OPEN MEETING

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MEMORANDUM

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TO: THE COMMISSION

FROM: Utilities Division

DATE: August 10, 2009

RE: OAK CREEK WATER COMPANY NO. 1 TARIFF FILING TO IMPLEMENT AN OFF-SITE FACILITES HOOK-UP FEE TARIFF (DOCKET NO. W-01392A-09-0272)

BACKGROUND

On May 29, 2009, Oak Creek Water Company No. 1 ("Oak Creek" or the "Company"), an Arizona not-for-profit corporation, filed an application for Commission approval of an Off-site Facilities Hook-up Fee ("OFHF") Tariff. On June 2, 2009, Staff filed a request for a 59-day extension to review this application. Decision No. 71188, dated June 30, 2009, suspended the tariff filing for 59-days through August 26, 2009.

SYSTEM ANALYSIS

The Company owns and operates a water system that consists of three wells with a total capacity of 450 gallons per minute ("GPM"), four storage tanks with a combined 354,000 gallon storage capacity, three pressure tanks, three booster pump stations and a distribution system. The system is also interconnected to Arizona Water Company's Sedona system. The Company presently serves approximately 730 metered customers. Based on water usage data from May 2008 to May 2009, the Company has adequate production and storage capacity to serve its existing customers and some future growth. Staff calculated non-account water at 7.70 percent, which is within acceptable limits.

Purpose and Calculation of OFHF Tariff

The Company seeks approval to implement an OFHF tariff to finance the capital improvement projects shown in Table A below.

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DOCKET CONTROL

Arizona Corporation Commission
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Table A

	Project Description	Estimated Costs ($)	Amounts used by Company for OFHF calculation ($)	Amounts Staff used for OFHF calculation ($)
1.	**Floating System**			
	To install one new 116,000 gallon storage tank	120,000		
	To install 900' of 8-inch main	76,500		
	To install one pressure reduction valve	10,000		
	To upgrade Airport booster pump station	60,000		
	Engineering & contingencies	66,625		
	Subtotal	**333,125**	**218,863[1]**	**333,125**
2	**Pipeline Upgrades**			
	To install 2,000' of 6-inch mains	170,000		
	To install 450' of 4-inch mains	33,750		
	Engineering & contingencies	50,938		
	Subtotal	**254,688**	**127,344[2]**	**254,688**
	Total	**587,813**	**346,207**	**587,813**

Notes:
1. The Company allocates 65.7% of the cost to future customers via the OFHF.
2. The Company allocates 50% of the cost to future customers via the OFHF.

The Company calculated its proposed $2,500 hook-up fee for each new 5/8 x 3/4-inch service connection equivalent by dividing the 137[1] future customer capacity in its certificated service area by its allocated $346,207 estimate of the cost of capital improvement projects.

STAFF RECOMMENDED METER FACTORS AND OFF-SITE FACILITIES HOOK-UP FEES

Staff calculated the number of additional customers that the proposed 116,000 gallon storage tank could serve based on the peak monthly usage. In the peak month, July 2008, the Company sold 10,509,000 gallons to 719 metered customers for a daily average water usage of 471.5 gallons. Using a daily water demand of 472 GPD/customer, the proposed new 116,000 gallon tank could serve 246 additional customers. The average cost per 5/8 x 3/4-inch meter equivalent is $2,389 ($587,813 ÷ 246). Thus, if the OFHF is the only financing source for the proposed capital improvement projects, a $2,400 OFHF per 5/8 x 3/4-inch meter equivalent would be appropriate.

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[1] The Company's 2008 Master Plan shows additional current build-out capacity equivalent to 137 5/8 x 3/4-inch meter connections.

However, an entity cannot continuously finance capital improvements from non-equity sources and maintain a balanced capital structure. Significant changes in the use of OFHFs over time create intergenerational inequities as customers paying larger OFHFs subsidize those paying lower OFHFs. Thus, financing the proposed capital improvements solely with OFHFs is inappropriate, and a consistent OFHF practice is desirable.

