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MEMORANDUM RECEIVED

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TO: Docket Control

2006 MAY 26 P 1:52

FROM: Ernest G. Johnson
for Director
Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: May 26, 2006

RE: STAFF REPORT FOR HASSAYAMPA UTILITY COMPANY FOR A
CERTIFICATE OF CONVENIENCE AND NECESSITY FOR SEWER
SERVICES. DOCKET NO. SW-20422A-05-0659

Attached is the Staff Report for the above referenced application. Staff recommends approval of the application subject to several conditions.

EGJ:LAJ:red

Originator: Linda Jaress

Attachment: Original and Thirteen Copies

Arizona Corporation Commission

DOCKETED

MAY 26 2006

DOCKETED BY	<i>LB</i>
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Service List for: Hassayampa Utility Company
Docket No. SW-20422A-05-0659

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Chief, Hearing Division
Arizona Corporation Commission
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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

HASSAYAMPA UTILITY COMPANY

DOCKET NO. SW-20422A-05-0659

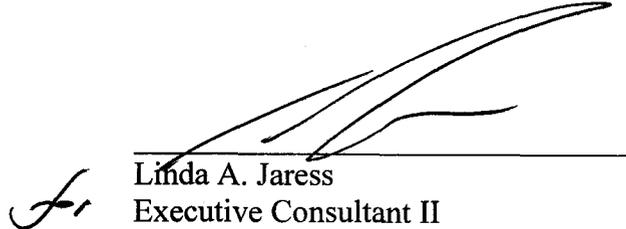
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE
SEWER SERVICE IN MARICOPA COUNTY, ARIZONA

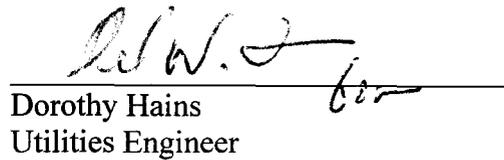
May 26, 2006

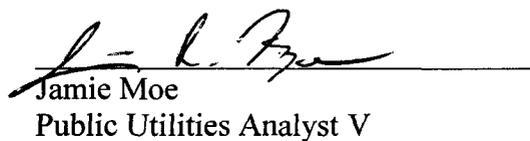
STAFF ACKNOWLEDGEMENT

The Staff Report for Hassayampa Utility Company (Docket No. W-20422A-05-0659) was prepared by the Staff members listed below. Linda Jaress prepared the Staff Report, Dorothy Hains prepared the Engineering Report and Jaime Moe prepared the Financial and Regulatory Analysis Report.

Contributing Staff:


Linda A. Jaress
Executive Consultant II


Dorothy Hains
Utilities Engineer


Jamie Moe
Public Utilities Analyst V

**EXECUTIVE SUMMARY
HASSAYAMPA UTILITY COMPANY
DOCKET NO. SW-20422A-05-0659**

On September 19, 2005, Hassayampa Utility Company ("Hassayampa" or "the Company") filed an application for approval of a Certificate of Convenience and Necessity ("CC&N") to provide utility wastewater service in an area called the Hassayampa Ranch Development, located west of the Town of Buckeye and three miles north of Interstate 10 in an unincorporated area of Maricopa County. The proposed area includes approximately 2,050 acres.

Staff recommends approval with the following conditions:

Staff recommends that the Company file with Docket Control as a compliance item in this docket copies of the Certificates of Approval to Construct ("ATC") from Maricopa County Environmental Services Department ("MCESD") for the proposed Phase I treatment plant and sewer collection system no later than July 31, 2007.

Staff further recommends that the Company file with Docket Control as a compliance item in this docket copies of the Certificates of Approval of Construction ("AOC") MCESD issues for the proposed Phase I treatment plant and sewer collection system no later than April 30, 2008.

Staff recommends that the Company file with Docket Control as a compliance item in this docket a copy of the Maricopa Association of Governments ("MAG") approved 208 Plan with a map of the Company's 208 Master Plan boundary no later than April 30, 2007.

Staff further recommends that the Company file with Docket Control as a compliance item in this docket a copy of the notice issued by Arizona Department of Environmental Quality ("ADEQ") that the Company's Aquifer Protection Permit ("APP") and/or Arizona Pollutant Discharge Elimination System ("AZPDES") has been approved no later than April 30, 2008.

Staff recommends the Commission approve Staff's recommended rates and charges as shown in Schedule JRM-4 attached to Exhibit 3.

The Company should be ordered to file in Docket Control, as a compliance matter, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

Staff further recommends that Staff's recommended rates be amended, if necessary, to conform with the Commission Decision in Docket No. W-00000C-06-0147.

Staff recommends the Commission allow the Company to collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C. R-14-2-409.D.5.

