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ORIGINAL

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson *EA for EGJ*
Director
Utilities Division

DATE: September 22, 2008

RE: STAFF REPORT FOR SPANISH TRAIL WATER COMPANY'S APPLICATION
FOR ESTABLISHMENT OF A HOOK-UP FEE TARIFF
(DOCKET NO. W-01816A-06-0177) and W-01790A-06-0177

Attached is the Staff Report for Spanish Trail Water Company's application for the establishment of a hook-up fee tariff. Staff recommends approval of the application using Staff's recommended fees.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 12:00 p.m. on or before October 02, 2008.

EGJ: MEM:kdh

Originator: Marvin E. Millsap

Attachment: Original and thirteen Copies

Arizona Corporation Commission
DOCKETED

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

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Service List for: Spanish Trail Water Company
Docket No.: W-01816A-06-0177

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**STAFF REPORT
UTILITY DIVISION
ARIZONA CORPORATION COMMISSION**

SPANISH TRAIL WATER COMPANY

DOCKET NO. W-01816A-06-0177

APPLICATION

FOR A

HOOK-UP FEE TARIFF

SEPTEMBER 22, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Spanish Trail Water Company, Docket No. W-01816A-06-0177, was the responsibility of the Staff members listed below. Marvin E. Millsap was responsible for the financial review and analysis of the Company's application. Jian Liu was responsible for the engineering and technical analysis.


Marvin E. Millsap
Public Utilities Analyst IV


Jian Liu
Utilities Engineer

**EXECUTIVE SUMMARY
SPANISH TRAIL WATER COMPANY
DOCKET NO. W-01816A-06-0177**

Spanish Trail Water Company ("Company") currently serves approximately 401 customers in a portion of Pima County approximately one-half mile east of the Tucson city limits. The Company is requesting that the establishment of a hook-up fee tariff be approved.

Staff recommends approval of the hook-up fee tariff as presented in this Report.

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FACT SHEET

Company: Spanish Trail Water Company

Current rates: Decision No. 67582, dated February 15, 2005.

Type of ownership: Spanish Trail Water Company is a Subchapter S Corporation.

Location: The Company currently serves approximately 401 customers in a portion of Pima County approximately one-half mile east of the Tucson city limits.

Rates: The Company currently does not have a hook-up fee tariff.

Customers: The Company currently has no customers to whom the hook-up fee will apply.

Notification: Customer notification has not yet been made.

Summary of Filing and Background:

On December 6, 2007, the Spanish Trail Water Company ("STWC" or "Company") submitted an application for review and approval of a proposed Hook-up Fee ("HUF") Tariff in compliance with Decision No. 69646.

At this time there are no customers to whom the hook-up fee would apply but anticipated growth during the 2008 through 2028 time frame for development cited by STWC is estimated to result in 11,834 new customers for the Company. The infrastructure necessary to support this growth is estimated to cost \$21.2 million for STWC based on the Water System Master Plan for each system prepared by Westland Resources, Inc. The proposed HUF tariff described below is intended to fund sixty (60%) percent of the costs.

For Spanish Trail Water Company

<u>Meter Size</u>	
5/8 inch	\$ 1,530.00
3/4 inch	\$ 2,295.00 Scaled on 5/8 meter flow
1 inch	\$ 3,825.00 Scaled on 5/8 meter flow
1 1/2 inch	\$ 7,650.00 Scaled on 5/8 meter flow
2 inch	\$12,240.00 Scaled on 5/8 meter flow
3 inch	\$24,480.00 Scaled on 5/8 meter flow
4 inch	\$38,250.00 Scaled on 5/8 meter flow
6 inch	\$45,900.00 Scaled on 5/8 meter flow

ENGINEERING ANALYSIS:

In Decision No. 69646, dated June 6, 2007, the Arizona Corporation Commission ordered STWC to submit, for Staff's review, a proposed hook-up fee tariff, which 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.

The Company's Certificate of Convenience and Necessity ("CC&N") encompasses approximately 6,400 acres and is located approximately 17 miles southeast of the City of Tucson in Pima County. STWC served approximately 538 customers as of December 2007.

The Company filed its proposed HUF tariff on December 6, 2007. STWC anticipated that new customer growth would be 11,834 customers by 2028. STWC's proposed hook-up fee per connection for a 5/8" x 3/4" meter is \$1,530, which is 60 percent of the capital improvement project amounts.

