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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED

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DOCKETED BY

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA.	DOCKET NO. W-01412A-04-0736
IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.	DOCKET NO. W-01412A-04-0849 DECISION NO. 68309 **OPINION AND ORDER**

DATE OF PRE-HEARING CONFERENCE:	July 11, 2005
DATE OF HEARING:	July 14, 2005
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Teena Wolfe
APPEARANCES:	Richard L. Sallquist, SALLQUIST, DRUMMOND & O'CONNOR, on behalf of Valley Utilities Water Company, Inc.; and David Ronald, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On October 7, 2004, Valley Utilities Water Company, Inc. ("Valley", "Applicant" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for an increase in its water rates for customers within Maricopa County, Arizona.

On November 5, 2005, the Commission's Utilities Division Staff ("Staff") issued a Letter of Deficiency indicating that Valley's application had not met the sufficiency requirements.

On November 12, 2004, Staff filed a Letter of Sufficiency indicating that Valley's application met the sufficiency requirements outlined in A.A.C. R14-2-103.

On November 26, 2004, Valley filed an application for approval for the issuance of promissory note(s) and other evidences of indebtedness in the original amount of up to $1,926,100.

On December 7, 2004, by Procedural Order, a hearing was set in the rate case for July 14, 2005.

Valley caused notice of its financing application to be published in the *Record Reporter* on December 20, 2005.

By Procedural Order issued March 23, 2005, the rate application and financing application matters were consolidated in accordance with the Company's request filed on March 17, 2005.

On April 1, 2005, an Affidavit of Mailing was filed indicating notice of the hearing was provided to all customers by first class mail as ordered in the Commission's Procedural Order dated December 7, 2004.

Intervention was granted to K. Robert Janis, TC Crownover, and James Shade.

A hearing was held as scheduled before a duly authorized Administrative Law Judge of the Commission on July 14, 2005. Public comment was taken at the commencement of the hearing. The Company and Staff appeared and presented evidence. Following the hearing, the parties filed closing briefs and the consolidated matters were taken under advisement pending the submission of a Recommended Opinion and Order to the Commission.

DISCUSSION

Valley is a Class C water utility that provided public utility water service to approximately 1,210 customers during the test year ended December 31, 2003.[1] The Company's current rates were set by the Commission in Decision No. 62908 (September 18, 2000), using a test year ending December 31, 1998. In the rate application, the Company proposed a two step rate increase and a 10 percent operating margin for each step. According to Valley, the Company has negative equity, so a meaningful cost of capital cannot be determined. Under Step 1, a 10 percent operating margin would require an increase of approximately 12.2 percent over the adjusted test year and annualized

[1] If the Company's requested surcharge mechanism to service proposed debt is approved, Valley would become a Class B utility (Tr. at 115).

revenues, or $101,800. Step 2 would also include a 10 percent operating margin ($403,000 increase), and an adjuster mechanism for recovery of arsenic treatment operating costs.[2] According to the application, during the Test Year ended December 31, 2003 ("TY"), the Company had an adjusted operating income of $13,138 (Exhibit A-1, Schedule C-1 Step 1).

Rate Base

The Company's TY rate base as filed was ($540,689) (Exhibit A-1, Application Schedule A-1 Step 1). The Company requested a waiver of the reconstruction cost new less depreciation ("RCND") schedule filing requirement and requested that its original cost rate base ("OCRB") be used as its fair value rate base ("FVRB").

Staff made two adjustments to rate base, resulting in a net increase of $885, for a FVRB of ($539,804). The first adjustment reflects capitalization of an erroneously recorded expense and the second adjustment increased Cash Working Capital. (Exhibit S-2, Rogers Direct, p 9). The Company accepted Staff's proposed adjustments, but calculated a different Cash Working Capital amount, resulting in a slightly different rate base of ($543,488) (Exhibit A-4, Bourassa Rejoinder p 5).

We agree with the adjustments made by Staff to the Company's rate base, and find that the Company's OCRB is ($539,804). Because the Company did not file RCND schedules, its FVRB is the same as its OCRB.

Revenue and Operating Expense

Staff and the Company agree that TY revenues were $827,565. The Company proposed TY expenses of $814,427. Staff made a number of adjustments to TY expense, including: a reduction in lawn service costs to reflect only that portion attributable to the Company's offices, which are located within the shareholder's domicile; an increase in water testing expenses to reflect a normalized amount; a reduction in transportation expense to remove a non-arm's length transaction involving a vehicle leased from the shareholder and the inclusion of two years' registration fees; a reduction in miscellaneous expense to remove a non-recurring recruitment expense; a reduction in directors' fees to remove "catch up" and advances in fees; a reduction in miscellaneous expense to remove long

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[2] In its rebuttal testimony, the Company dropped its request for a two step increase, and instead proposed a surcharge mechanism for recovery of the arsenic treatment operating and maintenance costs (Exhibit A-3, Bourassa Rebuttal p 2).

distance personal telephone calls,[3] costs to acquire a new sign, the cost of which Staff added to rate base, gym membership expenses, and sponsorship in a high school fundraiser; and an increase in depreciation expense, property tax expense, and income tax expense (Exhibit S-2, Rogers Direct, pp 11-18, and Schedule DRR-7).

The Company accepted all of Staff's expense adjustments (Exhibit A-3, Bourassa Rebuttal, p 6). Staff's adjusted TY operating expense is $814,662, for a TY operating income of $12,903. In its rebuttal testimony, the Company dropped its request for a two step increase, and instead proposed a surcharge mechanism for recovery of the arsenic treatment operating and maintenance costs (Exhibit A-3, Bourassa Rebuttal, p 2).

