47,335	\$90,463

*Company's Proposed Return is approximately a 6.25% return on an Original Cost Rate Base of \$518,243



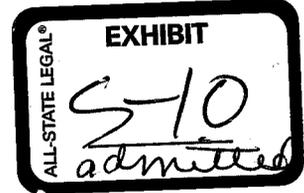
Lore Hoover

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

NOV 19 1999



CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

DOCKETED BY *sd*

IN THE MATTER OF THE APPLICATION OF SHEPARD WATER COMPANY FOR FINANCING APPROVAL.

DOCKET NO. W-01537A-99-0100

IN THE MATTER OF THE APPLICATION OF SHEPARD WATER COMPANY FOR AN INCREASE IN RATES.

DOCKET NO. W-01537A-99-0296

DECISION NO. 62091

ORDER

Open Meeting
November 16, and 17, 1999
Phoenix, Arizona

BY THE COMMISSION:

On February 19, 1999, Shepard Water Company ("Shepard" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for financing, requesting approval of \$283,325 in long-term debt at an interest rate of 5.8125 percent (75 percent of prime) for the purpose of rebuilding the entire water system.

On May 12, 1999, Shepard filed an application for a rate increase. On June 11, 1999, the Commission's Utilities Division Staff ("Staff") notified Shepard that its rate application met sufficiency requirements and classified the utility as Class D. On August 5, 1999, Staff filed a Motion to Consolidate ("Motion") the above-captioned matters. Our August 17, 1999 Procedural Order granted the Motion. On August 25, 1999, Staff filed its Staff Report for both the rate and financing applications, recommending rates and charges different than those requested by Shepard and approval of the financing request in the amount of \$299,475 at an interest rate of 75 percent of prime.

Background

Shepard is an Arizona corporation that serves an area known as Martinez Lake, which is

1 located approximately 20 miles north of Yuma, Arizona. Most of the residents are seasonal, visi
2 on weekends during peak times. There are also three businesses served by the Company.

3 The number of customers has decreased by seven (from 229 to 222) since the last rate case
4 because mobile home spaces with water connections were converted to parking spaces. The
5 Company's service area is surrounded by the lake and government property, so no future growth is
6 anticipated.

7 During the intervening years since the last Decision, the Company has fluctuated between
8 producing a Net Income and a Net Loss. From 1988 to 1994, income and losses fluctuated between a
9 \$1,500 loss and \$2,551 in income. The Company has reported a Net Loss since 1995 with the largest
10 loss of \$11,885 occurring during the Test Year ("TY"). Staff's adjustments to the TY resulted in that
11 loss increasing to \$15,684.

12 The Commission has received one verbal response opposing the amount of the rate increase
13 since the application was found sufficient in June, 1999.

14 Summary of Filing

15 Based on TY results, as adjusted by Staff, Shepard's realized an operating loss of \$15,684 on
16 an adjusted Original Cost Rate Base ("OCRB") of \$16,574 resulting in no rate of return.

17 The Company's proposed rates, as filed, produce a revenue level of \$68,700 and an operating
18 income of \$32,209, for a 251.62 percent rate of return on an OCRB of \$12,800.

19 Staff recommended a revenue level of \$73,370, resulting in operating income of \$29,778, for
20 a 179.66 percent rate of return on an adjusted OCRB of \$16,574. The typical monthly unmetered
21 residential usage charge would increase from \$9.00 to \$26.50 (monthly unmetered usage charge and
22 Phase II surcharge) for an increase of 194.4 percent. Once metered, residential customers on 5/8 x
23 3/4 inch meters will pay a monthly usage charge of \$6.75, a Phase II surcharge of \$10.00, and a
24 commodity rate of \$2.05 per 1,000 gallons.

25 The Company is presently serving an average of 219 un-metered residential customers, and
26 three metered commercial customers. One of the commercial customers is served by a 3/4 inch
27 meter, and the other two by 1-inch meters. Although Shepard had meters during the TY for the
28

1 commercial customers, they do not have a tariff in place to enable them to bill for metered rates. The
2 percentage increase for an average metered residential customer is not computed because the
3 company is proposing a change from a flat rate to a metered rate and more data would be necessary to
4 make the calculation.

