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BEFORE THE ARIZONA CORPORATION COMMISSION

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

DOCKETED BY *sd*

IN THE MATTER OF THE APPLICATION OF
BIASI WATER COMPANY, INC. FOR A
CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE WASTEWATER
SERVICE IN MOHAVE COUNTY, ARIZONA.

DOCKET NO. WS-02812A-98-0638

IN THE MATTER OF THE APPLICATION OF
BIASI WATER COMPANY, INC. FOR
AUTHORITY TO ISSUE COMMON STOCK AND
A PROMISSORY NOTE(S) AND OTHER
EVIDENCES OF INDEBTEDNESS PAYABLE AT
PERIODS OF MORE THAN TWELVE MONTHS
AFTER THE DATE OF ISSUANCE.

DOCKET NO. WS-02812A-98-0639

DECISION NO. 62422

OPINION AND ORDER

DATE OF HEARING: December 14, 1999
PLACE OF HEARING: Phoenix, Arizona
PRESIDING OFFICER: Karen E. Nally
APPEARANCES: Mr. Richard L. Sallquist, SALLQUIST &
DRUMMOND, P.C., on behalf of Biasi Water
Company, Inc.; and
Mr. Robert Metli, Staff Attorney, Legal Division on
behalf of the Utilities Division of the Arizona
Corporation Commission.

BY THE COMMISSION:

On November 4, 1998, Biasi Water Company, Inc. ("Biasi", "Company", or "Applicant")
filed an application for a Certificate of Convenience and Necessity ("Certificate") to provide
wastewater service in Mohave County, Arizona.

On November 4, 1998, Biasi filed an application for authority to issue common stock and
long-term debt and a request to consolidate the financing application with its pending Certificate
application. On November 5, 1998, Biasi filed a substitute legal description, service area map, and a
revised proposed tariff. The two filings were subsequently consolidated.

On January 14, 1999, Virgin Village Development Co., Inc. ("Virgin Village") filed a motion

1 to intervene. On January 26, 1999, Virgin Village's motion to intervene was granted.

2 On June 11, 1999, Biasi filed an amended legal description.

3 On September 10, 1999, Biasi filed an amended tariff.

4 Biasi published notice of the applications in the Mohave Valley Daily News on October 19,
5 1999. Biasi also noticed its customers on December 7, 1999 with the record held open until
6 December 28, 1999 for any public comments.

7 On December 14, 1999, a full public hearing was held before a duly authorized Hearing
8 Officer of the Commission at its offices in Phoenix, Arizona. Biasi and Staff appeared with counsel
9 and presented evidence with the Company accepting the Staff Report's analysis and
10 recommendations. At the conclusion of the hearing, the matter was taken under advisement pending
11 submission of a Recommended Opinion and Order to the Commission.

12 Background

13 Biasi is currently certificated to provide water service in Mohave County.

14 Biasi's wastewater collection facilities and other construction were started in 1995 with
15 wastewater lagoon and related facilities completed in February 1998. Biasi began providing
16 wastewater service in 1998 and presently serves 16 customers.

17 In its Certificate application, the Company provided a proposed tariff schedule, a five-year
18 pro forma income statement, balance sheet, and a construction budget report. Staff reviewed and
19 analyzed this financial information for accuracy and reasonableness to set initial rates and charges for
20 Biasi's wastewater service.

21 Biasi is an "S" corporation. Its primary shareholders are Gary and Judy Biasi. Gary and Judy
22 Biasi also own a company (Biasi Ranch Partnership dba Biasi Ranch Estates) that is currently
23 developing land in Biasi's certificated area. According to the documentation provided by the
24 Company, the wastewater plant was paid for by Biasi Ranch Estates, Biasi Custom Excavating, and
25 Gary Biasi, personally.

26 Rate Base

27 As part of Staff's review of Biasi's wastewater plant, Staff requested that Biasi prov
28 documentation to support its wastewater plant. Wastewater utilities are required to keep their

1 accounting records in conformity with the National Association of Regulatory Utility Commissioners
2 Uniform System of Accounts (NARUC UsaA) for wastewater utilities.

3 Based on this review, Staff's adjustments to the Company's proposed original cost rate base
4 resulted in a net decrease of \$94,555, from \$371,913 to \$277,359, due to three major adjustments.