Because the Company's adjusted FVRB is negative $539,804, a rate of return calculation is not meaningful. Staff recommended that the Commission authorize a 10 percent operating margin, or $957,511. This represents a $129,946, or 15.70 percent, revenue increase from $827,565 to $957,511. We agree that because the Company's FVRB is negative, it is appropriate to use an operating margin to set fair and reasonable rates. We are, however, concerned that this Company continues to operate the utility in such a way that although equity is not being invested, ratepayers are required to generate cash sufficient to show an operating income.[4] We agree with Staff's recommendation, discussed below, to require the Company to implement a plan to improve its equity position.

Rate Design

The Company's current rate design consists of customer charges that vary by meter size, with no gallons included. All but the 3 inch meters for commercial construction have a two tier structure, with a commodity rate of $1.80 per 1,000 gallons up to 25,000 gallons, and $2.20 per 1,000 gallons greater than 25,000.

The Company's proposed rate design applies a uniform percentage increase to all monthly minimums and changes from a two tier commodity rate to a three tier rate for all customer classes

[3] The Company requested rate recovery of these personal telecommunications expenses in its application despite the fact that the Commission specifically disallowed similar expenses in the Company's prior rate proceeding (*see* Decision No. 62908 p 5).
[4] The Company's FVRB in its last rate case was negative $292,898 (*see* Decision No. 62908 p 11).

with the exception of construction water, to assist in conservation. The breakover points graduate by meter size, with the first tier rate of $1.98, the second tier at $2.42, and the third tier at $2.662 per 1,000 gallons. According to the Company, customers using larger quantities of water will experience a higher increase due to the three tier rate design.

Staff proposed an inverted tier rate structure that includes three tiers for residential 5/8 x 3/4-inch meters and residential 3/4-inch meters, and two tiers for all others. With the residential meters, the first tier breakover point is 3,000 gallons and the second tier breakover point is 10,000 gallons. Other breakover points vary by meter size. The Company objected to Staff's recommendation, stating that the residential first tier is a "lifeline or low income" rate and that, according to the American Water Works Association ("AWWA") should only be offered to residential customers who meet certain eligibility requirements; "should not be considered unless the local cost of water service is high compared to other similar water utilities or where a significant percentage of residential customers are believed to be unable to afford water service" and should not be used in areas where there are water shortages (Exhibit A-2, Kozoman Rebuttal, pp 4-5). The Company speculates that Staff's recommended rate design may lead existing 1-inch meter customers to demand a downsizing of meter sizes, which the Company believes would cause revenue and O&M impacts, in addition to destabilization of cash flows, and which the Company believes would require monitoring to prevent what it terms "over-revving" of the smaller meters (Exhibit A-3 Prince Rebuttal, p 2). The Company acknowledged that it has not performed a cost of service study and that it is not facing water supply shortages, although it is in the Phoenix Active Management Area ("AMA").

Staff points out that the concerns asserted by Mr. Prince are also present with the Company's proposed rate design (Exhibit S-3, Rogers Surrebuttal, p 4). Staff asserts that its recommended rate design acknowledges water use patterns by meter size and in total to encourage efficient consumption, and that the Commission has recently issued decisions that adopted Staff's recommended rate design consisting of an inverted three tier rate design for residential 5/8-inch and 3/4-inch meter customers and an inverted two tier structure for all other meter sizes and customers.

We agree that Staff's recommended rate design will promote conservation by sending appropriate price signals to all customers, and find that it also addresses the goals of efficient water use, affordability, fairness, simplicity, and revenue stability. We will therefore adopt it.

Arsenic Removal/Financing Request

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb, with a compliance date of January 23, 2006. The Company's six wells have arsenic concentrations between 7 and 13 ppb. The Company is seeking a loan from the Water Infrastructure Finance Authority of Arizona ("WIFA") to purchase and construct water treatment facilities for arsenic removal. In Decision No. 67669 (March 9, 2005), the Commission approved an Arsenic Impact Fee Tariff for the Company to help pay for debt service and/or principal on the requested WIFA loan, with the hook-up fees[5] to be treated as contributions in aid of construction ("CIAC"), and to be refunded if they are not used to pay for arsenic treatment facilities. The Company hired a consulting firm to conduct an arsenic treatment study using the treatment model methods presented in the Arizona Department of Environmental Quality's ("ADEQ") Arsenic Master Plan guidelines. A pilot study was conducted at three of the Company's wells and a final study report was completed in May 2004. The study recommended using absorption media treatment with a total treatment system cost of $1,926,100 for treatment of five of Valley's six wells. According to Staff's testimony, the Company evaluated other options such as blending and drilling new wells or deepening existing wells, but due to the high arsenic concentration and its fluctuation in the area, the Company concluded that treating the water source was the only available solution. Staff concluded that the arsenic treatment facilities are appropriate and the estimated capital costs and O&M costs are reasonable for purposes of the financing request (Exhibit S-1, Scott Direct, p *ii*).

The terms of the proposed $1,926,100 WIFA loan is 20 years, with a maximum interest rate of prime plus 200 basis points and a debt service coverage ("DSC") of at least 1.2. Payment of the loan begins six months after WIFA provides the monies to the Company, and monthly payments on the loan include both principal and interest. Staff analyzed the requested financing and testified that the Company's capital structure is composed of 100 percent negative equity, and if the financing is

[5] The approved hook-up fee is $1,100 for all new 5/8 x 3/4-inch service connections, graduated for larger meter sizes.

approved, the capital structure would be 6.3 percent short-term debt, 121.1 percent long-term debt, and 27.3 percent negative equity. According to Staff, the pro forma effect on the Company's financial ratios of obtaining the $1,926,100 WIFA loan at an interest rate of 5.0 percent and implementation of Staff's recommended rates is a Times Interest Earned Ration ("TIER") of 1.58 and a DSC of 1.86. Staff determined that an annual surcharge of approximately $185,247 would be necessary for the Company to maintain its pre-loan cash flow. Staff testified that the proposed loan "exacerbates the Company's negative equity with a debt burden, an undesirable event" (Exhibit S-2, Rogers Direct, p 26). However, Staff concluded that there are no other known options to finance the purchase/construction of the arsenic removal equipment required to comply with the EPA MCL. Staff believes that a mitigating factor is that the pro forma DSC and TIER indicate that the Company would have adequate earnings and cash flow to meet all obligations. Staff concluded that the purchase and/or construction of the arsenic removal equipment is necessary for the Company to comply with the federal rule; and that its recommended rates, which are intended to provide an operating margin that will allow the Company to attain a positive equity position, are insufficient to meet additional debt service obligations of the proposed WIFA debt.