5 Shepard has also filed a financing application that has been consolidated with the rate
6 application. The Company has a Binding Commitment with the Water Infrastructure Finance
7 Authority of Arizona ("WIFA") to borrow \$283,325 to rebuild the entire water system including
8 reservoirs, hydro tanks, booster pumps, new wells, as well as pipe replacement. The Company also
9 intends to install 3/4 inch meters for all residential customers.

10 Compliance

11 The water system was inspected on July 8, 1999, by Staff Engineering. Staff Engineering
12 recommends that the proposed WIFA financing be increased to \$299,475 from \$283,325 to upgrade
13 four-inch pipe to six-inch pipe and include an option for fire hydrants.

14 Staff's recommendations are reasonable and should be adopted.

15 Rate Base

16 The Company's application proposed a rate base of \$12,800. Staff's adjustments to Rate
17 Base resulted in an increase of \$3,774. The majority of Staff's adjustment was a decrease in
18 Accumulated Depreciation by \$3,179 to reflect previously approved depreciation rates. Staff also
19 adjusted the working capital allowance by \$595 based upon Staff's adjustments to operating
20 expenses.

21 Staff's adjustments are reasonable and should be adopted.

22 Operating Revenues

23 The bill counts submitted with the application conformed to the Test Year water sales.
24 Therefore, no adjustment was necessary to the Company's TY revenue amount of \$24,606.

25 Operating Expenses

26 Staff's adjustments to operating expenses resulted in an increase of \$3,799. Staff's
27 adjustment increased Water Testing expense by \$836 to reflect Staff Engineers' recommended
28

1 expense level of \$1,431.

2 First National Management, Inc., the management company, was billing for an average of 188
3 meter connections during the TY as opposed to the correct average of 222, resulting in an adjustment
4 of \$4,440. Mr. Ted Wilkinson, the representative of the Management Company that submitted both
5 the financing application and the rate case, stated Shepard's liabilities include management fees the
6 utility has been unable to pay due to lack of cash flow.

7 Staff decreased Depreciation Expense by \$963 to reflect a composite five percent depreciation
8 rate. The remaining adjustments were primarily reclassifications of various accounts.

9 Staff's adjustments to operating expenses, as reflected in the Staff Report, are reasonable and
10 should be adopted.

11 Rate Design

12 The Company is proposing an increase in revenues of approximately \$44,094 over TY
13 revenues, or 179 percent, and operating income of \$32,209. The Company's narrative description
14 stated that an increase in rates is necessary for three main reasons. The first reason is to obtain
15 a reasonable return on its investment, and second to enable the Company to meet its operating
16 expenses. The third and most important reason for this increase is to allow the Company to qualify
17 for a \$283,325 loan from WIFA to rebuild the entire water system, install meters for residential
18 customers, and install fire hydrants.

19 Staff is recommending an increase of approximately \$48,764 or 198 percent over TY
20 revenues, and recommended operating income of \$29,778. This translates to a 179.66 percent Rate
21 of Return on an OCRB of \$16,574, which is lower than the Company's requested 251.62 percent
22 Rate of Return on an OCRB of \$12,800.

23 Staff acknowledges the rate increase is substantial. The Company is in the unusual position
24 of having unmetered rates, as well as a dilapidated water system in need of replacement. The
25 Company's residential customers have been paying \$9 per month for unlimited water since 1982.
26 The three commercial customers have been paying \$25 per month for unlimited water as well. The
27 residential customers remain unmetered, but the commercial customers are now metered. However,
28

1 Shepard was unable to bill commercial customers at a metered rate since the approved tariff in
2 Decision No. 55890 did not include a metered tariff.

3 Staff has also stated that the need for such a substantial increase is driven in large part by the
4 WIFA loan. According to Staff, the Company will require \$25,752 annually for principal and interest
5 payments. Considering the annual payment is almost as much as TY revenue, there is little option
6 except to set rates sufficient to enable the Company to service the loan, pay operating expenses, and
7 receive a return on its investment. The rate of return is also so high because the Company's Plant in
8 Service is almost fully depreciated.

