

COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

OPEN MEETING ITEM



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ORIGINAL

ARIZONA CORPORATION COMMISSION

DATE: OCTOBER 24, 2011
DOCKET NOS.: SW-01428A-09-0103, W-01427A-09-0104, W-01427A-09-0116 and
W-01427A-09-0120

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Dwight D. Nodes. The recommendation has been filed in the form of an Opinion and Order on:

LITCHFIELD PARK SERVICE COMPANY
(PHASE 2)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

NOVEMBER 2, 2011


The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

NOVEMBER 8, 2011 and NOVEMBER 9, 2011

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE - Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

8 IN THE MATTER OF THE APPLICATION OF
9 LITCHFIELD PARK SERVICE COMPANY, AN
10 ARIZONA CORPORATION, FOR A
11 DETERMINATION OF THE FAIR VALUE OF ITS
12 UTILITY PLANT AND PROPERTY AND FOR
13 INCREASES IN ITS WASTEWATER RATES AND
14 CHARGES FOR UTILITY SERVICE BASED
15 THEREON.

DOCKET NO. SW-01428A-09-0103

16 IN THE MATTER OF THE APPLICATION OF
17 LITCHFIELD PARK SERVICE COMPANY, AN
18 ARIZONA CORPORATION, FOR A
19 DETERMINATION OF THE FAIR VALUE OF ITS
20 UTILITY PLANT AND PROPERTY AND FOR
21 INCREASES IN ITS WATER RATES AND
22 CHARGES FOR UTILITY SERVICE BASED
23 THEREON.

DOCKET NO. W-01427A-09-0104

24 IN THE MATTER OF THE APPLICATION OF
25 LITCHFIELD PARK SERVICE COMPANY, AN
26 ARIZONA CORPORATION, FOR AUTHORITY
27 (1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN
28 AN AMOUNT NOT TO EXCEED \$1,755,000 IN
CONNECTION WITH (A) THE CONSTRUCTION
OF TWO RECHARGE WELL INFRASTRUCTURE
IMPROVEMENTS AND (2) TO ENCUMBER ITS
REAL PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01427A-09-0116

IN THE MATTER OF THE APPLICATION OF
LITCHFIELD PARK SERVICE COMPANY, AN
ARIZONA CORPORATION, FOR AUTHORITY
(1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED \$1,170,000 IN
CONNECTION WITH (A) THE CONSTRUCTION
OF ONE 200 KW ROOF MOUNTED SOLAR
GENERATOR INFRASTRUCTURE
IMPROVEMENTS AND (2) TO ENCUMBER ITS
REAL PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01427A-09-0120

DECISION NO. _____

OPINION AND ORDER
PHASE 2

1 DATE OF HEARING: June 27, 2011
 2 PLACE OF HEARING: Phoenix, Arizona
 3 ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes
 4 APPEARANCES: Mr. Jay L. Shapiro, FENNEMORE CRAIG, P.C., on
 5 behalf of Litchfield Park Service Company;
 6 Mr. Peter M. Gerstman, Executive Vice President,
 7 Robson Communities, on behalf of PebbleCreek
 8 Properties, Limited Partnership;
 9 Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on
 10 behalf of Westcor/Goodyear, LLC, and Globe Land
 11 Investors, LLC;
 12 Ms. Michelle L. Wood, on behalf of the Residential
 13 Utility Consumer Office; and
 14 Ms. Robin Mitchell and Ms. Kimberly A. Ruht, Staff
 15 Attorneys, Legal Division, on behalf of the Utilities
 16 Division of the Arizona Corporation Commission.

BY THE COMMISSION:

Background and Procedural History

14 On March 9, 2009, Litchfield Park Service Company (“LPSCO”¹ or “Company”) filed with
 15 the Arizona Corporation Commission (“Commission”) applications for rate increases for wastewater
 16 and water service in above-captioned dockets SW-01428A-09-0103 and W-01427A-09-0104 (“Rate
 17 Dockets”). By Procedural Order issued May 21, 2009, the Rate Dockets were consolidated.

18 On March 13, 2009, LPSCO filed financing applications in Docket Nos. W-01427A-09-0116
 19 and W-01427A-09-0120 (“Finance Dockets”).

20 On April 8, 2009, the Commission’s Utilities Division Staff (“Staff”) filed Letters of
 21 Insufficiency in the Rate Dockets indicating that LPSCO’s applications did not meet the sufficiency
 22 requirements set forth in Arizona Administrative Code (“A.A.C.”) R14-2-103.

23 On April 20, 27, and 30, 2009, LPSCO filed responses to the Letters of Insufficiency.

24 On May 8, 2009, Staff filed Letters of Sufficiency stating that LPSCO’s Rate Docket
 25 applications, as supplemented by the subsequent filings, met the sufficiency requirements of A.A.C.
 26

27 _____
 28 ¹ LPSCO is now known as Liberty Water but for purposes of consistency with the prior phase of this proceeding will
 continue to be referred to as LPSCO in this Opinion and Order.