Staff further recommends that the Company be required to make its initial investment of equity of \$7,150,000 in year one as indicated in the Company's Pro Forma Balance Sheet (Sewer)¹

Staff further recommends that the Commission make an estimated fair value rate base finding of \$4,464,201 in the fifth year.

Staff further recommends that the Company be ordered to file a rate case in its sixth year of operations, using the fifth year as the test year.

Staff recommends the Company notify the Commission within 15 days of serving its first customer through a memo to this docket in Docket Control as a compliance filing.

Staff recommends that the Company adopt the depreciation rates as shown in Table 1 of Exhibit 2 (Engineering Memorandum).

Staff recommends that the Company file the franchise agreement in this docket with Docket Control as a compliance item within one year of the Commission's decision in this case.

¹ See Attachment C to the Application.

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Introduction

On September 19, 2005, Hassayampa Utility Company (“Hassayampa” or “the Company”) filed an application for approval of a Certificate of Convenience and Necessity (“CC&N”) to provide utility wastewater service in an area called the Hassayampa Ranch Development, located west of the Town of Buckeye and three miles north of Interstate 10 in an unincorporated area of Maricopa County. The proposed area includes approximately 2,050 acres. Exhibit 1, attached, is a map and legal description of the proposed CC&N area.

By the end of the fifth year of operations, Hassayampa expects to serve approximately 3,000 residential customers and 1 irrigation customer. At build-out, approximately 6,000 customers are expected. The developer is Harvard Investments, Inc. whose development portfolio includes several developments in Arizona such as Lake Pleasant 5000 near Lake Pleasant, Back O’Beyond in Sedona, and Mountain Vista and Northwest Ranch in the City of Surprise as well as developments in San Antonio and Austin, Texas. Hassayampa received a request for service from Hassayampa Ranch Ventures, LLC to serve the Development. The Water Utility of Greater Tonopah has recently received a CC&N extension to provide water service to this area.

Hassayampa is a wholly owned subsidiary of Global Water Resources, Inc. (“Global”). Global’s other Arizona utility subsidiaries include Cave Creek Water Company, Palo Verde Utilities Company and Santa Cruz Water Company. Global has also been appointed as interim manager for Sabrosa Water Company.

The Proposed Facilities

The Company will install an enclosed sequential batch reactor wastewater treatment plant in two phases. The plant will have an ultimate capacity of 3.2 million gallons per day (“MGD”) of wastewater flow. The treated effluent will be disposed of in surface water impoundment systems such as irrigation and ponds. Staff’s Engineering Memorandum, attached as Exhibit 2, provides a more detailed description of the plant and its cost.

Maricopa County Environmental Services Department

Maricopa County Environmental Services Department (“MCESD”) requires Hassayampa to apply for and receive Certificates of Approval to Construct (“ATC”) and Certificates of Approval of Construction (“AOC”) for the proposed plant. Staff recommends that the Company file with Docket Control as a compliance item in this docket, copies of the ATC MCESD issues for the proposed Phase I treatment plant and sewer collection system no later than July 31, 2007. Staff further recommends that the Company file with Docket Control as a compliance item in this docket copies of the AOC MCESD issues for the proposed Phase I treatment plant and sewer collection system no later than April 30, 2008.

Arizona Department of Environmental Quality (ADEQ) Compliance

The Aquifer Protection Permit ("APP") and/or Arizona Pollutant Discharge Elimination System ("AZPDES") discharge permits will be required by ADEQ before the plant can be placed in service. The Maricopa Association of Governments ("MAG") Section 208 plan amendment approval will also be needed. The Company has applied for its 208 Plan but has not yet received approval. Staff recommends that the Company file with Docket Control as a compliance item in this docket a copy of the MAG approved 208 Plan with a map of the Company's 208 Master Plan boundary no later than April 30, 2007. Staff further recommends that the Company file with Docket Control as a compliance item in this docket a copy of the notice issued by ADEQ that the Company's APP and/or AZPDES has been approved no later than April 30, 2008.

Cost Analysis

Hassayampa has estimated costs of the plant to serve Hassayampa Ranch at \$16,058,300. Staff concludes that the estimated costs are reasonable and appropriate for this project. However, no "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for rate making or rate base purposes.

Depreciation Rates

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table 2 of Exhibit 2. Staff recommends that the Company be ordered to adopt the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as shown on the Table 2.

Financing

The Company's rates and methods of financing plant are discussed in the Staff's Financing and Accounting Report attached as Exhibit 3. According to the Report, Hassayampa's advances-in-aid-of-construction ("AIAC") are estimated at the end of year 5 to be \$9,255,920, representing approximately 57 percent of the estimated gross capital expenditures of \$16,058,300. For the same period, the Company projects a net balance of \$0 for contributions-in-aid-of-construction ("CIAC"). Generally, the total AIAC and CIAC should not exceed 25-30 percent of the related estimated capital expenditures. Over-reliance on AIAC and CIAC can lead to improperly capitalized private water and wastewater companies.

