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NEW APPLICATION

ORIGINAL

Chino Meadows II Water Company
PO Box 350 * Chino Valley, Arizona 86323
Phone: (928) 717-2616 / Fax: (928) 717-2621

April 1, 2008

Docket Control Center
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

APR - 1 2008

RE: New Application for a Hook-Up Fee Tariff

DOCKETED BY	<i>MM</i>
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W-02370A-08-0183

To The Commission

Enclosed are the original and 13 copies of an application for approval of a Hook Up Fee tariff.

Sincerely,

Craig Garvin
Chief Operating Officer

RECEIVED
2008 APR - 1 P 1:36
AZ CORP COMMISSION
DOCKET CONTROL

I. Introduction

1. Chino Meadows II Water Company, Inc. ("Chino" or "Company") hereby files an application for approval of the attached off-site water hook up fee tariff.

2. The hook up fee is being requested in order to facilitate the hook up of 229 additional lots to Chino's system. These lots are currently undeveloped, are within the Company's current service territory and are within the subdivision known as Chino Meadows Unit III. The Town of Chino Valley will be extending sewer infrastructure to this subdivision. The Company is cooperating and coordinating with the Town of Chino Valley so that efficiencies can be gained from the concurrent digging of trenches for water, sewer and other utility infrastructure. The Company and the Town of Chino Valley have tentatively agreed to a schedule for installing infrastructure in phases.

3. The Company believes it is fair, equitable and consistent with established regulatory policy to impose an off-site water hook up fee of \$2,036.68 per new 5/8" x 3/4" meter connection. The amount of \$2,036.68 is arrived at by dividing the total costs of the new connections (\$466,400) by the total number of new connections (229.) The establishment of this hook up fee will ensure that the 912 current customers of Chino will not be responsible for the costs associated with establishing service to the 229 new lots. While this is generally consistent with the regulatory principal of "cost-causer-pays", the circumstances of this case would make it especially unfair for the existing customers to fund the deployment of facilities for new hook ups.

II. Special Circumstances

4. The 229 lots for which the company plans to expand service are owned by several different entities collectively referred to as the "land owners." 93 of the lots are owned by Paul Levie and entities owned and controlled by Paul Levie.¹ Paul Levie also owns and controls Chino. The remaining 136 lots are owned by several individual land owners unaffiliated with Chino. No one of the individual land owners (including Levie) owns a contiguous block of lots. The lots belonging to the various land owners are interspersed. This distribution of ownership of the lots makes the negotiation of a Main Extension Agreement practically impossible. As utility services are hooked up and other infrastructure (roads, etc.) is installed the Levie entities plan to sell their lots to builders as is typical in the development process. The other non-affiliated land owners are likely to sell their lots to builders as utility services are hooked up and other infrastructure (roads, etc.) is installed as well. The land owners are likely to profit from the sale of the lots to builders. Since the hook up of utility service contributes directly to the ability of

¹ Specifically, Levie Antelope Lakes Development, Inc. owns 86 lots, Levie Family Limited Partnership owns 5 lots, and Paul Levie owns 2 lots.

the land owners to earn a profit on the sale of their land it is fair that the land owners pay for the hook up of utility service. In the absence of a hook up fee, existing customers will (eventually) be required to pay for the facilities required to serve the new lots. Thus, in the absence of a hook up fee, existing customers would be required to fund the profit making activities of the land owners (one of whom is also the owner of the water company.) With the establishment of a hook up fee the landowners (including Levie) will be required to contribute the cost of the new hook ups to Chino, thus eliminating any impact on existing customers.

5. We are aware that Staff and the Commission have had concerns with hook up fees being used by start-up water companies. For instance in a 2005 Staff Report, Staff stated "The Commission's long-held policy is to deny hook-up fees for new utilities to help insure that owners have a substantial investment in their company which they would logically protect through appropriate operation and maintenance practices."² These concerns do not apply to Chino. Chino is not a start-up company; it has a substantial number of existing customers whose interests will be served by implementing a hook-up fee. Additionally, the attached balance sheet (for 2007) shows that the owner of Chino currently has a substantial equity stake in the company. Thus, concerns about the owner's motivations being negatively affected by a hook-up fee do not apply to Chino.

III. Calculation of Proposed Hook Up Fee

6. The amount of the proposed hook up fee (\$2,036.68) is arrived at by dividing the total costs of the new connections (\$466,400) by the total number of new connections (229.) The total cost of the new connections is arrived at as follows:

Chino Meadows Unit III		
19,200 LF – 6" C-900 PVC pipe	@\$19/LF	\$364,800
40 – 6" gate valves w/B&C	@\$900 each	\$36,000
16 – Fire Hydrant Assemblies	@\$4100 each	\$65,600
Total Unit III 229 connections		\$466,400

7. All other aspects of the attached proposed tariff are taken verbatim from the proposed hook up fee tariff available on the Utilities Division web site updated on 1-29-08.

