

ORIGINAL
OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

DOCKETED

JUL 13 2006

AZ CORP COMMISSION
DOCUMENT CONTROL

FROM: Utilities Division

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DATE: July 13, 2006

RE: IN THE MATTER OF THE APPLICATION OF LAS QUINTAS SERENAS WATER COMPANY. FOR REVIEW AND APPROVAL OF PROPOSED ARSENIC IMPACT HOOK-UP FEE TARIFF (DOCKET NO. W-01583A-06-0436)

Introduction

On June 30, 2006, Las Quintas Serenas Water Company ("LQS" or the "Company") filed an Arsenic Impact Hook-up Fee Tariff pursuant to Decision No. 68718 (dated, June 1, 2006). LQS is undertaking the construction of treatment facilities to reduce the level of arsenic concentration in its water supply so it can meet the new arsenic standard. LQS plans to use proceeds from the proposed Arsenic Impact Hook-up Fee Tariff to assist in constructing the arsenic treatment facilities.

LQS's Water System

LQS serves an area which is approximately 20 miles southwest of the City of Tucson in Pima County near the Town of Green Valley. The water system consists of three wells, two storage tanks and booster systems serving approximately 1,022 customers. This customer count includes customers who use the Company's standpipe service. The arsenic levels at the wells are as follows; Well #5 at 11 parts per billion ("ppb"), Well #6 at 14 ppb, and Well #7 at 15 ppb.

Company's proposed Arsenic Impact Fee

The proposed Arsenic Impact Hook-up Fee Tariff will be used to assist in funding the construction of arsenic treatment facilities for the three wells, which totals to \$1,580,446. This capital cost of \$1,580,446 was approved by the Commission in Decision No. 68718. LQS seeks approval of an Arsenic Impact Hook-up Fee of \$1,120.88 for all new 5/8 x 3/4-inch service connections, graduated for larger meter sizes using American Water Works Association equivalent meter conversion factors ("AWWA multipliers"). The Company calculated its proposed fee by applying the total capital cost of \$1,580,446 and dividing by a projected customer count of 1,410.

Staff's Analysis and proposed Arsenic Impact Fee

Staff has reviewed the Company's proposed tariff and supporting data. Staff recommends an Arsenic Impact Hook-Up Fee of \$1,135 for all new 5/8 x 3/4-inch service connections, graduated for larger meter sizes using the AWWA multipliers. Staff calculated its proposed fee by applying the

total capital cost of \$1,580,446 and dividing by a projected customer count of 1,393. Staff reduced the Company number for standpipe customers from 162 to 33 since it is Staff's position that no additional service connections will be needed to serve future standpipe customers. The two existing standpipe structures are served by 2-inch and 4-inch meters. Staff used the AWWA multipliers to calculate an equivalent number of customers based on the two meters that are currently serving standpipe customers. Staff also used growth projections it developed in the Company's last rate application instead of those used by the Company. Staff's projected growth includes 260 new connections based on an historical linear growth rate of 52 connections per year for the next five years and 240 possible new connections in the Santa Cruz Meadows Subdivision.

The Company's proposed tariff limits the use of collections solely for paying costs of arsenic treatment facilities and repayment of loan(s) obtained for arsenic treatment facilities. Nominal or no arsenic impact fee collections are needed to pay for arsenic facilities directly due to the Company's intention to finance the arsenic facilities with debt. Use of the fee collections to pay debt service may cause those collections to be taxable. Alternately, if the collections are used directly to construction common use plant by the end of the second year following the year of collection, the fees are not taxable. Ratepayers may be harmed to the extent that the fees are taxed because the taxes defray the amount of the fee recognized as contributions in aid of construction, a reduction to rate base. Accordingly, Staff recommends limiting the authorized arsenic impact fee collections to the cost of the arsenic treatment facilities, but allowing the Company to use the collections for any common use plant. Since the impact fee collections may exceed the cost of common use plant in any two-year period, use of the collections to pay debt service should be authorized as a potential secondary use in that event.

Existing Off-Site Facilities Hook-Up Fee and Arsenic Cost Recovery Mechanism

LQS has an approved Off-Site Facilities Hook-Up Fee Tariff granted by Decision No. 58839 (dated November 2, 1994) and an Arsenic Cost Recovery Mechanism by Decision No. 68718. This Arsenic Impact Hook-Up Fee will be in addition to these two existing charges.

Staff's Recommendation

Staff recommends approval of LQS's Arsenic Impact Hook-up Fee Tariff as modified by Staff and reflected in the attached Tariff Schedule.



Ernest G. Johnson
Director
Utilities Division

EGJ:DMH:tdp\DR

ORIGINATOR: Dorothy Hains

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION)
 OF LAS QUINTAS SERENAS WATER)
 COMPANY, FOR REVIEW AND)
 APPROVAL OF PROPOSED ARSENIC)
 IMPACT HOOK-UP FEE TARIFF)

DOCKET NO. W-01583A-06-0436
 DECISION NO. _____
ORDER

Open Meeting
 July 25 and 26, 2006
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Las Quintas Serenas Water Company ("LQS" or "Company") provides water utility service in an area approximately 20 miles southwest of the City of Tucson, in Pima County.
 2. On June 30, 2006, LQS filed an Arsenic Impact Hook-up Fee ("AIHF") Tariff pursuant to Decision No. 68718 (June 1, 2006). LQS is undertaking a treatment construction project to reduce the level of arsenic concentration in its water supply so it can meet the new arsenic standard. LQS plans to use proceeds from the proposed Arsenic Impact Hook-up Fee Tariff to assist in constructing the arsenic treatment facilities.
 3. A capital cost of \$1,580,446 for construction of arsenic treatment facilities was approved in Decision No. 68718.
 4. LQS seeks approval of an AIHF of \$1,120.88 for all new 5/8 x 3/4-inch service connections on the basis of a projected customer count of 1,410.
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IT IS FURTHER ORDERED that Las Quintas Serenas Water Company shall file with docket control as a compliance item, a copy of the Arsenic Impact Hook-up Fee Tariff as per the attached tariff schedule within 30 days of a decision in this matter.