However, Staff notes that the Company will have approximately 46 percent² in equity capital at the end of year 5. The total equity balance at that time is estimated to be \$7,976,530. A 46 percent equity balance will provide some assurance as to the Company's continued access to capital markets for further expansion beyond year 5. Staff recommends that the Company be

² Assumes that AIAC is included in the capital structure as debt as of the end of year five.

required to make its initial equity investment of \$7,150,000 in year one as indicated in the Company's Pro Forma Balance Sheet (Sewer)³.

Rates

Schedule JRM-4 attached to Exhibit 3, presents a complete list of the Company's proposed, and Staff's recommended rates and charges. The Company requests rates based upon water usage. However, Staff recommends adoption of a flat monthly fee of \$54.25 for 5/8 x 3/4 inch and 3/4 inch meter customers.

Staff recommends adoption of the Company's proposed service charges. However, Staff recommends a non-sufficient funds ("NSF") check charge of \$25.00, which reflects the industry standard. This is a decrease of \$10.00 from the Company's proposed NSF check charge of \$35.00.

County Franchise

Hassayampa has not yet received a franchise from Maricopa County. Staff recommends that the Company file the franchise agreement in this docket with Docket Control as a compliance item within one year of the Commission's decision in this case.

Recommendations

Staff recommends that the Company file with Docket Control as a compliance item in this docket copies of the ATC from MCESD for the proposed Phase I treatment plant and sewer collection system no later than July 31, 2007.

Staff further recommends that the Company file with Docket Control as a compliance item in this docket copies of the AOC MCESD issues for the proposed Phase I treatment plant and sewer collection system no later than April 30, 2008.

Staff recommends that the Company file with Docket Control as a compliance item in this docket a copy of the MAG approved 208 Plan with a map of the Company's 208 Master Plan boundary no later than April 30, 2007.

Staff further recommends that the Company file with Docket Control as a compliance item in this docket a copy of the notice issued by ADEQ that the Company's APP and/or AZPDES has been approved no later than April 30, 2008.

Staff recommends the Commission approve Staff's recommended rates and charges as shown in Schedule JRM-4 attached to Exhibit 3.

³ See Attachment C to the Application.

The Company should be ordered to file in Docket Control, as a compliance matter, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

Staff further recommends that Staff's recommended rates be amended, if necessary, to conform with the Commission decision in Docket No. W-00000C-06-0147.

Staff recommends the Commission allow the Company to collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C. R-14-2-409.D.5.

Staff further recommends that the Company be required to make its initial investment of equity of \$7,150,000 in year one as indicated in the Company's Pro Forma Balance Sheet (Sewer)⁴

Staff further recommends that the Commission make an estimated fair value rate base finding of \$4,464,201 in the fifth year.

Staff further recommends that the Company be ordered to file a rate case in its sixth year of operations, using the fifth year as the test year.

Staff recommends the Company notify the Commission within 15 days of serving its first customer through a memo to this docket in Docket Control as a compliance filing.

Staff recommends that the Company adopt the depreciation rates as shown in Table 1 of Exhibit 2 (Engineering Memorandum).

Staff recommends that the Company file the franchise agreement in this docket with Docket Control as a compliance item within one year of the Commission's decision in this case.

⁴ See Attachment C to the Application.

MEMORANDUM

TO: Linda Jaress
Executive Consultant III
Utilities Division

FROM: Barb Wells *bw*
Information Technology Specialist
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: October 18, 2005

RE: **HASSAYAMPA UTILITIES COMPANY, INC. (DOCKET NO. SW-20422A-05-0659)**

The area requested by Hassayampa for a CC#N for wastewater service has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Also attached is a copy of the map for your files.