5 Staff decreased the Land and Land Rights' account by \$25,000, from \$25,000 to \$0. Staff
6 asked Biasi to provide documentation and the Company was unable to provide documentation to
7 support the original cost purchase price of the property.

8 Staff decreased the Structures and Improvements' account by \$99,587, from \$110,000 to
9 \$10,413. The documentation provided by the Company only supported \$10,413 in Structures and
10 Improvements. Therefore, Staff removed \$99,587 for unsupported structures and improvement plant
11 purchases.

12 Staff decreased the Receiving Wells' account by \$44,273, from \$47,273 to \$3,000, and
13 reclassified the remaining \$14,859 to Pumping Equipment due to the Company providing invoices to
14 only support the total of \$17,589.

15 Compliance

16 Staff reviewed the application and noted that the wastewater plant was already existing and
17 was in total compliance with the Arizona Department of Environmental Quality ("ADEQ")
18 requirements.

19 In paragraph 13 of the Findings of Fact Section of Decision No. 59259, dated August 30,
20 1995, the Commission ordered that Biasi file a permanent rate application after 36 months of water
21 utility operation to determine its financial condition and sustainability of the proposed rates for the
22 water division.

23 On November 24, 1999, Biasi Water filed an application requesting an extension of the rate
24 case filing date established in Decision No. 59259, dated August 30, 1995. Our December 10, 1999
25 Procedural Order granted the extension and ordered Biasi Water to file a permanent rate application
26 by June 30, 2000.

27 Operating Revenues

28 The Company indicated that while the Sewer Division had been in operation for

1 approximately one year when Staff reviewed the application, the Company has not charged any of
2 customers the monthly minimum charge. Staff increased minimum charge revenues by \$1,440, from
3 \$4,800 to \$6,240, to show the revenue that would have been generated had the Company billed the 13
4 customers it had at the end of 1998.

5 Staff increased the Other Waste Water Revenues' account by \$75, from \$0 to \$75, to reflect
6 the \$25 establishment charge revenue that would have been generated had the Company charged
7 establishment fees for the three additional customers added during 1998.

8 Allocation of Common Expenses Between the Water and Wastewater Division

9 During Staff's on-site inspection of the Company, Staff noted that the Company did not have
10 a written method in which to allocate the common expenses between the water and sewer divisions.
11 Those common expenses include (but are not limited to) office supplies expense, transportation
12 expense, and insurance expense. Staff recommends that the Company develop an appropriate method
13 in which to allocate its common expenses and employ this method before its next rate case.

14 Operating Expenses

15 Staff made several adjustments that were offset by other adjustments to result in an increase in
16 the Company's total operating expenses by \$108, from \$9,869 to \$9,977.

17 Proposed Financing

18 Biasi is requesting approval of the issuance of \$38,780 of long-term debt and 350,000 shares
19 of \$1.00 par value common shares (\$350,000). The proceeds of the financing will be used as
20 working capital and to purchase the sewer plant from Gary and Judy Biasi, the shareholders of Biasi.

21 For ratemaking purposes, the wastewater plant proposed to be financed by debt and equity
22 could also be accounted for as a contribution from the Biasis because they are developers in the area
23 and they have already paid for the plant. Thus, the stock issuance would be a vehicle to move the
24 plant onto the books and records of the Company as an investment by the Biasis. If the Commission
25 finds the plant to be used and useful, the Company will receive revenues for depreciation on the plant
26 and a return on the plant financed by the debt and equity issuances. However, if the sewer plant were
27 accounted for by the Commission as a contribution rather than an investment, the Biasi sev
28 operations would have no rate base upon which to earn a return.

1 According to Staff, the Commission has allowed several other companies to finance initial
2 assets with debt and equity such as Johnson Utilities and Interchange Water Company. Per Staff, the
3 Commission has also made such a determination in Decision No. 59259, dated August 30, 1995,
4 when it approved the issuance of common stock to finance Biasi Water's initial water utility assets.

5 Financing of Working Capital

6 A.R.S. Section 40-302A. forbids the application of financing proceeds to pay operating
7 expenses unless specifically permitted in a Commission Order. Because Biasi will experience net
8 operating losses in its initial years of operation, it will need working capital to make up the
9 deficiencies and maintain positive cash flow. Staff believes that in this instance, the Commission
10 should authorize the use of the financing proceeds for payment of operating expenses when
11 necessary.

