

ORIGINAL
OPEN MEETING



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MEMORANDUM
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TO: THE COMMISSION

2008 APR 10 A 9:54

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: April 10, 2008

RE: IN THE MATTER OF THE APPLICATION OF CHINO MEADOWS II WATER COMPANY FOR APPROVAL OF AN OFF-SITE FACILITIES HOOK-UP FEE TARIFF (DOCKET NO. W-02370A-08-0183)

Introduction

On April 1, 2008, Chino Meadows II Water Company ("Chino Meadows" or "the Company") filed an application for approval of an Off-site Facilities Hook-up Fee Tariff that would apply to new connections for water service within the Company's service area and within the subdivision known as Chino Meadows Unit III.¹ Chino Meadows currently provides water service to approximately 900 customers in the Chino Valley area north of the Town of Chino Valley in Yavapai County. The proposed hook-up fee would be used to fund the extension of the Company's existing water system to serve 229 lots in Chino Meadows Unit III.

Engineering Analysis

The purpose of hook-up fees is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage and pressure among new service connections. "Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Off-site 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 only one applicant and will benefit the entire water system. The determination of a reasonable hook-up fee amount is based on the off-site plant that will be needed to meet future growth divided by the ultimate number of connections that can be served by the required plant.

The Company developed its proposed hook-up fee amount for a standard 5/8- x 3/4-inch meter by dividing the cost of extending a new main line to serve Chino Meadows Unit III by the expected 229 new connections that would ultimately be served. The Company has proposed a hook-up fee amount that is based on the cost of extending main line facilities that are dedicated to serving new connections in the Chino Meadows Unit III development. The Company has indicated that adequate off-site facilities (i.e., well and storage capacity) already exists to serve Chino Meadows Unit III. Staff believes that Main Extension Agreement(s) are the appropriate

Arizona Corporation Commission
DOCKETED

APR 10 2008

¹ The Town of Chino Valley will be extending sewer infrastructure to this subdivision.

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mechanism for the Company to use in this case since the Company would be funding the extension of main line facilities (not off-site facilities) dedicated to serving Chino Meadows Unit III.

Financial Analysis

As of December 31, 2007, the Company's capital structure was composed of 0.0 percent short-term debt, 13.4 percent long-term debt and 86.6 percent equity. When including Advances in Aid of Construction ("AIAC") and Net Contributions in Aid of Construction ("CIAC"), Chino Meadow's capital structure is composed of 0.0 percent short-term debt, 9.2 percent long-term debt, 59.4 percent equity, 28.7 percent AIAC and 2.7 percent CIAC. Combined AIAC and CIAC currently represent 31.4 percent of total capital (common equity, short-term debt, long-term debt, AIAC and CIAC).

Staff typically recommends that combined AIAC and CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and CIAC, for private and investor owned utilities.

When including the Company proposed hook-up fees (totaling \$466,400), the ratio of AIAC and CIAC of total capital (inclusive of AIAC and CIAC) increases to 70.2 percent.

The resulting AIAC and CIAC funding ratio notably exceeds the parameters Staff normally considers reasonable. No known mitigating circumstances exist to suggest that a variance from Staff's normal capital structure parameters is warranted. Accordingly, due to the existing and pro forma high ratios of combined AIAC and CIAC to total capital, Staff believes it would not be appropriate to recommend authorization of a hook-up fee in this case.

Recommendation

Staff recommends that Chino Meadow's application to implement an Off-site Facilities Hook-up Fee Tariff be denied.



Ernest G. Johnson
Director
Utilities Division

EGJ:PC:DWS:lhm/RM

Originators: Pedro Chaves and Del Smith

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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION)
OF CHINO MEADOWS II WATER)
COMPANY FOR APPROVAL OF AN OFF-)
SITE FACILITIES HOOK-UP FEE TARIFF)
_____)

DOCKET NO. W-02370A-08-0183
DECISION NO. _____

ORDER

Open Meeting
April 24, 2008
Phoenix, Arizona

BY THE COMMISSION:

On April 1, 2008, Chino Meadows II Water Company ("Chino Meadows" or "the Company") filed an application for approval of an Off-site Facilities Hook-up Fee Tariff that would apply to new connections for water service within the Company's service area and within the subdivision known as Chino Meadows Unit III. Monies collected as a result of the proposed tariff would be used to fund the extension of the Company's existing water system to serve 229 lots in Chino Meadows Unit III.