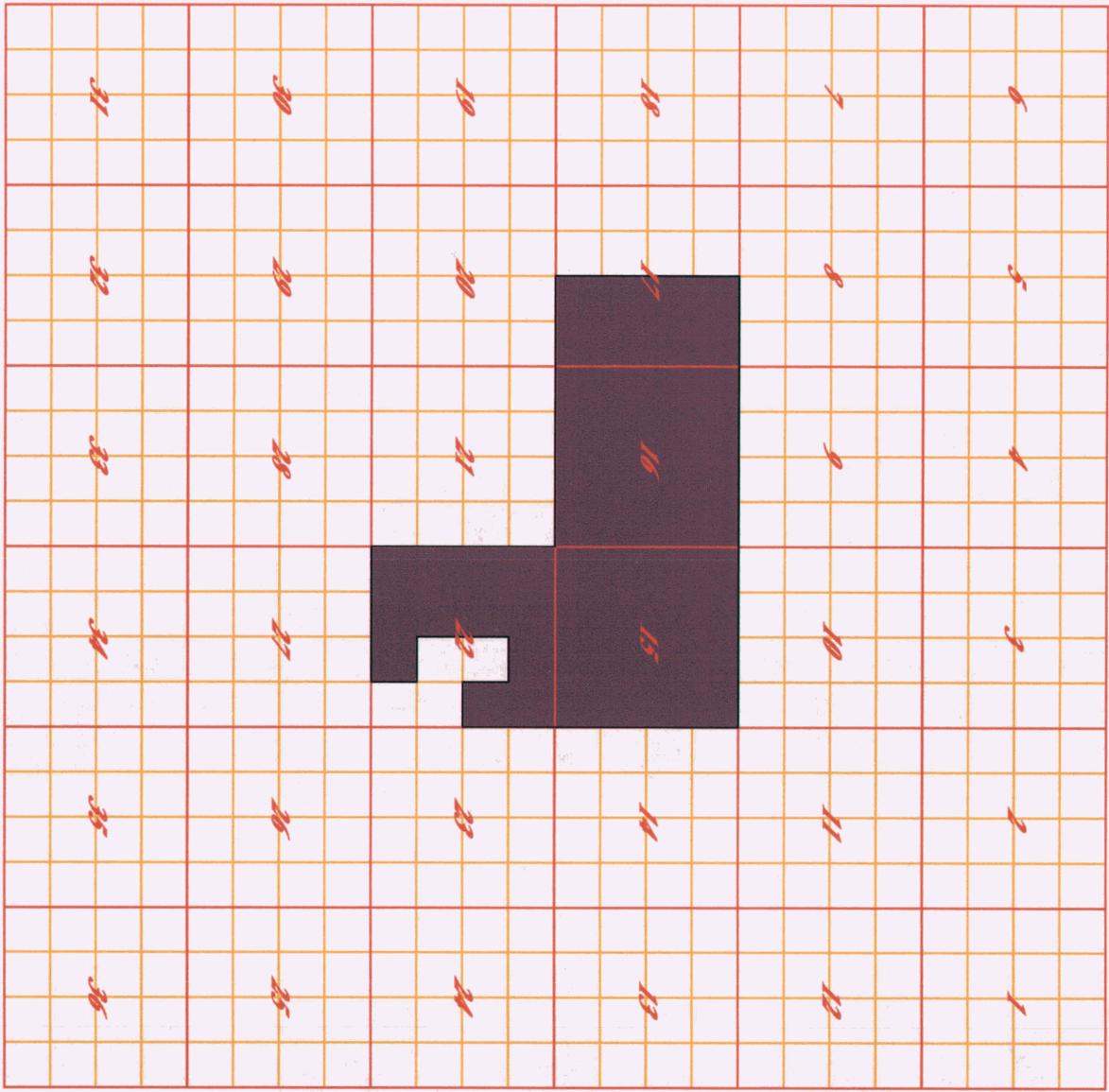
:bsw

Attachments

cc: Docket Control
Ms. Cindy Liles
Ms. Deb Person (Hand Carried)
File

COUNTY: Maricopa

RANGE 5 West



TOWNSHIP 2 North



Hassayampa Utilities Company, Inc.
Docket No. SW-20422A-05-0659
Application for CC&N for Wastewater

EXHIBIT "A"

PARCEL NO. 1:

ALL OF SECTION 15, TOWNSHIP 2 NORTH, RANGE 5 WEST OF THE GILA AND SALT RIVER BASE AND MERIDIAN COUNTY, ARIZONA.

PARCEL NO. 2:

THE EAST HALF OF THE NORTHEAST QUARTER, THE NORTHWEST QUARTER OF THE NORTHEAST QUARTER, THE WEST HALF AND THE SOUTHWEST QUARTER OF OF THE SOUTHEAST QUARTER OF SECTION 22, TOWNSHIP 2 NORTH, RANGE 5 WEST OF THE GILA AND SALT RIVER BASE AND MERIDIAN, MARICOPA COUNTY, ARIZONA.

PARCEL NO. 3

ALL OF SECTION 16, TOWNSHIP 2 NORTH, RANGE 5 WEST OF THE GILA AND SALT RIVER BASE AND MERIDIAN COUNTY, ARIZONA;

EXCEPT THE NORTH HALF OF THE NORTHEAST QUARTER OF SAID SECTION; AND

EXCEPT ALL THE MINERAL INTEREST RESERVED TO THE STATE OF ARIZONA IN AND TO THE FOLLOWING LAND BY THE FOLLOWING INSTRUMENT;

AS TO THE SOUTH HALF OF SECTION 16, TOWNSHIP 2 NORTH, RANGE 5 WEST BY DEED DATED NOVEMBER 12, 1941 AND RECORDED AT BOOK 366 OF DEEDS, PAGE 563, RECORDS OF MARICOPA COUNTY, ARIZONA; AND