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

BY THE 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 this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2006.

BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:DMH:tdp\DR

1 SERVICE LIST FOR: Las Quintas Serenas Water Company
2 DOCKET NO. W-01583A-06-0436

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16 Director, Utilities Division
17 Arizona Corporation Commission
18 1200 West Washington
19 Phoenix, Arizona 85007

20 Mr. Christopher C. Kempley
21 Chief Counsel
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TARIFF SCHEDULE

Utility: Las Quintas Serenas Water Co.
 Docket No: W-01583A-06-0436
 Phone No. 520.625.8040

Tariff Sheet No: 2 of 3
 Decision No: _____
 Effective: _____

ARSENIC IMPACT HOOK-UP FEE TARIFF TABLE		
Meter Size	Meter Factor	Fee
5/8" X 3/4"	1	\$1,135
3/4"	1½	\$1,703
1"	2½	\$2,838
1 ½"	5	\$5,675
2"	8	\$9,080
3"	16	\$18,160
4"	25	\$28,375
6"	50	\$56,750

IV. Terms and Conditions

- (A) Assessment of One-Time Arsenic Impact Hook-Up Fee: The Arsenic Impact Hook-Up Fee may be assessed only once per service connection (similar to service line and meter installation charges), or lot within a platted subdivision (similar to OFF-SITE FACILITIES HOOK-UP FEES). This provision does not exempt from the tariff, any newly created parcel(s) which are the result of further subdivision of a lot or land parcel and which do not have a service connection.
- (B) Use of Arsenic Impact Hook-Up Fee Funds: All funds collected by the Company pursuant to the Arsenic Impact Fee Tariff shall be deposited with a financial institution in a separate account. The Company shall maintain a subsidiary ledger to account for all collections and uses of the fees. The Company shall use the collections solely for the purposes of paying for the costs of common use plant (including engineering and design costs for such facilities) and repayment of loan(s) obtained for the installation of arsenic treatment facilities. The Company shall manage the collection for income tax efficiency, that is, funds shall first be use to pay for the costs of common use plant. Then, to the extent collections may become taxable if not used to pay for common use plant, the funds may be used for repayment of loan(s) obtained for arsenic remediation. Funds collected by the Arsenic Impact Hook-Up Fee Tariff shall not be used for expenses, maintenance, or operational purposes.
- (C) Time of Payment:
- i. In the event that the Applicant is required to enter into a main extension agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants, and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the charges required hereunder, as to service connections to be served through such facilities and improvements, shall be made by the Applicant within fifteen (15) calendar days after receipt of notification from the Company that the

TARIFF SCHEDULE

Utility:	<u>Las Quintas Serenas Water Co.</u>	Tariff Sheet No:	<u>3 of 3</u>
Docket No:	<u>W-01583A-06-0436</u>	Decision No:	_____
Phone No.	<u>520.625.8040</u>	Effective:	_____

Utilities Division of the Commission has approved the main extension agreement in accordance with R-14-2-406(M).

- ii. In the event the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time the service line and meter installation charge is due and payable.
- (D) Failure to Pay Charges, Delinquent Payments: Under no circumstances will the Company set a meter or otherwise allow service to be established if the Applicant has not paid in full all charges as provided by this tariff.
- (E) Arsenic Impact Hook-Up Fee Tariff Non-Refundable: The amounts collected by the Company pursuant to the tariff shall be non-refundable advances in aid of construction.
- (F) Arsenic Impact Hook-Up Fee in Addition to Other Charges: The Arsenic Impact Hook-Up Fee shall be in addition to any costs associated with a main extension agreement otherwise required for on-site facilities, and is in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff.
- (G) Disposition of Excess Funds: After funds are collected equal to the cost of all Arizona Department of Environmental Quality required arsenic treatment facilities or the tariff has been terminated by order of the Commission, any funds not necessary to pay for arsenic treatment facilities remaining shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.
- (H) Distinguished from Arsenic Cost Recovery Mechanism: The Arsenic Impact Hook-Up Fee which is the subject of this tariff is separate and to be distinguished from the Arsenic Cost Recovery Mechanism which was authorized as a part of the Company's charges for water service in Commission Decision No. 68718.
- (I) Distinguished from Existing Off-Site Facilities Hook-Up Fees: The Arsenic Impact Hook-Up Fee which is subject of this tariff is separate and to be distinguished from the Existing Off-Site Facilities Hook-Up Fees which was authorized as part of the Company's charges for water service in Commission Decision No. 67455, dated January 1, 2005.
- (J) Status Reporting Requirement to the Commission: The Company shall file with Docket Control by January 31st of each year, an annual calendar year status report, until the Arsenic Impact Hook-Up Fee Tariff is no longer in effect. This status report shall contain a list of all customers that have paid the Arsenic Impact Hook-Up Fee Tariff, the amount of money spent from the account, and a list of the facilities that have been installed with funds from the Arsenic Impact Hook-Up Fee Tariff for arsenic during the 12-month period.