Off-Site Hook-Up Fee Tariff

Staff supports the concept of a hook-up fee for this Company and recommends the adoption of the specific tariff language reflected in the Tariff Schedule in the Staff Recommendations section of this Report.

To determine an appropriate fee amount for a 5/8" x 3/4" meter, Staff used the capital improvement project amounts from the Company's application, adjusted to eliminate from the fee calculations costs for any facilities that do not benefit the entire water system. Staff used the water use data sheet included in the Company's 2006 Annual Report to calculate its proposed hook-up fee amount:

Staff's Hook-Up Fee Factors:

Peak month usage (gal /day-service):	542 gal. in April 2006
Peak-day Conversion Factor:	1.25
Staff's adjusted capital improvement project cost:	\$19,679,375
Well production from four wells:	4,600 GPM

Staff's Hook-Up Fee Calculation:

542 gallons/ day-service times 1.25 = 0.47 GPM per connection
4,600 GPM divided by 0.47 GPM per connection = 9,787 connections
\$19,679,375 divided by 9,787 connections = \$2,010 per connection
Hook-up fee per connection for a 5/8" x 3/4" meter = \$2,010.

Therefore, the \$1,530 fee proposed by the Company would cover approximately 75 percent of the total adjusted cost.

Recommendation

Staff's recommended rates for the larger meters were calculated using Staff's typical conversion factors. Staff's recommended fees for the larger size meters are listed in the hook-up fee table included in the attached HUF tariff.

FINANCIAL ANALYSIS:

Based on STWC's 2006 Annual Report to the Commission, its capital structure consists of \$1,000 of common stock and \$301,645 in advances-in-aid of construction. Staff believes that an optimum capital structure for small water companies exists when not more than thirty percent is comprised of Advances-in-Aid of Construction (AIAC) and Contributions-in-Aid of Construction (CIAC). Assuming that, within the 20 year time frame for the construction of the new facilities, the existing AIAC balance is fully refunded and no new AIAC or CIAC is created the shareholders will need to invest at least \$13.78 million (70% of the \$19.68 million - Staff's projected cost of the needed facilities) in order to achieve the thirty percent equity target.

If the \$1,530 HUF is approved as requested by the Company, the funds received will be \$14,974,110 (\$1,530 times 9,787). This will require the investment of \$4.71 million by the shareholders and result in approximately 24 percent of the capital structure being equity. Staff's analysis indicates that the cost of hooking-up each projected new customer is \$2,010. In order to achieve the 70 percent equity position recommended by Staff, the hook-up fee should be approximately \$600 (\$2,010 times 30%) for a 5/8" x 3/4" meter.

Consequently, Staff's recommended HUF Tariff is as follows:

<u>Meter Size</u>	
5/8 inch	\$ 600.00
3/4 inch	\$ 900.00 Scaled on 5/8 meter flow
1 inch	\$ 1,500.00 Scaled on 5/8 meter flow
1 1/2 inch	\$ 3,000.00 Scaled on 5/8 meter flow
2 inch	\$ 4,800.00 Scaled on 5/8 meter flow
3 inch	\$ 9,600.00 Scaled on 5/8 meter flow
4 inch	\$15,000.00 Scaled on 5/8 meter flow
6 inch	\$30,000.00 Scaled on 5/8 meter flow

STAFF RECOMMENDATIONS:

Staff recommends approval of the HUF tariff schedule presented below:

TARIFF SCHEDULE

UTILITY: Spanish Trail Water Company DECISION NO. _____
DOCKET NO. W-01816A-06-0177 EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to Spanish Trail Water Company ("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 Spanish Trail Water Company.

"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 to 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 water system operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains, and related appurtenances

necessary for proper water system 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 Hook-up Fee

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

<u>OFF-SITE HOOK-UP FEE TABLE</u>		
<u>Meter Size</u>	<u>Size Factor</u>	<u>Total Fee</u>
5/8" x 3/4 "	1	\$ 600.00
3/4"	1.5	\$ 900.00
1"	2.5	\$ 1,500.00
1-1/2 "	5	\$ 3,000.00
2"	8	\$ 4,800.00
3"	16	\$ 9,600.00
4"	25	\$15,000.00
6" or larger	50	\$30,000.00

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 requesting 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 becomes 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, 2010, 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.

Staff further recommends that Spanish Trail Water Company be required to file a full rate case not later than April 30, 2013, using a test year ending December 31, 2012.