1 R14-2-103. Staff classified LPSCO as a Class A utility.

2 Intervention was granted to the Residential Utility Consumer Office (“RUCO”), PebbleCreek
3 Properties Limited Partnership (“PebbleCreek”), the City of Litchfield Park (“City”), Chad and
4 Jessica Robinson, and Westcor/Goodyear L.L.C. and Globe Land Investors, L.L.C. (collectively
5 “Westcor”).

6 By Procedural Order issued November 6, 2009, the Finance Dockets were consolidated.

7 On November 17, 2009, LPSCO filed a Motion to Bifurcate Issues. LPSCO requested that
8 the issues related to its proposed hook-up fee (“HUF”) tariffs be considered in a separate phase after
9 issuance of the Decision regarding the rate aspects of the case.

10 By Procedural Order issued November 23, 2009, the Rate and Finance Dockets were
11 consolidated, and LPSCO’s Motion to Bifurcate was granted thereby deferring consideration of the
12 proposed HUF tariff to “Phase 2” of the case.

13 On December 31, 2009, LPSCO and PebbleCreek filed a Stipulation regarding a proposed
14 Hook-Up Fee Tariff for consideration in Phase 2 of the case.

15 On January 4, 2010, the Phase 1 hearing was convened for the purpose of taking public
16 comment. A number of members of the public offered comments in opposition to the proposed rate
17 increase.

18 On January 5, 2010, the evidentiary hearing in Phase 1 commenced and continued on January
19 6, 7, 8, 11, 14, and 15, 2010.

20 On January 20, 2010, a Procedural Order was issued scheduling an additional public comment
21 session for January 25, 2010, in Litchfield Park, Arizona.

22 On January 25, 2010, the local public comment session was held, as scheduled, before all five
23 Commissioners. A number of LPSCO’s customers attended and offered public comments.

24 On October 5, 2010, a Recommended Opinion and Order in Phase 1 was issued. The
25 Recommended Order was discussed by the Commission during Open Meetings conducted on
26 October 19 and 20, 2010, and again on November 22, 2010.

27 On December 10, 2010, the Commission issued Decision No. 72026. Decision No. 72026
28 granted LPSCO a gross revenue increase of \$4,388,891 for its water division and \$2,697,269 for its

1 wastewater division. Due to the magnitude of the increases, the Commission directed that a three-
2 step phase-in should be implemented to allow collection of 50 percent of the authorized revenues for
3 the first six months; an additional 25 percent (*i.e.*, 75 percent of authorized revenues) for the second
4 six months rates are in effect; and the full rates one year after the effective date of the approved rates.
5 (Decision No. 72026, at 72-74.) The Commission deferred consideration of the phase-in surcharge
6 mechanism to Phase 2 of this proceeding which, as discussed above, had previously been established
7 to consider LPSCO's HUF tariff proposal. (November 23, 2009, Procedural Order, at 7-8.)

8 On December 29, 2010, LPSCO filed an Application for Rehearing of Decision No. 72026
9 pursuant to A.R.S. § 40-253.

10 On January 14, 2011, RUCO filed a Request for Reconsideration of Decision No. 72026
11 under A.R.S. § 40-252.

12 During its January 18, 2011, Staff Open Meeting, the Commission voted to grant LPSCO's
13 Application for Rehearing of Decision No. 72026, pursuant to A.R.S. § 40-253, and to grant RUCO's
14 Request for Reconsideration of Decision No. 72026, pursuant to A.R.S. § 40-252. The Commission
15 directed the Hearing Division to issue a procedural order scheduling a procedural conference for the
16 purpose of setting a procedural schedule for the rehearing proceeding, to conduct a hearing on the
17 issues raised by the Company and RUCO, and to prepare a Recommended Order on Rehearing for
18 the Commission's consideration.

19 By Procedural Order issued January 19, 2011, a procedural conference was scheduled for
20 January 26, 2011.

21 At the January 26, 2011, procedural conference, the parties discussed proposed procedures for
22 conducting the rehearing/reconsideration of Decision No. 72026.

23 On February 16, 2011, Commissioner Newman filed a letter to the docket requesting that the
24 decision to grant rehearing/reconsideration during the January 18, 2011, Staff Open Meeting be
25 scheduled for an Open Meeting to reconsider whether rehearing/reconsideration should be granted.

26 The matter was discussed at the Commission's Open Meeting on March 1 and 2, 2011, during
27 which the Commission passed a motion to rescind its prior vote to grant rehearing and
28

1 reconsideration of Decision No. 72026, pursuant to A.R.S. § 40-253 and A.R.S. § 40-252,
2 respectively.²

3 On March 7, 2011, LPSCO filed a Request to Commence Phase 2 of Rate Case, asking that
4 Phase 2 be commenced through scheduling of a procedural conference to discuss the need for
5 additional evidentiary proceedings.

6 By Procedural Order issued April 13, 2011, a procedural conference was scheduled for May
7 2, 2011, to discuss Phase 2 scheduling.