EXCEPT ALL THE MINERAL INTEREST RESERVED TO THE STATE OF ARIZONA IN AND TO THE FOLLOWING LAND BY THE FOLLOWING INSTRUMENT;

AS TO THE NORTHEAST QUARTER OF SECTION 16, TOWNSHIP 2 NORTH, RANGE 5 WEST BY DEED DATED MARCH 3, 1939 AND RECORDED AT BOOK 331 OF DEEDS, PAGE 569, RECORDS OF MARICOPA COUNTY, ARIZONA; AND

EXCEPT ALL THE MINERAL INTEREST RESERVED TO THE STATE OF ARIZONA IN AND TO THE FOLLOWING LAND BY THE FOLLOWING INSTRUMENT;

AS TO THE NORTHWEST QUARTER OF SECTION 16, TOWNSHIP 2 NORTH, RANGE 5 WEST, BY DEED DATED MAY 11, 1949 AND RECORDED AT DOCKET 401, PAGE 326, RECORDS OF MARICOPA COUNTY, ARIZONA.

PARCEL NO. 4:

THE EAST HALF OF SECTION 17, TOWNSHIP 2 NORTH, RANGE 5 WEST, OF THE GILA AND SALT RIVER BASE AND MERIDIAN, RECORDS OF MARICOPA COUNTY, ARIZONA.

PARCEL NO. 5 (BYU Parcel):

THE NORTH HALF OF THE NORTHEAST QUARTER OF SECTION 16, TOWNSHIP 2 NORTH RANGE 5 WEST OF THE GILA AND SALT RIVER BASE AND MERIDIAN, MARICOPA COUNTY, ARIZONA.

MEMORANDUM

DATE: April 20, 2006

TO: Linda Jaress
Executive Consultant III

Jamie Moe
Public Utilities Analyst

FROM: Dorothy Hains *DH*
Utilities Engineer

RE: New CC&N Application for Hassayampa Utilities Co.
Docket No. SW-20422A-05-0659

Introduction

Hassayampa Utilities Company ("Hassayampa" or "Company") has submitted an application for a new sewer Certificate of Convenience and Necessity (CC&N). Hassayampa is requesting a three square mile service area located near the Town of Tonopah in Maricopa County. According to the Company, planned development in the proposed CC&N area at build out would consist of 5,707 residential dwelling units, 1,526 residential equivalent dwelling units for commercial use and 143 residential equivalent dwelling units for school use for a total of 7,376 dwelling units. The first five year of the development will consist of 3,000 residential homes and one irrigation customer.

Proposed Treatment System

The Company proposes to install a two phase enclosed sequential batch reactor ("SBR") wastewater treatment plant which would have an ultimate capacity to treat 3.2 million gallons per day ("MGD") of wastewater flow. The proposed wastewater treatment system consists of sewer collection, influent lift station, grit removal device, two parallel SBR reactors, sludge digester, filter and ultra violet ("UV") disinfection units. The proposed treatment plant is located east of 391st Avenue near the Hassayampa River and Indian School Road. The treated effluent will be disposed of in surface water impoundment systems such as irrigation and ponds.

Initially the Company will install a 1.0 MGD treatment plant for the first phase of development. Within five years after initial operation of the plant, the Company plans to expand its capacity to 3.2 MGD in the second phase of development. The Phase I plant is projected to be in service by November 2006.

The proposed treatment plant and sewage collection system will require Maricopa County Environmental Services Department ("MCESD") to issue Certificates of Approval to Construct ("ATC") and Certificates of Approval of Construction ("AOC"). Staff recommends that the Company file with Docket Control as a compliance item in this docket copies of the ATC MCESD issues for the proposed Phase I treatment plant and sewer collection system no later than July 31, 2007. Staff further recommends that the Company file with Docket Control as a compliance item in this docket copies of the AOC MCESD issues for the proposed Phase I treatment plant and sewer collection system no later than April 30, 2008.

Arizona Department of Environmental Quality (ADEQ) Compliance

The Aquifer Protection Permit ("APP") and/or Arizona Pollutant Discharge Elimination System ("AZPDES") discharge permits issued by ADEQ will be required before the plant can be placed in service. At this time, ADEQ has issued neither an APP nor an AZPDES for the proposed system. Maricopa Association of Governments ("MAG") Section 208 plan approval will also be needed. The Company has applied for its 208 Plan but has not received approval yet. Staff recommends that the Company file with Docket Control as a compliance item in this docket a copy of the MAG approved 208 Plan with a map of the Company's 208 Master Plan boundary no later than April 30, 2007. Staff further recommends that the Company file with Docket Control as a compliance item in this docket a copy of the notice issued by ADEQ that the Company's APP and/or AZPDES has been approved no later than April 30, 2008.