In regard to the Company's financing request, Staff recommended:

- that the loan be approved on the terms and conditions described in the application, with the understanding that the Commission will subsequently consider an arsenic removal surcharge to enable the Company to meet its principal and interest obligations on the WIFA loan, and the incremental income taxes on the surcharge;
- that the Company be authorized to execute any documents necessary to effectuate the authorization granted;
- that the Company be ordered to provide to the Utilities Division Compliance Section copies of all executed financing documents within 60 days after the loan agreement is signed; and
- that the Company be ordered not to use any portion of the loan to pay for incurred operating or other expenses.

In relation to its recommendation regarding future Commission consideration of an arsenic removal surcharge, Staff recommended that the Company be required to:

- file in Docket Control an arsenic removal surcharge tariff application that will allow the Company to meet its principal and interest obligations on the proposed WIFA loan and income taxes on the surcharge;
- follow the same methodology set forth in Table A to the Staff testimony, to calculate the incremental revenue needed to meet the interest, principal and incremental income tax obligations on the WIFA loan, using actual loan amounts and use the result to develop its arsenic removal surcharge tariff application, which would also include the required increase in revenue calculation; and
- file with Docket Control copies of its calculation of revenue requirement for principal and interest obligations on the WIFA loan and incremental income taxes on the surcharge, within 60 days after the loan agreement is signed by both WIFA and the Company.

These Staff recommendations are reasonable and will be adopted.

Funds Set Aside Pursuant to Decision No. 62908

Decision No. 62908 set rates for the Company and approved a WIFA loan in the amount of $452,080. It also ordered the Company to "set aside the amount of funds equivalent to the annual debt service requirements of the WIFA loan and set aside one-twelfth on a monthly basis when the amount of the debt service requirement becomes known to the Company. Until such time as that amount is known, the Company shall set aside $6.35 per bill per month in a separate, interest bearing account to be used solely for the purpose of servicing the WIFA financing." It further ordered the Company to "submit information detailing the amount of debt service requirement on the WIFA loan to the Utilities Division Director within 60 days of a Decision in this matter (Decision No. 62908, p 15). The Company complied with the filing requirement on January 30, 2003, after several extensions had been granted by the Commission, but never filed copies of executed documents indicating that the Company ever obtained the approved financing. According to a compliance filing in that docket, the Company has been setting aside the required monthly amount in a segregated, interest-bearing account to be used solely for the purpose of servicing the WIFA financing (Letter from counsel for Valley to Patrick Williams dated January 4, 2002). The Company has not incurred the WIFA debt approved in Decision No. 62908, but has collected funds intended to pay that debt. The existing balance of the collected debt-service funds must either be refunded or applied to WIFA debt. Because the Company is again requesting WIFA financing, and is requesting imposition of a surcharge to pay the debt service, it would be reasonable and efficient to apply the existing balance of the collected funds to service the new WIFA debt. Under the circumstances, it is reasonable to cancel the prior WIFA financing authority, and require the Company to use the collected fund balance to service the arsenic remediation-related long-term debt authorized herein. We will therefore require the Company to file, in addition to the arsenic removal surcharge tariff application recommended by Staff, a report detailing the balance of the funds collected for debt service as authorized by Decision No. 62908, and the extent to which the application of the collected funds to debt service will offset the amount of, or the need for, an arsenic removal surcharge.

AOMRSM Request

The Company proposed an Arsenic Operating and Maintenance Recovery Surcharge Mechanism ("AOMRSM"). The Company estimates that the arsenic treatment costs will total $216,600 for the first full year of operation. Under the Company's proposal, the cost per 1,000 gallons would be determined by dividing the actual arsenic O&M costs for the year by the annual gallons sold, and a balancing account would be maintained. Each year, the Company would provide Staff a detailed calculation of the surcharge as well as provide an accounting of the amount collected during the year. According to the Company's estimations, the AOMSM charge per 1,000 gallons would be $0.84, and the impact on an average 5/8-inch customer bill would be $7.77, for a combined estimated increase of 42.94 percent over present rates. The Company estimates that the total impact of the ARSM and the AOMRSM on such a customer's monthly bill would be $14.23, for a combined increase of 67.55 percent (Exhibit A-3, Bourassa Rebuttal, p 14). Based on its estimates, the Company claims that if both surcharges are not adopted, it will experience net losses (*see* Exhibit A-4, Bourassa Rejoinder, Exhibit 3).

Staff recommended that the Company's proposed AOMRSM be disallowed and that the Company file a rate case application after a period of time, so that actual operation and maintenance costs can be determined and the appropriate rates established. Staff testified that while the costs proposed by the Company may be a reasonable estimate, they are projected costs, and to authorize estimated costs to be recovered at some future time, before they are known and measurable, would not allow Staff the opportunity to ascertain with any degree of confidence, the reasonableness of the charges and whether they are accounted for correctly (Exhibit S-3, Rogers Surrebuttal, p 6). Staff further testified that the Commission has consistently found that operation and maintenance costs associated with arsenic removal should be segregated and tracked for a period of time, and that a rate case should be filed once the actual costs become known and measurable.