9 Staff has designed rates to include a surcharge that will be implemented in two phases to
10 coincide with the system replacement plan that Staff Engineering recommended. In addition, Staff
11 will recommend the Company deposit the proceeds from the surcharge in a separate interest bearing
12 escrow account to be used only to service the WIFA loan.

13 According to Staff, initially when rates are approved, Phase One will begin and the Company
14 will be allowed to charge a \$5.00 surcharge for the system replacement in addition to the base rate of
15 \$16.50 and commodity rate of \$2.05 per 1,000 gallons. Once the Company has borrowed the funds
16 necessary for Phase One, or \$150,950, Staff will recommend the Company file a progress report with
17 the Utilities Division Director indicating the amount borrowed to date, construction expenditures,
18 loan payments made, and the balance in the escrow account.

19 Under Staff's recommendation, once Staff has reviewed the progress report and found it
20 acceptable, the Phase One surcharge will terminate and the Company will be authorized to charge the
21 Phase Two surcharge amount. During the second phase, the surcharge will increase to \$10, resulting
22 in additional revenue of \$13,320 to service the increasing debt. The supporting schedules in the Staff
23 Report detail revenue at the \$10 surcharge level, which demonstrate that the Company will have
24 sufficient rates to service the WIFA loan once all of the funds are borrowed.

25 Staff believes this approach to rate design is appropriate for this utility based on the fact that
26 the Company has not begun design and engineering, nor have they acquired the land for the new
27 wells and storage tanks. Staff estimates the new rates could be in effect for almost a year before the
28

1 Company makes the initial draw on the WIFA loan.

2 In addition to the surcharge, to properly set rates for this Company, Staff required tariffs for
3 both metered and unmetered service. Metered rates have been recommended so the Company can
4 begin to charge the three metered commercial customers based on usage and meter size. An updated
5 unmetered rate needs to be in place for the remaining customers who will not have meters until the
6 final phase of the system reconstruction plan. Staff recommends the Company file a rate application
7 after twelve months of meter readings from the residential customers.

8 Currently, all residential customers are unmetered and billed at a flat rate of \$9.00 per month.
9 Commercial customers are now metered and billed at a flat rate of \$25.00 per month. In its Staff
10 Report, Staff stated the percentage increase for an average residential customer was not computed
11 because the Company proposed a change from a flat to a metered rate and more data would be
12 necessary to make the calculation.

13 Shepard is proposing a monthly usage charge of \$16.75 for 5/8 x 3/4 inch meters and a
14 monthly usage charge of \$25.13 for 3/4 inch meters. Shepard is also proposing 1,000 gallons
15 included in the minimum.

16 Staff is proposing a monthly usage charge of \$16.50 for unmetered residential customers.
17 Once meters are installed for residential customers, Staff recommends a monthly usage charge of
18 \$6.75 per month for 5/8 x 3/4 inch meters without any gallons included in the minimum and a
19 monthly usage charge of \$15.13 for 3/4 inch meters without any gallons included in the minimum.
20 The recommended gallonage rate is \$2.05 per 1,000 gallons.

21 For the 3/4 inch meter, the Company's proposed rates would increase the typical average bill
22 by \$13.97, from \$25.00 to \$38.97, an increase of 55.9 percent and would increase the typical median
23 bill by \$6.28, from \$25.00 to \$31.28, an increase of 25.1 percent.

24 For the 3/4 inch meter, Staff's proposed rates would increase the typical average bill by
25 \$16.02, from \$25.00 to \$41.02, an increase of 64.1 percent and would increase the typical median bill
26 by \$8.33, from \$25.00 to \$33.33, an increase of 33.3 percent.

27 Staff Engineering recommends that the rates go into effect after the Company submits to the
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1 Utilities Division Director a letter from Arizona Department of Environmental Quality ("ADEQ")
2 stating that the water system has no Maximum Contaminant Level ("MCL") violations and is
3 delivering water that meets the quality standards of the Safe Drinking Water Act.