12 Terms of the Debt

13 The terms of the proposed \$38,780 of long-term debt to be issued by Biasi to Gary and Judy
14 Biasi include an interest rate of 8.0 percent with a 10-year maturity. Interest only will be paid over
15 the 10-year life of the note and a balloon payment equal to the entire principal will be due at the end
16 of 10 years.

17 The terms of the loan allow Gary and Judy Biasi to receive a late charge of 5.0 percent if any
18 payment is late and also allow them to receive all the principal and accrued interest, and attorney's
19 fees plus interest at 12.0 percent upon default in the payment of principal or interest. Staff believes
20 that these terms may be excessively advantageous to the Biasis because the Biasis, as owners and
21 operators of the Company, have the authority to determine when the payments on the debt will be
22 made.

23 Staff recommends approval of the issuance of \$38,780 of long-term debt and 350,000 shares
24 of \$1.00 par value common shares (\$350,000). However, Staff recommends that the debt issued to
25 the Biasis should not include default provisions or late payment fees.

26 On December 23, 1999, Biasi submitted a revised note intended to comply with Staff's
27 recommendations. Staff reviewed the note and did not submit any amendments in the docket.

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Rate Design

Staff has reviewed and accepted the Company's proposed flat rate customer charge of \$40.00 for residential and \$60.00 for commercial customers. Staff concurs with the Company that its proposed commercial charge should be higher than its residential charge. Staff recognizes that some types of commercial wastewater, such as that produced by laundromats and meat processing plants, require more chemicals and is more costly to treat than typical residential wastewater.

These flat rates are anticipated to provide the Company sufficient revenues to cover the Company's operating expenses and to provide enough net profit to service its proposed long-term debt of \$38,780 in the Company's fifth year of operation when it is expected to have 80 customers.

Staff has reviewed and accepted all of the Company's proposed service charges.

Tariffs

In its application, Biasi, in addition to proposing certain rates and charges, has proposed tariffs containing terms and conditions for the provision of service. Staff recommends approval of the tariffs filed by Biasi on September 21, 1999. Staff further recommends that Biasi be ordered file these tariffs with the Commission, in compliance with the Commission's order, within 30 days from the effective date of the Commission's Decision.

Biasi has not obtained its Mohave County Franchise for the use of the public rights-of-way for the construction of its sewer facilities. Therefore, Staff recommends that the Commission condition approval of the application on Biasi filing a copy of its franchise with the Commission within 365 days from the effective date of the Commission's Decision.

* * * * *

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

FINDINGS OF FACT

1. On November 4, 1998, Biasi filed an application for a Certificate to provide wastewater service in Mohave County, Arizona and authority to issue common stock and long-term debt.

2. The Company also requested consolidation of the financing application with its

1 pending Certificate application which was subsequently granted.

2 3. On January 14, 1999, Virgin Village filed a motion to intervene, which was granted.

3 4. Biasi published notice of the applications and also noticed its customers of the pending
4 applications.

5 5. Biasi's wastewater collection facilities and other construction were started in 1995
6 with the wastewater lagoon and related facilities completed in February 1998.

7 6. Biasi began providing wastewater service in 1998 and presently serves 16 customers.

8 7. Staff's adjustments to the Company's proposed original cost rate base resulted in a net
9 decrease of \$94,555, from \$371,913 to \$277,359.

10 8. Per Staff, the wastewater plant is in total compliance with ADEQ.

11 9. Staff's adjusted operating revenues are \$6,315 with adjusted operating expenses of
12 \$9,977.

13 10. Staff has reviewed and accepted the Company's proposed flat rate customer charge of
14 \$40.00 for residential service and \$60.00 for commercial customers.