We agree with Staff for several reasons. First, it would not be reasonable to require the Company's customers to pay a surcharge for O&M costs when the costs have only been estimated, and have not been subject to audit in order to determine their reasonableness and whether they are accounted for correctly. This problem is exemplified by the fact that the calculations presented in the Company's testimony overstate the effect of the Company's own estimates due to an apparent computation error involving the double-counting of interest expense. Valley presented calculations estimating net losses it will incur if its requested surcharges are not granted. The estimation calculations subtracted interest expense twice, which resulted in an understatement of cash flows to the tune of $94,988 (*see* Exhibit A-4, Bourassa Rejoinder, Exhibit 3). Correcting this error on the Company's exhibit would result in estimated positive cash flows of $55,150, instead of the Company's negative $39,838 estimated net operating loss.

Second, Decision No. 67669 has already approved a $1,100 Arsenic Impact Fee Tariff for the Company to help pay for debt service and/or principal on the requested WIFA loan.

Third, this Decision approves the concept of a surcharge to pay the debt service on the arsenic remediation-related WIFA loan once the amount of the debt service is determined and orders the Company to file an application for that surcharge. Approval of the AOMRSM in addition to the WIFA debt-service surcharge would therefore result in the Company's existing customers paying two surcharges, with new customers paying a hook-up fee in addition to the two surcharges.[6]

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[6] As an alternative to Staff's recommendation to deny the AOMRSM, Staff stated that if the Company were to fund the needed arsenic remediation plant with equity contributions instead of debt, Staff could agree in concept to permitting a

Fourth, we are approving rates herein that are based on an operating margin instead of a return on equity, in order to prevent operating losses, as discussed at page 4 above, due to the Company's ongoing negative equity position. As discussed below, we are requiring the Company to develop, submit and implement a plan to increase its equity position, because the Company has been operated in such a way that its negative equity position has continued to deteriorate, despite the fact that over a period of years, this Commission has authorized returns that provided the Company with an opportunity to increase its equity position (*see* Tr. p 112).

For these reasons, we will not approve the Company's proposed AOMRSM, but will instead consider actual operation and maintenance costs in a future rate filing, where rates can be established based on known and measurable actual costs.

<u>Shareholder/Company Transactions</u>

Staff recommended that the Company be ordered to make all reasonable efforts to institute operating policies that would remove any and all transactions between the Company and its owners that are not arm's length transactions. Based on the evidence presented in this proceeding, this is a reasonable recommendation, and it will be adopted. We will expect Staff to carefully scrutinize the Company's books in the Company's next rate case, and bring to the Commission's attention any instances of transactions between the Company and its shareholder that are not arm's length, including but not limited to the payment of personal expenses from water utility revenues, along with recommendations for appropriate Commission action.

<u>Equity Position</u>

Staff recommended that the Company be required to institute a plan that would produce a positive equity position by December 31, 2010, such plan to be filed with Docket Control within 90 days from the date of the Commission's Decision. The Company's FVRB in its last rate case was negative $292,898 (*see* Decision No. 62908, p 11), and in this case, has deteriorated further, to negative $539,804. As stated at page 4 above, we are concerned that this Company continues to operate the utility in such a way that although equity is not being invested, ratepayers are required to

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surcharge to collect the Company's first year of arsenic-related O&M costs (Tr. at 91). However, the Company made no indication at the hearing that it planned to make such an equity infusion.

generate cash sufficient to show an operating income. Staff's concerns are legitimate, and its recommendation provides a reasonable means of ameliorating the problem. We will therefore adopt Staff's recommendation. We will also direct Staff to bring to the attention of the Commission in the Company's next rate case all evidence of any inappropriate lease arrangements between the shareholder and the Company, or any other inappropriate practices that contribute to the deterioration rather than to the building of the Company's equity. The Company should be on notice that questionable expenses will be subject to disallowance in future rate proceedings.

Additional Staff Recommendations

Staff also recommended that the Company's proposed service line and meter installation charges be adopted, and that the Company use the depreciation rates in Exhibit MSJ-A, Table I-1, found in Hearing Exhibit S-1. Staff also recommended that the Company be required to file a curtailment tariff conforming to the sample tariff in Exhibit MSJ-A, Attachment K-1, found in Hearing Exhibit S-1, within 45 days after the effective date of this Decision with Docket Control, as a compliance item for Staff review and certification. These recommendations are reasonable and will be adopted.

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

FINDINGS OF FACT

1. Valley is an Arizona Corporation that was granted a Certificate of Convenience and Necessity in Decision No. 54274, dated December 20, 1984, to provide service to an area located approximately five miles west of Glendale, Arizona in Maricopa County. Valley provides water utility service to approximately 1,210 customers in Maricopa County, Arizona.

2. On October 7, 2004, Valley Utilities filed an application for a rate increase for its water customers comprised of a two-step phase-in rate increase based on a test year ("TY") ending December 31, 2003. The rate application requested an operating margin of 10 percent in order to have adequate debt service coverages for a loan from WIFA to fund improvements related to arsenic removal capital improvements.

3. On November 5, 2004, Staff filed a letter informing the Company that its application had not met the sufficiency requirements outlined in A.A.C. R14-2-103.

4. Also on November 5, 2005, Valley filed a compliance status report from ADEQ.

5. On November 12, 2004, Staff filed a Letter of Sufficiency.

6. On November 26, 2004, Valley Utilities filed an application for authority to issue promissory notes and evidences of indebtedness of up to $1,926,100 to finance the purchase or construction of a plant and the equipment necessary to treat and remove arsenic from its water supply.

7. On December 7, 2004, by Procedural Order, a hearing was scheduled on Valley's rate application.

8. On January 4, 2005, Valley docketed an Affidavit of Publication certifying that it caused notice of its financing application to be published in the *Record Reporter* on December 20, 2005.

9. On March 17, 2005, the Company filed a Motion to Consolidate the financing application with the rate application for purposes of hearing, which was granted by Procedural Order issued March 23, 2005.

10. On April 1, 2005, pursuant to the Commission's Procedural Order of December 7, 2004, the Company filed an Affidavit of Mailing indicating that notice of the rate application and hearing was mailed to all customers of record in the Company's February billings.