4 The Company is current on its property tax payments to Yuma County and in its collection
5 and remittance of its Sales Taxes.

6 Staff's recommendations are reasonable and should be adopted.

7 Financing Request

8 On February 19, 1999, Shepard filed a financing application with the Commission. Customer
9 notification was made through a mailing on February 16, 1999.

10 Shepard proposes to borrow \$283,325 from WIFA at an interest rate of 5.8125 percent (75
11 percent of the current Prime Rate) for a period of 20 years.

12 The loan proceeds would be used to rebuild the entire water system. The rebuild would
13 include water lines, valves, fittings, two new wells, two storage tanks, boosters, and control systems.
14 New meters would also be installed for each residential customer.

15 Staff Engineering has reviewed this request and finds that the proposed rebuild is needed.
16 However, Staff Engineering believes that in order to maintain the necessary volume for possible fire
17 flow, 1,625 feet of the proposed four-inch mains and valves should be upgraded to six-inch at an
18 additional cost of \$3,983. Staff Engineering further recommends that Shepard be authorized to
19 borrow an additional sum of \$11,400 for the possible installation of six fire hydrants. These
20 modifications will increase the contingency allowance by \$767 and the total funding needed for this
21 project to \$299,475.

22 Shepard's capital structure is comprised of negative equity and no debt. The pro forma effect
23 of the proposed debt of \$299,475 will result in a capital structure consisting of 117 percent debt and
24 negative equity (17%). The Times Interest Earned Ratio ("TIER") and the Debt Service Coverage
25 Ratio ("DSC") are negative and would not be meaningful for this analysis.

26 Although the proposed debt will result in a highly leverage capital structure, Staff believes
27 that the improvements to be financed by the proposed debt are crucial. Staff recommends that the
28

1 rate increments be sufficient to generate adequate revenue to attain a TIER of 1.50 and a DS
2 1.25. This will ensure that Shepard has enough cashflow from net income and depreciation to make
3 interest and principal payments on the proposed loan.

4 Staff recommends that the Commission approve \$299,475 of long-term debt at an interest rate
5 of 75 percent of prime, repayable over 20 years.

6 Staff also recommends that Shepard file a copy of all executed loan documents with the
7 Commission as soon as they become available.

8 Staff's recommendations are reasonable and should be adopted.

9 * * * * *

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

12 **FINDINGS OF FACT**

13 1. On February 12, 1999, Shepard filed its financing application, requesting approval of
14 \$283,325 in long-term debt at an interest rate of 5.8125 percent (75 percent of prime) for the purpose
15 of rebuilding the entire system.

16 2. On May 12, 1999, Shepard filed with the Commission an application for a rate
17 increase and noticed its customers on May 11, 1999.

18 3. On June 11, 1999, Staff notified Shepard that its application met sufficiency
19 requirements and classified the utility as Class D.

20 4. On August 5, 1999, Staff filed a Motion to Consolidate which was granted on August
21 17, 1999.

22 5. On August 25, 1999, Staff filed its Staff Report for the financing and rate applications
23 recommending rates and charges different than those requested by Shepard and approval of the
24 financing request in the amount of \$299,475 at an interest rate of 75 percent of prime, without a
25 hearing.

26 6. Shepard is an Arizona corporation that serves an area north of Yuma, Arizona, known
27 as Martinez Lake.
28