15 11. The initial rates and charges for Applicant's wastewater treatment service as proposed
16 by the Applicant and agreed to by Staff are as follows:

	<u>Proposed Rates</u>
<u>MONTHLY USAGE CHARGE:</u>	
General Residential Service (All Sizes)	\$40.00
Commercial Service (All Sizes)	\$60.00
Effluent Sales	N/A
<u>SERVICE LINE INSTALLATION CHARGE:</u>	
Residential	\$400.00
Commercial	\$400.00
<u>SERVICE CHARGE:</u>	
Establishment of Service	\$25.00
Establishment (After Hours)	\$50.00
Reestablishment of Service	(a)
Reestablishment of Service (After Hours)	(a) + \$40

1	Reconnection of Service (Delinquency)	\$50.00
2	Reconnection of Service (Delinquency and After Hours)	\$80.00
3	Deposit (Residential Customer)	(b)
4	Deposit (Non-residential Customer)	(c)
5	Deposit Interest	(d)
6	NSF Check	\$15.00
7	Deferred Payment	1.5%

8 (a) Months off the system times the minimum charge, per A.A.C. R14-2-603(D).

9 (b) Per Arizona Administrative Code A.A.C. R14-2-603(B)(7)(a).

10 (c) Per Arizona Administrative Code A.A.C. R14-2-603(B)(7)(b).

11 (d) Per Arizona Administrative Code A.A.C. R14-2-603(B)(3).

12 12. Biasi requested approval of the issuance of \$38,780 and 350,000 shares of \$1.00 par value common shares (\$350,000).

13 13. Staff recommends approval of the issuance of \$38,780 of long-term debt and 350,000 shares of \$1.00 par value common shares (\$350,000).

14 14. Staff also recommends the following:

- 15 (a) Staff recommends that the Commission condition approval of the application on Biasi filing a copy of its franchise with the Commission within 365 days from the effective date of the Commission's Decision.
- 16 (b) Staff recommends approval of its proposed rates and charges as shown on Schedule 3 of the Staff Report.
- 17 (c) Staff further recommends approval of the tariffs filed by Biasi on September 21, 1999.
- 18 (d) Staff further recommends that Biasi file with the Commission, within 30 days from the effective date of the Commission's Decision, its tariffs incorporating the rates and charges authorized therein.
- 19 (e) Staff further recommends that Biasi develop an appropriate method in which to allocate its common expenses and employ this method before its next rate case.
- 20 (f) Staff further recommends approval of the composite depreciation rate of 4.14 as shown in the Staff Report.
- 21 (g) Staff further recommends approval of the issuance of \$38,780 of long-term debt and 350,000 shares of \$1.00 par value common shares be approved with the condition that the terms associated with collection of a late charge, attorneys' fees and interest at 12.0 percent upon default be removed from the debt provisions.
- 22 (h) Staff further recommends in this specific instance that the Commission's Order contain specific language authorizing use of the financing proceeds as working capital for the payment of operating expenses when necessary.

CONCLUSIONS OF LAW

1
2 1. Applicant is a public service corporation within the meaning of Article XV of the
3 Arizona Constitution and A.R.S. §§ 40-281, 40-282, 40-301, and 40-302.

4 2. The Commission has jurisdiction over Applicant and of the subject matter of the
5 application.

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

7 4. There is a public need and necessity for wastewater service in the proposed extension
8 area as set forth in Exhibit A.

9 5. Applicant is a fit and proper entity to receive a Certificate.

10 6. The rates and charges authorized hereinbelow are just and reasonable and should be
11 approved.

12 7. The proposed financing issuance in the amount of \$38,780 of long-term debt and
13 350,000 shares of \$1.00 par value common shares (\$350,000) is for lawful purposes within Biasi's
14 corporate powers, is compatible with the public interest, with sound financial practices, and with the
15 proper performance by Biasi of service as a public service corporation, and will not impair Biasi's
16 ability to perform that service.

17 8. Staff's recommendations as set forth in Findings of Fact Nos. 11, 13, and 14 are
18 reasonable and should be adopted.

19 ORDER

20 IT IS THEREFORE ORDERED that the application of Biasi Water Company, Inc. for a
21 Certificate of Convenience and Necessity for wastewater utility service for areas located in Section
22 32, Township 41 North, Range 15 West, Section 33, Township 41 North, range 15 West, and Section
23 29, Township 41 North, Range 15 West, as described in Exhibit A, be and is hereby granted.