11. Public comment was filed on April 12, 2005 and July 14, 2005, objecting to the Company's proposed rate increase.

12. On May 2, 2005, TC Crownover, James Shade and K. Robert Janis filed requests to intervene.

13. On May 2, 2005, William Clark, on behalf of Litchfield Vista View III Homeowners Association, filed a request to intervene.

14. On May 10, 2005, by Procedural Order, K. Robert Janis, TC Crownover, James Shade and William Clark were granted intervention.

15. On May 11, 2005, Staff filed its Direct Testimony.

16. On May 13, 2005, Valley filed Objections to the Procedural Order Regarding Intervention. Valley did not object to the intervention of K. Robert Janis, but stated that the intervention requests of TC Crownover, James Shade and William Clark were untimely. Valley further objected to Mr. Clark's intervention on the grounds that he is not a customer of Valley and therefore has no interest in these proceedings. Mr. Clark did not appear at the hearing to respond to the Company's objections. The May 10, 2005 Procedural Order was therefore amended at the hearing to state that Mr. Clark's intervention request is denied due to his failure to show that he would be directly and substantially affected by the outcome of this proceeding.

17. The Company and Staff docketed pre-filed testimony in accordance with the requirements of the rate case Procedural Order.

18. The hearing was held as scheduled on July 14, 2005. Mr. Charles Prokow, Ms. Almira Martinez, and Mr. Michael Fent appeared and provided public comment for the record in opposition to the level of rate increase requested by the Company. The Company and Staff appeared and presented testimony and cross-examined witnesses. Intervenor Ms. TC Crownover appeared on her own behalf and provided public comment, and also filed written public comment in the docket on the date of the hearing.[7]

19. On August 25, 2005, the Company and Staff filed Closing Briefs, and the consolidated matters were taken under advisement.

20. The rates and charges for Valley at present, as proposed in the rate application, and as recommended by Staff are as follows:

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[7] It became known at the hearing that Ms. Crownover herself is not a customer of the Company.

	Present Rates	Co. Phase One	Co. Phase Two	Staff
MONTHLY USAGE CHARGE:*				
5/8" x ¾" Meter	$ 9.60	$ 10.37	$ 14.16	$ 11.24
¾" Meter	14.50	15.66	21.38	16.87
1" Meter	24.00	25.92	35.38	28.10
1 ½" Meter	48.00	51.85	70.78	56.21
2" Meter	77.00	83.18	113.54	89.94
3" Meter	144.00	155.55	212.33	179.87
4" Meter	240.00	259.25	353.88	281.05
6" Meter	480.00	518.50	707.75	562.10
Construction Water	144.00		212.33	179.87
COMMODITY CHARGES:*				
All Meters				
1,000 to 25,000 Gallons	$ 1.80			
25,001 gallons and over	2.20			
Construction Water	2.60	2.86	4.25	$ 3.02
5/8" Meter				
1 – 8,000 gallons		1.98	2.94	
8,001 – 12,000 gallons		2.42	3.60	
12,001 gallons and over		2.662	3.9580	
3/4" Meter				
1 – 12,000 gallons		1.98	2.94	
12,001 to 18,000 gallons		2.42	3.60	
18,001 gallons and over		2.662	3.9580	
1" Meter				
1 to 20,000 gallons		1.98	2.94	
20,001 to 30,000 gallons		2.42	3.60	
30,001 gallons and over		2.662	3.9580	
1 1/2" Meter				
1 – 40,000 gallons		1.98	2.94	
40,001 to 60,800 gallons		2.42	3.60	
60,801 gallons and over		2.662	3.9580	
2" Meter				
1 – 64,000 gallons		1.98	2.94	
64,001 to 96,000 gallons		2.42	3.60	
96,001 gallons and over		2.662	3.9580	

<u>3" Meter</u>			
1 to 128,000 gallons	$ 1.98	$ 2.94	
128,001 to 192,000 gallons	2.42	3.60	
192,001 gallons and over	2.662	3.9580	
<u>4" Meter</u>			
1 to 200,000 gallons	1.98	2.94	
200,001 to 300,000 gallons	2.42	3.60	
300,001 gallons and over	2.662	3.9580	
<u>6" Meter</u>			
1 to 400,000 gallons	1.98	2.94	
400,001 to 600,000 gallons	2.42	3.60	
600,001 gallons and over	2.662	3.9580	
<u>5/8" x 3/4" Meter - Residential</u>			
1 to 3,000 gallons			$ 1.50
3,001 to 10,000 gallons			2.31
10,001 gallons and over			2.53
<u>5/8" x 3/4" Meter - Commercial</u>			
1 to 18,000 gallons			2.31
18,001 gallons and over			2.58
<u>3/4" Meter – Residential</u>			
1 to 3,000 gallons			1.50
3,001 to 10,000 gallons			2.31
10,001 gallons and over			2.53
<u>3/4" Meter – Commercial</u>			
1 to 18,000 gallons			2.31
18,001 gallons and over			2.58
<u>1" Meter</u>			
1 to 50,359 gallons			2.31
50,360 gallons and over			2.53
<u>1 1/2" Meter</u>			
1 to 126,054 gallons			2.31
126,055 gallons and over			2.53
<u>2" Meter</u>			
1 to 151,256 gallons			2.31
151,257 gallons and over			2.53

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3" Meter	
1 to 403,274 gallons	$ 2.31
403,275 gallons and over	2.53
4" Meter	
1 to 453,722 gallons	2.31
453,723 gallons and over	2.53
6" Meter	
1 to 1,260,313 gallons	2.31
1,260,314 gallons and over	2.53

*In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use and franchise tax per Commission Rule R14-2-409.D.5.