- 1 7. During the TY, Shepard had 222 customers.
 2
 3 8. Shepard's present and proposed rates and charges, as well as Staff's proposed rates
 4 and charges are as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
6 <u>Monthly Usage Charges</u>			
7 <i>Unmetered Rates</i>			
7 Residential	\$9.00	\$0.00	\$16.50
8 Commercial	25.00	0.00	0.00
8 <i>Metered Rates</i>			
9 5/8" x 3/4" Meter	\$0.00	\$16.75	\$6.75
9 3/4" Meter	0.00	25.13	15.13
10 1" Meter	0.00	41.88	31.88
10 1 1/2" Meter	0.00	83.75	73.75
11 2" Meter	0.00	134.00	124.00
11 3" Meter	0.00	268.00	241.25
12 4" Meter	0.00	418.95	408.75
12 6" Meter	0.00	837.50	827.50
13 Excess of Minimum – per 1,000 gallons	\$0.00	\$2.05	\$2.05
14 <u>Surcharges for System Replacement:</u>			
14 Phase One			\$5.00
15 Phase Two			10.00
16 <u>Service Line and Meter Installation Charges</u>			
16 5/8" x 3/4" Meter	\$0.00	\$410.00	\$410.00
17 3/4" Meter	250.00	440.00	440.00
18 1" Meter	275.00	470.00	470.00
18 1 1/2" Meter	0.00	715.00	715.00
19 2" Meter	0.00	1,700.00	1,820.00
19 3" Meter	0.00	2,190.00	2,410.00
20 4" Meter	0.00	3,215.00	3,455.00
20 6" Meter	0.00	6,270.00	6,650.00
21 <u>Service Charges</u>			
21 Establishment	\$25.00	\$25.00	\$25.00
22 Establishment (After Hours)	40.00	40.00	40.00
22 Reconnection (Delinquent)	25.00	35.00	35.00
23 Meter Test (If Correct)	30.00	40.00	40.00
24 Deposit	*	*	*
24 Deposit Interest	*	*	*
24 Re-Establishment (Within 12 Months)	**	**	**
25 NSF Check	10.00	20.00	20.00
25 Deferred Payment	0.0%	0.0%	0.00%
26 Meter Re-Read (If Correct)	10.00	15.00	15.00
27 ...			
28 ...			

1	<u>Monthly Service Charges for Fire Sprinkler</u>			
	4" or Smaller	\$0.00	\$0.00	***
2	6"	0.00	0.00	***
	8"	0.00	0.00	***
3	10"	0.00	0.00	***
4	Larger Than 10"	0.00	0.00	***

- * Per Commission Rules (R14-2-403.B).
- ** Months off system times the minimum (R14-2-403.D)
- *** 1 percent of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

12. Shepard's original cost rate base ("OCRB") is determined to be \$16,574. Shepard's OCRB is the same as its fair value rate base ("FVRB").

13. Shepard's current rates and charges adjusted by Staff produced revenues in the TY which resulted in an operating loss of \$15,684 on an OCRB of \$16,574 resulting in no rate of return.

14. In its application, Shepard's proposed rates and charges that would produce operating revenues of \$68,700 and operating expenses of \$36,491, resulting in net operating income of \$32,209 and a 251.62 percent rate of return on the Company's proposed OCRB of \$12,800.

15. In its Staff Report, Staff recommended a revenue level of \$73,370, based on operating expenses as adjusted by Staff of \$43,592, resulting in net operating income of \$29,778, and a 179.66 percent rate of return on FVRB.

16. In its Staff Report, Staff stated that the percentage increase for an average residential customer was not computed because the Company proposed a change from a flat to a metered rate and more data would be necessary to make the calculation.

17. On a 3/4 inch meter, the Company's proposed rates would increase the typical average bill by \$13.97 from \$25.00 to \$38.97, an increase of 55.9 percent and would increase the typical median bill by \$6.28, from \$25.00 to \$31.28, an increase of 25.1 percent.

18. On a 3/4 inch meter, Staff's recommended rates would increase the typical average bill by \$16.02, from \$25.00 to \$41.02, an increase of 64.1 percent and would increase the typical median bill by \$8.33 from \$25.00 to \$33.33, an increase of 33.3 percent.

19. Staff recommended its proposed rates and charges be granted without a hearing.

20. Staff's recommended rates and charges are just and reasonable including the Phase I

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and Phase II surcharges.

21. Staff reviewed Shepard's financing request and recommended that the Commission authorize Shepard to borrow \$299,475 from WIFA at an interest rate of 75 percent of prime for a term of 20 years without a hearing.