Cost Analysis

Staff's recommends that the Company's cost estimates which are listed in the right-hand column of the table below be used for purposes of this application.

NARUC Account	Description	Company's cost estimate (\$) ¹
351	Organization	25,000
352	Franchise	0
353	Land & Land Rights: Half Parcel of 360'x640'	130,000
354	Structure & Improvements:	350,000
355	Power Generation Equipment:	200,000
360	Collection Sewer – Force Mains including 1,700' of 12" & 10" PVC	1,204,000

¹ The estimates are for Phase I and Phase II expansion within five years.

	(\$70/ft) & lift station (\$1,085,000)	
361	Collection Sewer – Gravity Including 8,400' of 24" HDPE (\$85/ft) 5,400' of 15" PVC, (\$65/ft) 4,000' of 12" PVC.(\$60/ft) 9,150' of 10" PVC (\$55/ft) 7,200' of 8" PVC (\$45/ft) 74,900' of 6" PVC (\$37/ft)	4,903,300 ²
363	Service laterals:	0
364	Flow Measuring Device	0
365	Flow Measuring Installation	0
366	Reuse Service	0
367	Reuse Meter and Meter Installation	15,000
370	Receiving Wells	0
371	Pumping Equipment	720,000
374	Reuse Distribution Reservoirs including 18,600' of 15" PVC)	1,323,000
375	Reuse Transmission and Distribution System	1,023,000
380	Treatment & disposal Equipment	5,000,000
381	Plant Sewers	0
382	Outfall Sewer Line	900,000
389	Other Plant & Miscellaneous Equipment	0
390	Office Furniture	15,000
391	Transportation Equipment	30,000
392	Store Equipment	5,000
393	Tools, Shop & Garage Equipment	15,000
394	Lab equipment	40,000
395	Power Operated Equipment	40,000
396	Communication Equipment	120,000
397	Miscellaneous Equipment	0
398	Other Tangible Plant	
	Total	16,058,300

The Company's estimated total of \$16,058,300 for a 3.2 MGD wastewater treatment system equates to a unit cost of approximately \$5 per gallon of treated effluent. While Staff concludes that the estimated costs are reasonable and appropriate for this project, approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for rate making or rate base purposes.

Depreciation Rates

² According to the Company all expenses in this account should be treated as Advances In Aid of Construction.

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table 2, and it is recommended that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners (NARUC) category, as delineated in this table.

**Table 1
DEPRECIATION RATES FOR WASTEWATER SYSTEM**

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	30	3.33
360	Collection Sewers – Force	50	2.00
361	Collection Sewers – Gravity	50	2.00
362	Special Collecting Structures	50	2.00
363	Services to Customers	50	2.00
364	Flow Measuring Devices	10	10.00
365	Flow measuring Installations	20	5.00
366	Reuse Services	50	2.00
367	Reuse Meters and Meter Installations	30	3.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	10	10.00
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission and Distribution System	50	2.00
380	Treatment and Disposal Equipment	20	5.00
381	Plant Sewers	20	5.00
382	Outfall Sewer Lines	25	4.00
389	Other Plant & Misc Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.00
391	Transportation Equipment	5	20.00
392	Store Equipment	25	4.00
393	Tools, Shop & Garage Equipment	20	5.00
394	Laboratory Equipment	10	10.00
395	Power Operated Equipment	20	5.00
396	Communication Equipment	10	10.00
397	Miscellaneous Equipment	10	10.00
398	Other Tangible Plant	----	----

Summary

I. Conclusions

1. Staff concludes that the Company will have adequate treatment capacity to service expected growth in the requested area.
2. Staff concludes that the estimated costs are reasonable and appropriate for this project.

II. Recommendations

1. Staff recommends that the Company use the depreciation rates delineated in Table 1 for its wastewater system.
2. Staff recommends that the Company file with Docket Control as a compliance item in this docket copies of the ATC MCESD issues for the proposed Phase I treatment plant and sewer collection system no later than July 31, 2007.
3. Staff further recommends that the Company file with Docket Control as a compliance item in this docket copies of the AOC MCESD issues for the proposed Phase I treatment plant and sewer collection system no later than April 30, 2008.
4. Staff recommends that the Company file with Docket Control as a compliance item in this docket a copy of the MAG approved 208 Plan with a map of the Company's 208 Master Plan boundary no later than April 30, 2007.
5. Staff further recommends that the Company file with Docket Control as a compliance item in this docket a copy of the notice issued by ADEQ that the Company's APP and/or AZPDES has been approved no later than April 30, 2008.