While the Company had a strong capital structure at December 31, 2008, composed of 93.8 percent equity and 6.2 percent Contributions-in-aid-of-Construction ("CIAC"), it currently has a pending a request for authorization to incur long-tern debt,[2] and it has applied to borrow $792,313 from the Water Infrastructure Financing Authority of Arizona ("WIFA"). A pro forma capital structure reflecting issuance of the proposed $792,313 WIFA debt and collection of $587,813 in OFHFs is composed of 1.0 percent short-term debt, 38.5 percent long-term debt. 29.3 percent equity and 31.2 percent CIAC. Although this pro forma capital structure is reasonable, it also shows a rapid deterioration of the Company's financial position and a trend that is unsustainable. Further, the Company's income statement for the year 2008 shows a $32,958 net loss. Losses erode equity. Accordingly, in order to provide a viable long-term approach, Staff concludes that an OFHF should be approved that provides funding for no more than 70 percent of the proposed capital improvement projects.

If a hookup fee is approved, Staff recommends use of the American Water Works Association meter capacity multipliers to establish the OFHF for each service connection meter size, i.e., the OFHF for each meter size service connection is a multiple of the OFHF for a 5/8 x 3/4-inch meter where the multiple is the ratio of the volumetric flow capacity of that meter size to the volumetric flow capacity of a 5/8 x 3/4-inch meter. Staff's recommended OFHFs by meter size are presented in Table B below:

Off-site Facilities Hook-up Fee Charge Schedule

Table B

Meter size	AWWA meter factors	Fee ($)
⅝" x ¾"	1	1,600
¾"	1.5	2,400
1"	2.5	4,000
1½"	5	8,000
2"	8	12,800
3"	16	25,600
4"	25	40,000
6" or larger	50	80,000

[2] Docket No. W-1392A-09-0273.

RECOMMENDATION

Staff recommends approval of the hook-up fee tariff schedule attached as Exhibit 1. The Company should file the approved tariff in Docket Control as a compliance item in this docket, within sixty (60) days of the effective date of a Commission Decision.

Steven M. Olea
Director
Utilities Division

SMO:DMH:GLF:lhm\AH

ORIGINATORS: Dorothy Hains and Gordon Fox

OFF-SITE WATER FACILITIES HOOK-UP FEE

I. Purpose and Applicability

The purpose of the hook-up fees payable to Oak Creek Water Company No. 1. ("Company") pursuant to this tariff is to equitably apportion the costs of constructing additional facilities to provide water production, storage, pressure and fire flow 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 the 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 rules and regulations governing water utilities shall apply in 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.

"Company" means Oak Creek Water Company No. 1, an Arizona corporation.

"Main Extension Agreement" means any agreement whereby an Applicant 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 Arizona Corporation Commission (same as line extension agreement).

"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 the applicant and these facilities will benefit the entire water system.

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

Utility: Oak Creek Water Company No. 1 Tariff Sheet No.: Page 2 of 3
Docket No.: W-01392A-09-0272 Decision No.: ____
Phone No.: (928) 282-3404 Effective: ____

III. Off-Site Hook-Up Charges

Each new service connection shall pay the total off-site facilities hook-up fee, derived from the following table:

OFF-SITE FACILITIES HOOKUP FEE TABLE		
Meter Size	**AWWA Meter Factor**	**Total Fee**
5/8" x ¾ "	1	1,600
¾"	1.5	2,400
1"	2.5	4,000
1- ½ "	5	8,000
2"	8	12,800
3"	16	25,600
4"	25	40,000
6" or larger	50	80,000

IV. Terms and Conditions

(A) Assessment of One Time Hook-Up Charge: The hook-up fee may be assessed only once per service connection, or lot within a platted subdivision (similar to meter and service line installation charges). However, this provision does not exempt from the hook-up fee, 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 Off-Site Hook-Up Fee: Hook-Up fees may only be used to pay for the 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, plant replacements, or operational purposes.

(C) Time of Payment:

(1) 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 shall be made by the Applicant 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 R14-2-406(M).

(2) In the event that the Applicant 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) 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 off-site hook-up fee tariff.

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

(F) Use of Charges 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.

(G) Off-Site Hook-Up Fees In Addition to Other Charges: The off-site hook-up fees shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff.

(H) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fee or the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission (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.