SERVICE LINE AND METER INSTALLATION CHARGES:**
(Refundable pursuant to A.A.C. R14-2-405)

	Present Meter and Service Line Installation Charge	Proposed Service Line Inst. Charge Co.	Proposed Meter Inst. Charge Co.	Total Proposed Charge Co.	Total Proposed Inst. Charge Staff
5/8 x ¾ Inch	$ 455.00	$385.00	135.00	$ 520.00	$ 520.00
3/4 Inch	515.00	385.00	215.00	600.00	600.00
1 Inch	590.00	435.00	255.00	690.00	690.00
1 ½ Inch	820.00	470.00	465.00	935.00	935.00
2 Inch/Turbine	1,380.00	630.00	965.00	1,595.00	1,595.00
2 Inch/Compound	2,010.00	630.00	1,690.00	2,320.00	2,320.00
3 Inch/Turbine	1,935.00	805.00	1,470.00	2,275.00	2,275.00
3 Inch/Compound	2,650.00	845.00	2,265.00	3,520.00	3.520.00
4 Inch/Turbine	3,030.00	1,170.00	2,350.00	3,520.00	3,520.00
4 Inch/Compound	3,835.00	1,230.00	3,245.00	4,475.00	4,475.00
6 Inch/Turbine	3,535.00	1,730.00	4,545.00	6,275.00	6,275.00
6 Inch/Compound	7,130.00	1,770.00	6,280.00	8,050.00	8,050.00
8 Inch	At Cost	At Cost	At Cost	At Cost	At Cost
10 Inch	At Cost	At Cost	At Cost	At Cost	At Cost
12 Inch	At Cost	At Cost	At Cost	At Cost	At Cost

** All advances and/or contributions are to include labor, materials, overheads, and applicable taxes, including gross-up taxes for income taxes, if applicable. As meters and service lines are now taxable income for income purposes, the Company shall collect income taxes on the meter and service line charges. Any tax collected will be refunded each year that the meter deposit is refunded.

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SERVICE CHARGES:	Present Rates	Proposed Rates Company	Staff
Establishment	$ 30.00	$ 30.00	$ 30.00
Establishment (After Hours)	45.00	45.00	45.00
Reconnection (Delinquent) (b)	40.00	40.00	40.00
Reconnection (Delinquent and After Hours) (b)	$ 40.00	$ 40.00	$ 40.00
Meter Test	30.00	30.00	30.00
Deposit Requirement	(a)	(a)	(a)
Deposit Interest	6%	6%	6%
Reestablishment (Within 12 Months)	(b)	(b)	(b)
Reestablishment (After Hours)	(b)	(b)	(b)
NSF Check (per Rule R14-2-409.F)	25.00	25.00	25.00
Deferred Payment, Per Month	1.50%	1.50%	1.50%
Meter Reread (per Rule R14-2-408.C)	10.00	10.00	10.00
Charge of Moving Customer Meter – Customer Requested	Cost	Cost	Cost
After hours service charge	25.00	25.00	25.00

(a) Residential – two times the average bill. Non-Residential – two and one-half times the average bill.

(b) Per Rule R14-2-403.D.

21. Valley's present rates and charges produced adjusted TY operating revenues of $827,565 and adjusted TY operating expenses of $814,662, for a TY operating income of $12,903.

22. The Company's OCRB is ($539,804). The Company did not file RCND schedules. The Company's FVRB is therefore determined to be ($539,804).

23. Because the Company's adjusted FVRB is negative $539,804, a rate of return calculation is not meaningful. Based on the unique circumstances of this case, it is appropriate to use an operating margin to set fair and reasonable rates, and to allow a 10 percent operating margin, for revenues of $957,511. This represents a $129,946, or 15.70 percent, revenue increase from $827,565 to $957,511. In the Company's next rate filing, if the Company again requests use of an operating margin in lieu of a rate of return calculation, consideration will be given to the strength of the Company's efforts to improve its equity position.

24. Average and median usage during the TY for the Company's 593 3/4-inch meter

residential customers were 10,134 and 7,500 gallons per month, respectively; and average and median usage during the TY for the Company's 256 5/8 x 3/4-inch meter residential customers were 9,251 and 6,500 gallons per month, respectively.

25. The rate schedule adopted herein will increase the average residential 5/8 x 3/4-inch meter customer's monthly bill by $3.93, from $30.18 to $34.11, or 14.97 percent, and the median 5/8 x 3/4-inch meter customer's monthly bill by $2.53, from $23.83 to $26.36, or 11.86 percent. The average residential 3/4-inch meter customer's monthly bill will increase by $5.14, from $37.88 to $43.02, or 15.69 percent, and the median residential 3/4-inch meter customer's monthly bill will increase by $3.76, from $31.76 to $35.52, or 13.45 percent.

26. The Company proposes three-tier rates for all customer classes with the exception of construction water, and disagrees with Staff's rate design, which provides three-tiers only for residential customers and two tiers for all other customers. The Company believes that Staff's proposed first-tier rates are equivalent to a "lifeline" rate, which it asserts should only be offered to residential customers who meet certain eligibility requirements. The Company speculates that Staff's recommended rate design may lead existing 1-inch meter customers to demand a downsizing of meter sizes, leading to revenue and O&M impacts and destabilization of cash flows. However, no cost of service study was performed, and Staff testified that the Company's concerns regarding possible meter downsizing may also exist with the Company's recommendation.

27. Staff's recommended rate design acknowledges water use patterns by meter size and in total to encourage efficient consumption. The inverted three tier rate design for residential 5/8-inch and 3/4-inch meter customers and an inverted two tier structure for all other meter sizes and customers as proposed by Staff is reasonable and will be adopted because it will promote conservation by sending appropriate price signals to all customers; and because it addresses the goals of efficient water use, affordability, fairness, simplicity, and revenue stability.

28. Valley's system consists of six wells, five storage tanks, four booster stations, and a distribution system, with a source capacity of 1,060 gallons per minute ("GPM") and storage capacity of 1,060,000 gallons. According to Staff, the existing system has adequate production and storage capacity to serve the present customer base and reasonable growth.

29. Staff reviewed the arsenic treatment facilities Valley proposed in the financing application. Based on its analysis, Staff's engineering section concluded that the proposed arsenic treatment facilities to be financed are appropriate, and recommended that the Company's estimated capital costs and O&M costs be used for purposes of processing the financing request.