* * * * *

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

FINDINGS OF FACT

1. Chino Meadows is a Class C regulated water utility that currently provides water service to approximately 900 customers in the Chino Valley area north of the Town of Chino Valley in Yavapai County.

1 Engineering Analysis

2 2. The purpose of hook-up fees is to equitably apportion the costs of constructing
3 additional off-site facilities to provide water production, delivery, storage and pressure among new
4 service connections.

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

10 4. The determination of a reasonable hook-up fee amount is based on the off-site plant
11 that will be needed to meet future growth divided by the ultimate number of connections that can
12 be served by the required plant.

13 5. The Company developed its proposed hook-up fee amount for a standard 5/8- x 3/4-
14 inch meter by dividing the cost of extending a new main line to serve Chino Meadows Unit III by
15 the expected 229 new connections that would ultimately be served.

16 6. The Company has proposed a hook-up fee amount that is based on the cost of
17 extending main line facilities that are dedicated to serving new connections in the Chino Meadows
18 Unit III development. The Company has indicated that adequate off-site facilities (i.e., well and
19 storage capacity) already exists to serve Chino Meadows Unit III.

20 7. Staff believes that Main Extension Agreement(s) are the appropriate mechanism for
21 the Company to use in this case since the Company would be funding the extension of main line
22 facilities (not off-site facilities) dedicated to serving Chino Meadows Unit III.

23 Financial Analysis

24 8. As of December 31, 2007, the Company’s capital structure was composed of 0.0
25 percent short-term debt, 13.4 percent long-term debt and 86.6 percent equity. When including
26 Advances in Aid of Construction (“AIAC”) and Net Contributions in Aid of Construction
27 (“CIAC”), Chino Meadow’s capital structure is composed of 0.0 percent short-term debt, 9.2
28 percent long-term debt, 59.4 percent equity, 28.7 percent AIAC and 2.7 percent CIAC. Combined

1 AIAC and CIAC currently represent 31.4 percent of total capital (common equity, short-term debt,
2 long-term debt, AIAC and CIAC).

3 9. Staff typically recommends that combined AIAC and CIAC funding not exceed 30
4 percent of total capital, inclusive of AIAC and CIAC, for private and investor owned utilities.
5 When including the Company proposed hook-up fees (totaling \$466,400), the ratio of AIAC and
6 CIAC of total capital (inclusive of AIAC and CIAC) increases to 70.2 percent.

7 10. The resulting AIAC and CIAC funding ratio notably exceeds the parameters Staff
8 normally considers reasonable. No known mitigating circumstances exist to suggest that a
9 variance from Staff's normal capital structure parameters is warranted. Accordingly, due to the
10 existing and pro forma high ratios of combined AIAC and CIAC to total capital, Staff believes it
11 would not be appropriate to recommend authorization of a hook-up fee in this case.

12 **Recommendation**

13 11. Staff has recommended that Chino Meadow's application to implement an Off-site
14 Facilities Hook-up Fee Tariff be denied.

15 CONCLUSIONS OF LAW

16 1. The Company is a public water service corporation within the meaning of Article
17 XV of the Arizona Constitution and A.R.S. §§40-250 and 40-252.

18 2. The Commission has jurisdiction over the Company and of the subject matter of the
19 application.

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ORDER

IT IS THEREFORE ORDERED that the application by Chino Meadows II Water Company for approval of an Off-site Hook-up Fee Tariff that would apply to new connections for water service within the Company's service area and within the subdivision known as Chino Meadows Unit III is denied.

IT IS FURTHER ORDERED that this Decision 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 _____, 2008.

BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:PC:DWS:lh\RM

1 SERVICE LIST FOR: Chino Meadows II Water Company
2 DOCKET NO. W-02370A-08-0183

3 Mr. Craig Garvin
4 Chief Operating Officer
5 Chino Meadows II Water Company
6 Post Office Box 350
7 Chino Valley, Arizona 86323

8 Mr. Ernest G. Johnson
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 Mr. Christopher C. Kempley
14 Chief Counsel, Legal Division
15 Arizona Corporation Commission
16 1200 West Washington
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