MEMORANDUM

TO: Linda Jaress
Executive Consultant
Utilities Division

FROM: Jamie R. Moe 
Public Utilities Analyst V
Financial and Regulatory Analysis Section
Utilities Division

DATE: May 19, 2006

RE: HASSAYAMPA UTILITY COMPANY, INC.
DOCKET NO. SW-20422A-05-0659

Introduction

On September 19, 2005, Hassayampa Utility Company, Inc. ("Company") filed an application with the Arizona Corporation Commission ("Commission") for a certificate of convenience and necessity ("CC&N") to provide wastewater service to a three square mile service area located near the Town of Tonopah in Maricopa County, Arizona. The area currently has no wastewater service.

Historical operating and financial information does not exist to provide a basis for establishing rates for this wastewater system. Therefore, consistent with Commission rules, the Company's filing included the required five-year projections for plant values, operating revenues, operating expenses, and customers.

Staff's recommended rates are based on the Company's five-year projections, as adjusted by Staff. Staff recommends revenues of \$1,928,427, an increase of \$36,900 from the Company's proposed revenues of \$1,891,527 in year five. Staff's recommended revenues would generate operating income of \$357,947 resulting in an 8.02 percent rate of return on a Staff adjusted original cost rate base ("OCRB") of \$4,464,201 as shown on Schedule JRM-1.

Projected Fair Value Rate Base ("FVRB")

The Company provided information that was sufficient to calculate the projected OCRB as shown on Schedule JRM-2. Staff evaluated the projected OCRB as the FVRB. Staff recommends a projected FVRB in year five of \$4,464,201.

Projected Plant in Service

In the first year, the Company plans to invest \$130,000 in land and \$11,721,450 in backbone plant and on-site facilities for a total investment of \$16,058,300 by the end of year five. Staff acknowledges that the costs of plant in service appear reasonable and appropriate for this project; approval of this CC&N application does not imply any particular future treatment for rate base.

Accumulated Depreciation

The Company's projected accumulated depreciation balances are shown by year on Schedule JRM-5. In the fifth year, Staff anticipates a \$2,338,179 accumulated depreciation balance based on Staff's recommended depreciation rates, an increase of \$700,430 from the Company's anticipated balance of \$1,637,749 for accumulated depreciation.

Projected Advances In Aid of Construction ("AIAC") and Contributions In Aid of Construction ("CIAC")

The Company's estimated AIAC at the end of year 5 totals \$9,255,920 and represents approximately 57 percent of the estimated gross capital expenditures of \$16,058,300. In the fifth year, the Company projects a net balance of \$0 for CIAC. Staff usually recommends that the total AIAC and CIAC not exceed 25-30 percent of the related estimated capital expenditures. Over reliance on AIAC and CIAC can lead to improperly capitalized private water and wastewater companies.

However, Staff notes that the Company will have approximately 46%¹ in equity capital at the end of year 5. The total equity balance at that time is estimated to be \$7,976,530. A 46 percent equity balance will provide some assurance as to the Company's continued access to capital markets for further expansion beyond year 5. Staff will recommend that the Company be required to make its initial contribution of equity of \$7,150,000 in year one as indicated in the Company's Pro Forma Balance Sheet (Sewer)².

The equity funds provided to the Company by its owner, Global Water Resources, Inc., may have been or may be obtained using non-traditional funding sources such as those provided via an Infrastructure Coordination and Finance Agreement. Such agreements require land developers to provide non-refundable cost free financing to Global.

The Commission is currently evaluating the effects of such funding sources, in Docket No. W-00000C-06-0147, to determine the appropriate regulatory treatment for these types of transactions. Staff may propose an amendment to this Staff Report and make appropriate

¹ Assumes that AIAC is included in the capital structure as debt as of the end of year five.

² See Attachment C to the Application.

changes to its recommended rates based upon the Commission's decision in Docket No. W-00000C-06-0147. A Commission decision in the generic docket is expected in the 3rd quarter of 2006. Therefore, changes can be made to the recommended rates prior to serving any of the Company's customers.

For example, should the Commission require that funds received under a non-traditional agreement be treated as CIAC, Staff will make a reduction to the Company's proposed rate base and develop new rates.

Projected Operating Income

The Company provided projected revenues and expenses for five years. Staff's analysis, while taking into account all of the years presented, is concentrated on the fifth year of operation when breakeven or profitability is usually expected.

Projected Operating Revenues

Staff reviewed the Company's calculation of revenue based on the five-year projection and found it to be reasonable; however, Staff made an adjustment to reflect its calculations based upon a mid-year average for customer growth. Schedule JRM-1 reflects Staff's estimate of operating revenues in year five of \$1,928,427, an increase of \$36,900 from the Company's projection of \$1,891,527. These revenues are based upon the Company's projected customer growth shown on Schedule JRM-3.