24 IT IS FURTHER ORDERED that approval of the application of Biasi Water Company, Inc.
25 for a Certificate of Convenience and Necessity for wastewater utility service for the areas described
26 in Exhibit A, be conditioned upon Biasi Water Company, Inc. filing a copy of its franchise with the
27 Commission within 365 days from the effective date of this Decision, and failure to comply within
28 the specified time shall cause the Certificate to be deemed denied without further order of the

1 Commission.

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

5 IT IS FURTHER ORDERED that Biasi Water Company, Inc. shall file with the Director of
6 the Utilities Division within 60 days from the effective date of this Decision a copy of the notice it
7 sends to its customers of the rates and charges approved herein.

8 IT IS FURTHER ORDERED that Biasi Water Company, Inc. is hereby directed to comply
9 with the Staff recommendations set forth in Findings of Fact Nos. 11, 13, and 14.

10 IT IS FURTHER ORDERED that Biasi Water Company, Inc. is hereby authorized to issue
11 \$38,780 of long-term debt with the modifications noted above and 350,000 shares of \$1.00 par value
12 common shares.

13 IT IS FURTHER ORDERED that Biasi Water Company, Inc. in this specific instance is
14 hereby authorized to use financing proceeds as working capital to pay operating expenses with Bi
15 Water Company, Inc. ordered to file quarterly reports with the Director of the Utilities Division
16 specifying the amount(s) and purposes of any operating expenses funded with any financing
17 proceeds.

18 IT IS FURTHER ORDERED that Biasi Water Company, Inc. is hereby authorized to engage
19 in any transactions and to execute any documents necessary to effectuate the authorization granted
20 hereinabove.

21 IT IS FURTHER ORDERED that such authority is expressly contingent upon Biasi Water
22 Company, Inc.'s use of the proceeds for the purposes set forth in its application.

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

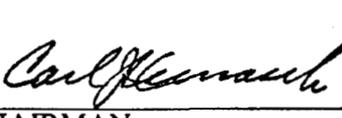
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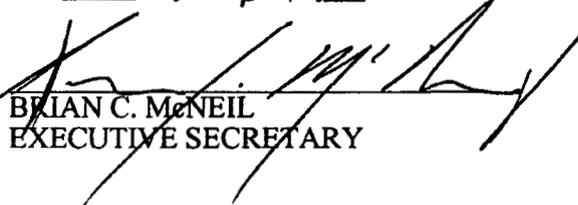
IT IS FURTHER ORDERED that Biasi Water Company, Inc. shall file copies of all executed financing documents setting forth the terms of the financing within 30 days of obtaining such financing.

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 3rd day of April, 2000.



BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____
KEN:bbs

1 SERVICE LIST FOR: BIASI WATER COMPANY, INC.
2 DOCKET NO. WS-02812A-98-0638 AND WS-02812A-98-0639
3
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BIASI WATER COMPANY, INC.
DOCKET NO. WS-2812-98-638
AMENDED LEGAL DESCRIPTION FOR WASTEWATER SERVICE

EXHIBIT A

Parcel #1

The North ½ of the Northeast ¼ of Section 32, Township 41 North, Range 15 West, of the Gila and Salt River Base and Meridian, Mohave County, Arizona.

Area being 80 acres, more or less.

Parcel #2

BEGINNING at the NW corner of the SW ¼ of Section 33, Township 41 North, Range 15 West;

THENCE East along the ¼ section line to the center line of Mohave County Route 91;

THENCE NE along said center line to the North section line of said Section 33;

THENCE West along said section line to the NW corner of said Section 33;

THENCE South along the section line to the POINT OF BEGINNING.

Parcel #3

COMMENCING at the Northeast corner of Section 32, Township 41 North, Range 15 West;

THENCE South along the East line of Section 32, a distance of 1,320.00 feet to THE TRUE POINT OF BEGINNING;

THENCE continuing South along the East line of said Section 32, a distance of 2,310.00 feet to a point;

THENCE West along a line parallel to the North line of said Section 32, a distance of 1,320.00 feet to a point;

THENCE North 35° West, a distance of 2,301.00 feet to a point on the mid-section line;

THENCE North along the mid-section line, a distance of 425.00 feet more or less to a point which is 2,640.00 feet Westerly of the TRUE POINT OF BEGINNING.

THENCE East parallel to the North line of said Section 32, a distance of 2,640.00 feet, more or less, to the TRUE POINT OF BEGINNING.

Area being 111.5 acres, more or less.

Parcel #4

Section 29, Township 41 North, Range 15 West.

Area being 640 acres, more or less.