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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

Arizona Corporation Commission

DOCKETED

SEP - 3 2009

DOCKETED BY

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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. 71252

ORDER

Open Meeting
August 25 and 26, 2009
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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.

1 The system is also interconnected to Arizona Water Company's Sedona system. The Company
 2 presently serves approximately 730 metered customers. Based on water usage data from May
 3 2008 to May 2009, the Company has adequate production and storage capacity to serve its existing
 4 customers and some future growth. Staff calculated non-account water at 7.70 percent, which is
 5 within acceptable limits.

6 **Purpose and Calculation of OFHF Tariff**

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

9 Table A

	Project Description	Estimated Costs (\$)	Amounts used by Company for OFHF calculation (\$)	Amounts Staff used for OFHF calculation (\$)
10	1. Floating System			
11	To install one new 116,000 gallon storage tank	120,000		
12	To install 900' of 8-inch main	76,500		
13	To install one pressure reduction valve	10,000		
14	To upgrade Airport booster pump station	60,000		
15	Engineering & contingencies	66,625		
16	Subtotal	333,125	218,863¹	333,125
17	2 Pipeline Upgrades			
18	To install 2,000' of 6-inch mains	170,000		
19	To install 450' of 4-inch mains	33,750		
20	Engineering & contingencies	50,938		
21	Subtotal	254,688	127,344²	254,688
22	Total	587,813	346,207	587,813

23 Notes:

- 24 1. The Company allocates 65.7% of the cost to future customers via the OFHF.
 25 2. The Company allocates 50% of the cost to future customers via the OFHF.

26 6. The Company calculated its proposed \$2,500 hook-up fee for each new 5/8 x 3/4-
 27 inch service connection equivalent by dividing the 137¹ future customer capacity in its certificated
 28 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

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

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

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

15 9. While the Company had a strong capital structure at December 31, 2008, composed
16 of 93.8 percent equity and 6.2 percent Contributions-in-aid-of-Construction ("CIAC"), it currently
17 has a pending request for authorization to incur long-term debt,² and it has applied to borrow
18 \$792,313 from the Water Infrastructure Financing Authority of Arizona ("WIFA"). A pro forma
19 capital structure reflecting issuance of the proposed \$792,313 WIFA debt and collection of
20 \$587,813 in OFHFs is composed of 1.0 percent short-term debt, 38.5 percent long-term debt, 29.3
21 percent equity and 31.2 percent CIAC. Although this pro forma capital structure is reasonable, it
22 also shows a rapid deterioration of the Company's financial position and a trend that is
23 unsustainable. Further, the Company's income statement for the year 2008 shows a \$32,958 net
24 loss. Losses erode equity. Accordingly, in order to provide a viable long-term approach, Staff
25 concludes that an OFHF should be approved that provides funding for no more than 70 percent of
26 the proposed capital improvement projects.

27 _____
28 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:

Off-site Facilities Hook-up Fee Charge Schedule

Table B

Meter size	AWWA meter factors	Fee (\$)
5/8" x 3/4"	1	1,600
3/4"	1.5	2,400
1"	2.5	4,000
1 1/2"	5	8,000
2"	8	12,800
3"	16	25,600
4"	25	40,000
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.

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...

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

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6
7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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9 CHAIRMAN

COMMISSIONER

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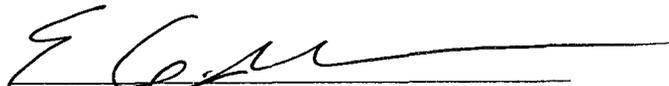
12 COMMISSIONER

COMMISSIONER

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15 COMMISSIONER

16 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
17 Executive Director of the Arizona Corporation Commission,
18 have hereunto, set my hand and caused the official seal of
19 this Commission to be affixed at the Capitol, in the City of
20 Phoenix, this 2nd day of Sept., 2009.

21 

22 ERNEST G. JOHNSON
23 EXECUTIVE DIRECTOR

24 DISSENT: 

25 DISSENT: 

26 SMO:DMH:lhM/AH

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

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TARIFF SCHEDULE

UTILITY: Oak Creek Water Company No. 1 TARIFF SHEET NO. Page 1 of 4
DOCKET NO. W-01392A-09-0272 DECISION NO. _____
PHONE NO. (928) 282-3404 EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE (WATER)**I. Purpose and Applicability**

The purpose of the off-site hook-up fees payable to Oak Creek Water Company No. 1 ("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 Oak Creek Water Company No. 1.

"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.

UTILITY: Oak Creek Water Company No. 1 TARIFF SHEET NO. Page 2 of 4
 DOCKET NO. W-01392A-09-0272 DECISION NO. _____
 PHONE NO. (928) 282-3404 EFFECTIVE DATE: _____

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	1,600
3/4"	1.5	2,400
1"	2.5	4,000
1-1/2"	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 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).

UTILITY: Oak Creek Water Company No. 1 TARIFF SHEET NO. Page 3 of 4
DOCKET NO. W-01392A-09-0272 DECISION NO. _____
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- 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.

UTILITY: Oak Creek Water Company No. 1 TARIFF SHEET NO. Page 4 of 4
DOCKET NO. W-01392A-09-0272 DECISION NO. _____
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(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.