Projected Operating Expenses

Staff reviewed the operating expenses and found them to be reasonable. Staff adjusted the Company's proposed depreciation rates and replaced them with those recommended by Staff Engineering. Staff adjusted depreciation expense in year five to \$562,121, an increase of \$112,918 from the Company's projected depreciation expense of \$449,203. Schedule JRM-1 reflects operating expenses of \$1,570,480 in year five, an increase of \$112,919 over the Company's projection of \$1,457,561.

Rate Design

Schedule JRM-4 presents a complete list of the Company's proposed, and Staff's recommended rates and charges. The Company expects that in the fifth year of operations it will serve 3,000 residential customers and one irrigation customer. Staff recommends adoption of one monthly fee for service of \$54.25 for 5/8 x 3/4 inch and 3/4 inch meter customers.

Service Charges

Staff recommends adoption of the Company's proposed service charges. However, Staff recommends a non-sufficient funds ("NSF") check charge of \$25.00, which reflects the industry standard. This is a decrease of \$10.00 from the Company's proposed NSF check charge of \$35.00.

Staff Recommendations

Staff recommends approval of the Staff recommended rates and charges as shown in Schedule JRM-4.

Staff further recommends that the Company be required to make its initial contribution of equity of \$7,150,000 in year one as indicated in the Company's Pro Forma Balance Sheet (Sewer)³

Staff further recommends that the Commission make an estimated fair value rate base finding of \$4,464,201 in the fifth year.

Staff further recommends that the Company utilize the depreciation rates stated in the attached Engineering Memorandum.

Staff further recommends that the Company be ordered to file for a rate case in its sixth year of operations, using the fifth year as the test year.

Staff further recommends that Staff's recommended rates be amended, if necessary, to conform with the Commission decision in Docket No. W-00000C-06-0147.

³ See Attachment C to the Application.

HASSAYAMPA UTILITIES COMPANY
DOCKET NO.: SW-20422A-05-0659
PROJECTED INCOME STATEMENTS
ACC FORM CS-2

Schedule JRM-1

	Year 1	Year 2	Year 3	Year 4	Year 5
Average Number of: Residential Customers	300	900	1,500	2,100	2,700
Revenues:					
Flat Rate Revenues - Residential	\$ 195,300	\$ 585,900	\$ 976,500	\$ 1,367,100	\$ 1,757,700
Measured Revenues	17,000	50,909	84,849	118,788	152,727
Other Revenues - Est. of Service	18,030	18,000	18,000	18,000	18,000
Total Revenues	\$ 230,330	\$ 654,809	\$ 1,079,349	\$ 1,503,888	\$ 1,928,427
Operating Expenses:					
Pumping Power - All	\$ 20,650	\$ 61,949	\$ 103,248	\$ 144,547	\$ 185,846
Salaries & Wages	130,000	133,900	137,917	142,055	146,316
Payroll Burden	42,900	44,187	45,513	46,878	48,284
Permits (Not Capitalized)	5,000	5,000	5,000	5,000	5,000
Licences (Not Capitalized)	2,000	2,060	2,122	2,185	2,251
Engineering (Not Capitalized)	2,000	2,060	2,122	2,185	2,251
Chemicals	6,000	9,000	12,000	15,000	18,000
Supplies	4,000	5,000	6,000	7,000	8,000
Repairs	12,000	16,000	19,000	22,000	25,000
Insurance (b)	4,000	4,120	4,244	4,371	4,502
Office Expense	1,000	3,000	5,000	7,000	9,000
Billing, Postage, Operations	10,818	32,436	54,036	75,636	97,236
Contract Labor	6,000	6,180	6,365	6,556	6,753
Rentals	-	-	-	-	-
Solids Handling	3,000	6,180	9,548	13,113	16,883
Rentals	3,000	3,090	3,183	3,278	3,377
Recharge Site Maintenance	3,000	3,090	3,183	3,278	3,377
Depreciation Expense	239,106	485,022	512,475	539,455	562,121
Vehicle Expenses	5,000	5,150	5,305	5,464	5,628
Legal & Accounting	15,000	15,450	15,914	16,391	16,883
Testing	10,000	12,000	14,000	16,000	18,000
Miscellaneous Expenses	4,800	4,944	5,092	5,245	5,402
Income Taxes	50	50	50	134,227	300,145
Property Taxex	13,532	21,387	36,696	58,961	80,225
Total Operating Expenses	\$ 542,856	\$ 881,255	\$ 1,008,013	\$ 1,275,825	\$ 1,570,480
Operating Income (Loss)	\$ (312,526)	\$ (226,446)	\$ 71,336	\$ 228,063	\$ 357,947
Original Cost Rate Base	\$ 7,166,844	\$ 7,363,022	\$ 7,536,397	\$ 4,926,662	\$ 4,464,201
Return on Rate Base	-4.36%	-3.08%	0.95%	4.63%	8.02%
Revenue Assumptions					
Residential Flat Rate - Per Month	\$ 54.25				
Establishment of Service Charge	\$ 30.00				