22. Shepard sent notice of the financing application to its customers on February 16, 1999.

23. Although the proposed debt will result in a highly leveraged capital structure, Staff believes that under the new rates recommended by Staff, Shepard will have the necessary cash flow from net income and depreciation to provide for interest and principal payments, and further believes that the financing is necessary to rebuild the entire water system.

24. Staff's recommendations regarding the financing are just and reasonable.

25. Shepard is current with its property tax obligation to Yuma County and its collection and remittance of its Sales Taxes.

26. The Company is in non-compliance with the rules and regulations of ADEQ.

27. Staff Engineering recommended that rates go into effect only after the Company submits a letter to the Utilities Division Director from ADEQ stating that the water system has no maximum contaminant level violations and is delivering water that meets the quality standards of the Safe Drinking Water Act.

28. Staff further recommended:

- a. the Company deposit the revenue received from the system replacement surcharges in a separate interest bearing escrow account used only to service the WIFA loan;
- b. the Company file a progress report with the Utilities Division Director after the Company has borrowed the funds from WIFA for Phase One, or \$150,950, to authorize the Phase Two surcharge;
- c. that Shepard file a copy of all executed loan documents with the Commission as soon as they become available;
- d. the Company keep the Commission updated on the progress of the plant upgrade project by providing copies of the final design report and project plans and quarterly updates on construction progress and provide monthly bank statements for the surcharge account approved herein;
- e. the Company file a rate application after twelve months of meter readings from the residential customers; and

f. that in addition to the collection of its regular rates and charges, the Comp shall collect from its customers their proportionate share of any Privil Sales or Use Tax where appropriate, as provided for in A.A.C. R14-2-608.D.3.

CONCLUSIONS OF LAW

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

2. The Commission has jurisdiction over Shepard and of the subject matter of the applications.

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

4. The rates and charges authorized hereafter are just and reasonable and should be approved without a hearing.

5. Staff's recommendations contained in Findings of Fact Nos. 21, 27 and 28 are reasonable.

6. The proposed long-term financing as recommended by Staff is for lawful purposes within Shepard's corporate powers, is compatible with the public interest, with sound finan practices, and with the proper performance by Shepard of service as a public service corporation and will not impair Shepard's ability to perform that service.

7. The financing approved herein is for the purposes stated in the application and is reasonably necessary for those purposes, and when such purposes are wholly or in part reasonably chargeable to operating expenses or to income, they are necessary to enable Shepard to continue to provide service to its customers.

8. Shepard's applications, subject to Staff's recommendations, should be granted.

ORDER

IT IS THEREFORE ORDERED that Shepard Water Company shall file on or before November 30, 1999, the following schedule of rates and charges:

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

1 Monthly Usage Charges2 Unmetered Rates

2 Residential \$16.50

3 Metered Rates

3 5/8" x 3/4" Meter \$6.75

3 3/4" Meter 15.13

4 1" Meter 31.88

5 1 1/2" Meter 73.75

5 2" Meter 124.00

6 3" Meter 241.25

6 4" Meter 408.75

6 6" Meter 827.50

7 Commodity Charge – per 1,000 gallons \$2.05

8 Surcharges for System Replacement

9 Phase One \$5.00

9 Phase Two \$10.00

10 Service Line and Meter Installation Charges

11 (Refundable pursuant to A.A.C. R14-2-405)

11 5/8" x 3/4" Meter \$410.00

12 3/4" Meter 440.00

12 1" Meter 470.00

13 1 1/2" Meter 715.00

14 2" Meter 1,820.00

14 3" Meter 2,410.00

14 4" Meter 3,455.00

15 6" Meter 6,650.00

16 Service Charges

16 Establishment \$25.00

17 Establishment (After Hours) 40.00

17 Reconnection (Delinquent) 35.00

18 Meter Test (If Correct) 40.00

18 Deposit *

19 Deposit Interest *

19 Re-Establishment (Within 12 Months) **

20 NSF Check 20.00

20 Meter Re-Read (If Correct) 15.00

21 Monthly Service Charges for Fire Sprinkler

22 4" or Smaller ***

22 6" ***

23 8" ***

23 10" ***

24 Larger Than 10" ***

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

25 ** Months off system times the minimum (R14-2-403.D)

26 *** 1 percent of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

27 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service

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1 provided on and after the first day of the month following Shepard Water Company submittin
2 letter to the Utilities Division Director from ADEQ stating that the water system has no MCL
3 violations and is delivering water that meets the quality standards of the Safe Drinking Water Act.