30. Under the circumstances of this case, it is reasonable to approve the Company's financing request on the terms and conditions described in the application, with the proceeds to be used solely for capital expenditures, and not operating or other expenses, and to require the Company to file, as recommended by Staff, an arsenic removal surcharge tariff application for subsequent approval of a surcharge that will allow Valley to meet its principal and interest obligations on the amount of the WIFA loan and income taxes on the surcharges.

31. For the reasons described herein, it is not in the public interest to approve in this Decision the Company's request for a surcharge to service the financing for which authority is requested in this proceeding.

32. The debt authority granted in Decision No. 62908 was never utilized and should be cancelled. It is reasonable to require that the funds the Company has collected for the sole purpose of servicing the WIFA debt approved in Decision No. 62908 be applied to service the WIFA debt for which authority is requested in this proceeding.

33. The Company should be required to file with Docket Control, within 30 days, a report that provides detailed information regarding the balance of the funds the Company has collected for the sole purpose of servicing the WIFA debt approved in Decision No. 62908, which debt was never issued. The report should also include an analysis of the extent to which the application of the collected funds to service the debt approved in this proceeding will offset the amount of, or the need for, a surcharge to service the WIFA loan for arsenic removal capital projects.

34. In relation to the WIFA financing approved herein, it is reasonable to require the Company to follow the methodology set forth in Table A-DRR attached to Hearing Exhibit S-2, to calculate the incremental revenue needed to meet the interest, principal and incremental income tax obligations on the WIFA loan, using actual loan amounts and use the result to develop its arsenic removal surcharge tariff application, which would also include the required increase in revenue

calculation. The Company shall also include in its revenue increase calculation the offsets provided by the application of the previously-collected funds pursuant to Decision No. 62908 to service the debt, and the offsets provided by hook-up fees collected pursuant to Decision No. 67669 (March 9, 2005), which approved an Arsenic Impact Fee Tariff for the Company to help pay for debt service and/or principal on the requested WIFA loan; and shall file copies of its calculation of revenue requirement for principal and interest obligations on the WIFA loan and incremental income taxes on the surcharge, within 60 days after the loan agreement is signed by both WIFA and the Company.

35. Based on the evidence in this proceeding, it is reasonable to require the Company to make all reasonable efforts to institute operating policies to remove any and all transactions between the Company and its owners that are not arm's length transactions. It is also reasonable to require Staff to carefully scrutinize the Company's books in the Company's next rate case, and bring to the Commission's attention any instances of transactions between the Company and its shareholder that are not arm's length, including but not limited to improper lease arrangements and payment of personal expenses, along with recommendations for appropriate Commission action.

36. It is reasonable to require the Company to develop and institute a plan that would produce a positive equity position by December 31, 2010, and to file a copy of the plan as a compliance item in this docket within 90 days. It is also reasonable to require Staff to bring to the attention of the Commission in the Company's next rate case all evidence of any inappropriate lease arrangements between the shareholder and the Company, or any other inappropriate practices, that contribute to the deterioration rather than to the building of the Company's equity.

37. It is not in the public interest to grant the Company's proposed AOMRSM.

38. It is reasonable to require the Company to file a curtailment tariff as recommended by Staff within 45 days with Docket Control, as a compliance item for Staff review and certification.

39. The Company's proposed service line and meter installation charges are reasonable and should be adopted.

40. Staff testified that the Company has no outstanding compliance issues with the Commission.

41. Staff testified that Valley's TY water loss is 1.96 percent, within acceptable limits.

42. Staff testified that the Company is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

43. The Company is located within the Arizona Department of Water Resources' ("ADWR") Phoenix AMA. Staff testified that the Company is in compliance with the AMA reporting and conservation requirements

44. Because an allowance for the property tax expense of Valley Utilities is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure Valley Utilities should annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the company is current in paying its property taxes in Arizona.

CONCLUSIONS OF LAW

1. Valley 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, 40-301, 40-302 and 40-303.

2. The Commission has jurisdiction over Valley 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 herein are just and reasonable and should be approved without a hearing.

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

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

ORDER

IT IS THEREFORE ORDERED that Valley Utilities Water Company Inc. shall file with the Commission's Docket Control Center, as a compliance item in this docket, on or before November 30, 2005, the following schedule of rates and charges:

MONTHLY USAGE CHARGE:

5/8" x ¾" Meter	$ 11.24
¾" Meter	16.87
1" Meter	28.10
1 ½" Meter	56.21
2" Meter	89.94
3" Meter	179.87
4" Meter	281.05
6" Meter	562.10
Construction Water	179.87

COMMODITY CHARGES:*

Construction Water	3.02
5/8" x 3/4" Residential Meter	
1 to 3,000 gallons	1.50
3,001 to 10,000 gallons	2.31
10,001 gallons and over	2.53
5/8" x 3/4" Meter - Commercial	
1 to 18,000 gallons	2.31
18,001 gallons and over	2.58
3/4" Meter - Residential	
1 to 3,000 gallons	1.50
3,001 to 10,000 gallons	2.31
10,001 gallons and over	2.53
3/4" Meter - Commercial	
1 to 18,000 gallons	2.31
18,001 gallons and over	2.58
1" Meter	
1 to 50,359 gallons	2.31
50,360 gallons and over	2.53
1 1/2" Meter	
1 to 126,054 gallons	2.31
126,055 gallons and over	2.53

<u>2" Meter</u>	
1 to 151,256 gallons	$ 2.31
151,257 gallons and over	2.53
<u>3" Meter</u>	
1 to 403,274 gallons	2.31
403,275 gallons and over	2.53
<u>4" Meter</u>	
1 to 453,722 gallons	2.31
453,723 gallons and over	2.53
<u>6" Meter</u>	
1 to 1,260,313 gallons	2.31
1,260,314 gallons and over	2.53

*In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use and franchise tax per Commission Rule R14-2-409.D.5.