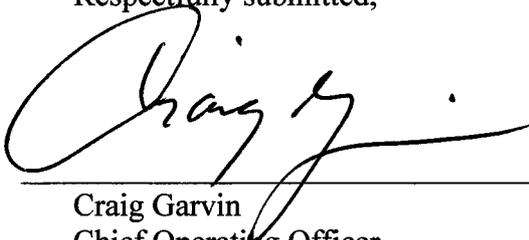
IV. Conclusion

8. Given the circumstances of this case approval of the attached proposed hook up fee tariff is in the public interest. We respectfully request that this application be processed in as timely a manner as is possible. If you have questions about this application please feel free to

² Amended Staff Report filed October 24, 2005 in Docket W-03551A-04-0325.

contact me at (928) 717-2616 or our consultant Matthew Rowell at (480) 961-5484. Thank you for your timely attention to this application.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Craig Garvin". The signature is fluid and cursive, with a large initial "C" and a long horizontal stroke extending to the right.

Craig Garvin
Chief Operating Officer
Chino Meadows II Water Company

CHINO MEADOWS II WATER CO., INC.
Balance Sheet
As of December 31, 2007

ASSETS**Current Assets**

Checking/Savings	\$ 126,642
Accounts Receivable	
Customer Accounts Receivable	30,043
Sundry Receivables	737
Total Accounts Receivable	<u>30,779</u>
Other Current Assets	
Materials & Supplies Inventory	8,425
Prepaid State Income Taxes	1,680
Prepaid Federal Income Tax	19
Total Other Current Assets	<u>10,124</u>

Total Current Assets 167,545

Fixed Assets

Organization	6,843
Land & Land Rights	15,204
Utility Plant	581,086
Office Furniture & Equipment	9,348
Transportation Equipment	80,470
Power Operated Equipment	26,354
Computers & Software	22,830
Accumulated Depreciation & Amortization	<u>(456,385)</u>
Total Fixed Assets	<u>285,527</u>

Other Assets

Non Utility Plant Equipment	8,563
Total Other Assets	<u>8,563</u>

TOTAL ASSETS **\$ 481,635**

LIABILITIES & EQUITY**Liabilities****Current Liabilities**

Accounts Payable	\$ 5,132
Other Current Liabilities	
Payroll Liabilities	7,480
Accrued Expenses	479
Sales Tax Payable	2,065
Due to Affiliated Companies	45,239
Customer Deposits	42,998
Advances for Construction	102,715
Contribution in Aid of Construc	9,843
Total Other Current Liabilities	<u>210,818</u>

Total Current Liabilities 215,950

Long Term Liabilities

Notes Payable - Equipment	13,190
Notes Payable - Stockholder	19,812
Total Long Term Liabilities	<u>33,002</u>

Total Liabilities 248,953

Equity

Common Stock	8,597
Paid-In Capital	80,266
Treasury Stock	(43,102)
Retained Earnings	166,922
Total Equity	<u>212,683</u>

TOTAL LIABILITIES & EQUITY **\$ 481,635**

TARIFF SCHEDULE

UTILITY: Chino Meadows II Water Company, Inc.
DOCKET NO. _____

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE WATER HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to Chino Meadows II Water Company, Inc. ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builder of new residential subdivisions.

"Company" means Chino Meadows II Water Company, Inc.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

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

III. Off-Site Water Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE WATER HOOK-UP FEE TABLE		
Meter Size	Size Factor	Total Fee
5/8" x 3/4"	1	\$2,036.68
3/4"	1.5	\$3,055.02
1"	2.5	\$5,091.70
1-1/2"	5	\$10,183.40
2"	8	\$16,293.44
3"	16	\$32,586.88
4"	25	\$50,917.00
6" or larger	50	\$101,834.00

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off-site hook-up fees shall not be used for repairs, maintenance, or operational purposes.

(C) Time of Payment:

- 1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is required to enter into a Main Extension Agreement, whereby the Applicant, Developer or Builder 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 fees required hereunder shall be made by the Applicant, Developer or Builder no later than within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).
- 2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to

Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide water service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision Projects: In the event that the Developer or Builder is engaged in the development of a residential subdivision containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Developer's or Builder's construction schedule and water service requirements.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the applicant to install such additional facilities as are

required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2009, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.