4 IT IS FURTHER ORDERED that Shepard Water Company shall notify its customers of the
5 rates and charges authorized herein and the effective date of same by means of an insert in its next
6 regular monthly billing.

7 IT IS FURTHER ORDERED that Shepard Water Company shall comply with the
8 recommendations set forth in Findings of Fact Nos. 21, 27 and 28.

9 IT IS FURTHER ORDERED that Shepard Water Company be, and the same hereby is,
10 authorized to enter into a WIFA loan to borrow up to \$299,475 for a term of 20 years at no greater
11 rate of interest of 75 percent of prime, such authority to be contingent upon Shepard Water Company
12 filing with the Commission certification that it sent notice of the financing request to its customers.

13 IT IS FURTHER ORDERED that the Phase I surcharge of \$5.00 per month per connection
14 commence on or after the first day of the month following Shepard Water Company submittin
15 letter from ADEQ stating that the water system has no MCL violations and is delivering water that
16 meets the quality standards of the Safe Drinking Water Act.

17 IT IS FURTHER ORDERED that the Phase I surcharge terminate when Staff has reviewed
18 the progress report to be filed by Shepard and deemed it acceptable.

19 IT IS FURTHER ORDERED that the Phase II surcharge of \$10.00 per month per connection
20 commence once Staff has deemed the progress report acceptable.

21 IT IS FURTHER ORDERED that the Phase II surcharge remain in effect until further order of
22 the Commission.

23 IT IS FURTHER ORDERED that the surcharge account will be established so that monies
24 can only be withdrawn by WIFA for payments on the loan approved herein.

25 IT IS FURTHER ORDERED that Shepard Water Company is hereby authorized to engage in
26 any transactions and to execute any documents necessary to effectuate the authorization grant
27 hereinabove.

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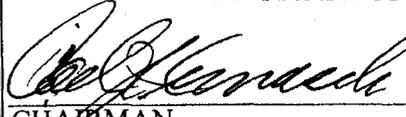
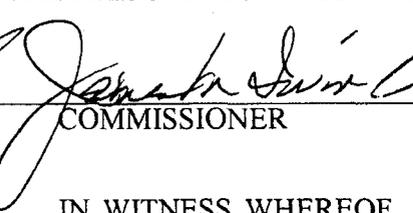
IT IS FURTHER ORDERED that such financing authority shall be expressly contingent upon Shepard Water Company's use of the proceeds for the purposes set forth in the finance application.

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

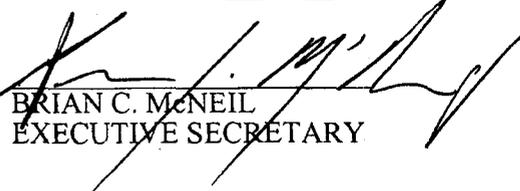
IT IS FURTHER ORDERED that Shepard Water Company shall file with the Director of the Commission's Utilities Division within 30 days of finalization, a copy of all loan documents which set forth the terms of the proposed long-term debt if not previously filed.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

		
CHAIRMAN	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 19th day of November 1999.



BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____
KEN:dap

1 SERVICE LIST FOR:

SHEPARD WATER COMPANY

2 DOCKET NOS.

W-01537A-99-0100 and W-01537A-99-0296

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4 Fred T. Wilkinson
SHEPARD WATER COMPANY
P.O. Box 2899
5 Gilbert, Arizona 85299

6 Lyn Farmer, Chief Counsel
Legal Division
7 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
8 Phoenix, Arizona 85007

9 Deborah Scott, Director
ARIZONA CORPORATION COMMISSION
10 1200 West Washington Street
Phoenix, Arizona 85007

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