(I) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were generally provided, 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.

Effective Date: ____________

Approved for Filing in Compliance with
Decision No. ____________

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF OAK CREEK WATER COMPANY NO. 1 – TARIFF FILING TO IMPLEMENT AN OFF-SITE FACILITIES HOOK-UP FEE TARIFF	DOCKET NO. W-01392A-09-0272 DECISION NO. __________ <u>ORDER</u>

Open Meeting
August 25 and 26, 2009
Phoenix, Arizona

BY THE COMMISSION:

<u>FINDINGS OF FACT</u>

1. Oak Creek Water Company No. 1 ("Oak Creek" or "Company") is certificated to provide water service as a public service corporation in the State of Arizona.

Background

2. On May 29, 2009, Oak Creek filed an application for Arizona Corporation Commission approval of an Off-site Facilities Hook-up Fee ("OFHF") Tariff.

3. On June 2, 2009, Staff filed a request for a 59-day extension to review this application. Decision No. 71188, dated June 30, 2009, suspended the tariff filing for 59 days through August 26, 2009.

System Analysis

4. The Company owns and operates a water system that consists of three wells with a total capacity of 450 gallons per minute ("GPM"), four storage tanks with a combined 354,000 gallon storage capacity, three pressure tanks, three booster pump stations and a distribution system.

The system is also interconnected to Arizona Water Company's Sedona system. The Company presently serves approximately 730 metered customers. Based on water usage data from May 2008 to May 2009, the Company has adequate production and storage capacity to serve its existing customers and some future growth. Staff calculated non-account water at 7.70 percent, which is within acceptable limits.

Purpose and Calculation of OFHF Tariff

5. The Company seeks approval to implement an OFHF tariff to finance the capital improvement projects shown in Table A below.

Table A

	Project Description	**Estimated Costs ($)**	**Amounts used by Company for OFHF calculation ($)**	**Amounts Staff used for OFHF calculation ($)**
1.	**Floating System**			
	To install one new 116,000 gallon storage tank	120,000		
	To install 900' of 8-inch main	76,500		
	To install one pressure reduction valve	10,000		
	To upgrade Airport booster pump station	60,000		
	Engineering & contingencies	66,625		
	Subtotal	**333,125**	**218,863**[1]	**333,125**
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	To install 450' of 4-inch mains	33,750		
	Engineering & contingencies	50,938		
	Subtotal	**254,688**	**127,344**[2]	**254,688**
	Total	**587,813**	**346,207**	**587,813**

Notes:
1. The Company allocates 65.7% of the cost to future customers via the OFHF.
2. The Company allocates 50% of the cost to future customers via the OFHF.

6. The Company calculated its proposed $2,500 hook-up fee for each new 5/8 x 3/4-inch service connection equivalent by dividing the 137[1] future customer capacity in its certificated service area by its allocated $346,207 estimate of the cost of capital improvement projects.

[1] The Company's 2008 Master Plan shows additional current build-out capacity to 137 5/8 x 3/4-inch meter connections

Staff Recommended Meter Factors and Off-site Facilities Hook-up Fees

7. Staff calculated the number of additional customers that the proposed 116,000 gallon storage tank could serve based on the peak monthly usage. In the peak month, July 2008, the Company sold 10,509,000 gallons to 719 metered customers for a daily average water usage of 471.5 gallons. Using a daily water demand of 472 GPD/customer, the proposed new 116,000 gallon tank could serve 246 additional customers. The average cost per 5/8 x 3/4-inch meter equivalent is $2,389 ($587,813 ÷ 246). Thus, if the OFHF is the only financing source for the proposed capital improvement projects, a $2,400 OFHF per 5/8 x 3/4-inch meter equivalent would be appropriate.

8. However, an entity cannot continuously finance capital improvements from non-equity sources and maintain a balanced capital structure. Significant changes in the use of OFHFs over time create intergenerational inequities as customers paying larger OFHFs subsidize those paying lower OFHFs. Thus, financing the proposed capital improvements solely with OFHFs is inappropriate, and a consistent OFHF practice is desirable.