<u>SERVICE LINE AND METER INSTALLATION CHARGES</u>: **
(Refundable pursuant to A.A.C. R14-2-405)

	Service Line Inst. Charge	Meter Inst. Charge	Total Inst. Charge
5/8 x ¾ Inch	$ 385.00	$ 135.00	$ 520.00
3/4 Inch	385.00	215.00	600.00
1 Inch	435.00	255.00	690.00
1 ½ Inch	470.00	465.00	935.00
2 Inch/Turbine	630.00	965.00	1,595.00
2 Inch/Compound	630.00	1,690.00	2,320.00
3 Inch/Turbine	805.00	1,470.00	2,275.00
3 Inch/Compound	845.00	2,265.00	3,520.00
4 Inch/Turbine	1,170.00	2,350.00	3,520.00
4 Inch/Compound	1,230.00	3,245.00	4,475.00
6 Inch/Turbine	1,730.00	4,545.00	6,275.00
6 Inch/Compound	1,770.00	6,280.00	8,050.00
8 Inch	At Cost	At Cost	At Cost
10 Inch	At Cost	At Cost	At Cost
12 Inch	At Cost	At Cost	At Cost

** All advances and/or contributions are to include labor, materials, overheads, and applicable taxes, including gross-up taxes for income taxes, if applicable. As meters and service lines are now taxable income for income purposes, the Company shall collect income taxes on the meter and service line charges. Any tax collected will be refunded each year that the meter deposit is refunded.

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SERVICE CHARGES:

Establishment	$ 30.00
Establishment (After Hours)	45.00
Reconnection (Delinquent) (b)	40.00
Reconnection (Delinquent and After Hours) (b)	40.00
Meter Test (If Correct)	30.00
Deposit Requirement	(a)
Deposit Interest	6%
Reestablishment (Within 12 Months)	(b)
Reestablishment (After Hours)	(b)
NSF Check (per Rule R14-2-409.F)	25.00
Deferred Payment, Per Month	1.50%
Meter Reread (per Rule R14-2-408.C)	10.00
Charge of Moving Customer Meter – Customer Requested	Cost
After hours service charge	25.00

(a) Residential – two times the average bill.
Non-Residential - two and one-half times the average bill.
(b) Per Rule R14-2-403.D.

Monthly Service Charge for Fire Sprinkler: ***

*** 1% of Monthly Minimum for a Comparable Size 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.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after December 1, 2005.

IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. shall notify its customers of the revised rates and charges authorized herein, and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing.

IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. shall file with the Commission's Docket Control, as a compliance item in this docket, a copy of the notice it sends to its customers within 60 days of the effective date of this Decision.

IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc.'s request for approval of the WIFA loan in the amount of $1,926,100 is hereby approved.

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

IT IS FURTHER ORDERED that such authority is expressly contingent upon Valley Utilities Water Company, Inc.'s use of the proceeds for the purposes set forth in its 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 Valley Utilities Water Company, Inc. shall file copies of all executed financing documents setting forth the terms of the financing, within 30 days of the obtaining such financing.

IT IS FURTHER ORDERED that the financing authority granted to Valley Utilities Water Company, Inc. in Decision No. 62908 but which was never utilized, is hereby cancelled.

IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. file with Docket Control, as a compliance item in this docket, within 30 days of this Decision, a report that provides detailed information regarding the balance of the funds the Company has collected for the sole purpose of servicing the WIFA debt approved in Decision No. 62908, which debt was never issued. The report shall also include an analysis of the extent to which application of the collected funds to service the debt approved in this proceeding will offset the amount of, or the need for, a surcharge to service the financing approved herein.

IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. shall file with Docket Control an application for approval of an arsenic removal surcharge tariff if a surcharge is necessary to allow Valley Utilities Water Company, Inc. to meet its principal and interest obligations on the amount of the WIFA loan and income taxes on the surcharges.

IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. shall file with Docket

Control, as a compliance item in this docket, copies of its calculation of revenue requirement for principal and interest obligations on the WIFA loan and incremental income taxes on the surcharge, within 60 days after the loan agreement is signed by both WIFA and the Company. The revenue calculation shall include the effects of 1) the application of the previously-collected funds referenced in the previous Ordering Paragraph to service the debt authorized herein, and 2) hook-up fees collected pursuant to Decision No. 67669 (March 9, 2005), which approved an Arsenic Impact Fee Tariff for the Company to help pay for debt service and/or principal on the requested WIFA loan.

IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. shall institute operating policies to remove any and all transactions between the Company and its owners that are not arm's length transactions.

IT IS FURTHER ORDERED that the Commission's Utilities Division Staff shall carefully scrutinize Valley Utilities Water Company, Inc.'s books in its next rate case, and bring to the Commission's attention any instances of transactions between the Valley Utilities Water Company, Inc. and its shareholder that are not arm's length, including but not limited to improper lease arrangements and payment of personal expenses, along with recommendations for appropriate Commission action.

IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. shall develop and institute a plan to produce a positive equity position by December 31, 2010, and shall file a copy of the plan, with the Commission's Docket Control, as a compliance item in this docket within 90 days.

IT IS FURTHER ORDERED that in Valley Utilities Water Company, Inc.'s next rate proceeding, the Commission's Utilities Division Staff shall bring to the attention of the Commission all evidence of any inappropriate practices that contribute to the deterioration of, rather than to the building of, equity.

IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc.'s request for an Arsenic Operating and Maintenance Recovery Surcharge Mechanism is hereby denied.

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IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. shall annually file as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN — COMMISSIONER

COMMISSIONER — COMMISSIONER — COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director 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 14th day of NOV., 2005.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT ____________________

DISSENT ____________________

SERVICE LIST FOR: VALLEY UTILITIES WATER COMPANY, INC.

DOCKET NO.: W-01412A-04-0736 and W-01412A-04-0849

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