9. While the Company had a strong capital structure at December 31, 2008, composed of 93.8 percent equity and 6.2 percent Contributions-in-aid-of-Construction ("CIAC"), it currently has a pending request for authorization to incur long-term debt,[2] and it has applied to borrow $792,313 from the Water Infrastructure Financing Authority of Arizona ("WIFA"). A pro forma capital structure reflecting issuance of the proposed $792,313 WIFA debt and collection of $587,813 in OFHFs is composed of 1.0 percent short-term debt, 38.5 percent long-term debt, 29.3 percent equity and 31.2 percent CIAC. Although this pro forma capital structure is reasonable, it also shows a rapid deterioration of the Company's financial position and a trend that is unsustainable. Further, the Company's income statement for the year 2008 shows a $32,958 net loss. Losses erode equity. Accordingly, in order to provide a viable long-term approach, Staff concludes that an OFHF should be approved that provides funding for no more than 70 percent of the proposed capital improvement projects.

---

[2] Docket No. W-01392A-09-0273.

10. If a hook-up fee is approved, Staff recommends use of the American Water Works Association ("AWWA") meter capacity multipliers to establish the OFHF for each service connection meter size, i.e., the OFHF for each meter size service connection is a multiplier of the OFHF for a 5/8 x 3/4-inch meter, where the multiple is the ration of the volumetric flow capacity of that meter size the volumetric flow capacity of a 5/8 x 3/4-inch meter. Staff's recommended OFHFs by meter size are presented in Table B below:

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6" or larger	50	80,000

11. Staff recommends approval of the hook-up fee tariff scheduled attached as Exhibit 1. The Company should file the approved tariff in Docket Control as a compliance item in this matter within sixty (60) days of the effective date of a Commission Decision

CONCLUSIONS OF LAW

1. Oak Creek Water Company No. 1 is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over the Company and of the subject matter in this Application.

ORDER

IT IS THEREFORE ORDERED that the tariff filing, as amended to include Staff's recommendations contained in Findings of Fact No. 11, is hereby approved.

. . .

. . .

IT IS FURTHER ORDERED that Oak Creek Water Company No. 1 shall file with Docket Control an amended hook-up fee tariff, per the attached Exhibit 1, along with the approved hook-up fee amounts as a compliance item in this matter within sixty (60) days of the effective date of this Decision.

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, ERNEST G. JOHNSON, 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 __________________, 2009.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: ____________________________

DISSENT: ____________________________

SMO:DMH:lhm/AH

SERVICE LIST FOR: Oak Creek Water Company No. 1
DOCKET NO. W-01392A-09-0272

Mr. Richard L. Sallquist, Esq.
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Mr. Dick Sitts
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Arizona Corporation Commission
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Arizona Corporation Commission
1200 West Washington Street
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Utility: Oak Creek Water Company No. 1	Tariff Sheet No.: Page 1 of 3
Docket No.: W-01392A-09-0272	Decision No.:
Phone No.: (928) 282-3404	Effective:

OFF-SITE WATER FACILITIES HOOK-UP FEE

I. Purpose and Applicability

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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 the Company's establishment of service, as more particularly provided below.

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Utility: Oak Creek Water Company No. 1 Tariff Sheet No.: Page 2 of 3
Docket No.: W-01392A-09-0272 Decision No.: ______
Phone No.: (928) 282-3404 Effective: ______

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IV. Terms and Conditions

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(B) Use of Off-Site Hook-Up Fee: Hook-Up fees may only be used to pay for the 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, plant replacements, or operational purposes.

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(1) 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 shall be made by the Applicant 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 R14-2-406(M).

Utility: Oak Creek Water Company No. 1 Tariff Sheet No.: Page 3 of 3
Docket No.: W-01392A-09-0272 Decision No.: ____________
Phone No.: (928) 282-3404 Effective: ____________

(2) In the event that the Applicant 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) 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 off-site hook-up fee tariff.

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

(F) Use of Charges 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.

(G) Off-Site Hook-Up Fees In Addition to Other Charges: The off-site hook-up fees shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff.

(H) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fee or the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission (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.

(I) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were generally provided, 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.

Effective Date: ____________

Approved for Filing in Compliance with
Decision No. ____________