8 On May 2, 2011, the procedural conference was held as scheduled. At the procedural
9 conference, the parties agreed on a hearing date and procedural schedule for Phase 2.

10 On May 2, 2011, a Procedural Order was issued scheduling a hearing for June 27, 2011, and
11 establishing dates for the filing of testimony.

12 On May 11, 2011, LPSCO filed the direct testimony of Greg Sorenson.

13 On June 6, 2011, Staff filed the direct testimony of Jeff Michlik and Marlin Scott, Jr.; RUCO
14 filed the direct testimony of William Rigsby; and Westcor filed the revised direct testimony of
15 Garrett Newland.³

16 On June 7, 2011, PebbleCreek filed the direct testimony of Steven Soriano.

17 On June 17, 2011, LPSCO filed the rebuttal testimony of Mr. Sorenson.

18 On June 23, 2011, PebbleCreek filed a Stipulation signed by all parties to admit the direct
19 testimony of Mr. Soriano without cross-examination.

20 On June 27, 2011, the Phase 2 hearing was conducted as scheduled. LPSCO, RUCO,
21 Westcor, PebbleCreek, and Staff appeared through counsel and participated at the hearing. A
22 briefing schedule was set at the conclusion of the hearing.

23 On June 30, 2011, LPSCO filed a late-filed exhibit.

24 On August 3, 2011, LPSCO filed an Unopposed Motion for Extension of Time to File
25 Closing Brief.

26 ² On March 9, 2011, the Commission issued Decision No. 72217 memorializing its vote to rescind the prior granting of
27 rehearing/reconsideration of Decision No. 72026, pursuant to A.R.S. §§ 40-253 and 40-252, as of the effective date of
Decision No. 72217.

28 ³ On June 6, 2011, the City filed Comments to Company's Direct Testimony. However, on June 15, 2011, the City filed a
Withdrawal of Comments to Company's Direct Testimony; Notice of Non-Participation at Hearing.

1 On August 4, 2011, a Procedural Order was issued granting the unopposed motion for an
2 extension of the briefing schedule.

3 On August 9, 2011, Phase 2 closing briefs were filed by LPSCO, RUCO, and Westcor.

4 * * * * *

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

7 **FINDINGS OF FACT**

8 **Rate Phase-In**

9 1. In Decision No. 72026 (December 10, 2010), LPSCO was granted gross revenue
10 increases of \$4,388,891 for its water division and \$2,697,269 for its wastewater division. (Decision
11 No. 72026 at 61-62.)

12 2. Given the magnitude of the authorized rate increase, as well as other economic factors,
13 the Commission determined that “the implementation of a rate phase-in is not only justified but is
14 necessary to at least partially mitigate the sudden rate shock that will be experienced by LPSCO’s
15 customers.” (*Id.* at 72-73.)

16 3. The phase-in plan adopted by the Commission in Decision No. 72026 allowed LPSCO
17 to collect 50 percent of the authorized revenues for the first six months; an additional 25 percent (75
18 percent of authorized revenues) for the second six months rates are in effect; and the full authorized
19 increase beginning one year from the effective date of the decision (*i.e.*, December 1, 2011). (*Id.* at
20 73.) The rates that will be effective as the final step of the approved phase-in are attached hereto as
21 “Exhibit A.”

22 4. As described in Decision No. 72026, the rate impact on average usage residential
23 water customers, as well as wastewater customers was as follows:

24 a. **Step One Rate Impact (First Six Months)**

25 In accordance with the three step phase-in of rates, for the first six months a ¾-inch
26 residential water customer with average usage of 9,537 gallons per month experienced an increase of
27 \$2.24, from the prior \$18.64 to \$20.88 (12.02 percent). For a 1-inch residential water customer with
28 average usage of 14,556 gallons per month, the monthly rate increase in the first step of the phase-in

1 was \$5.20, from the prior \$31.56 to \$36.77 (16.49 percent). The first step of the wastewater rate
2 phase-in for residential customers increased the monthly charge from the prior \$27.20 to \$33.05, or
3 \$5.85 (21.51 percent).

4 b. Step Two Rate Impact (Following Six Months)

5 In the second phase (between months 7 and 12), a ¾-inch residential water customer with
6 average usage of 9,537 gallons per month experienced an additional increase of \$2.74, from the Step
7 1 rate of \$20.88 to \$23.62 (13.1 percent over Step 1). For a 1-inch residential water customer with
8 average usage of 14,556 gallons per month, the additional monthly rate increase was \$4.76, from the
9 Step 1 rate of \$36.77 to \$41.53 (12.9 percent over Step 1). The second step of the wastewater rate
10 phase-in for residential customers increased the monthly charge from the Step 1 rate of \$33.05 to
11 36.02, or an additional \$2.97 (9.0 percent over Phase 1).

12 c. Step Three Rate Impact (After One Year)

13 In the third step (after 12 months), a ¾-inch residential water customer with average usage of
14 9,537 gallons per month will experience an additional increase of \$2.67, from the Step 2 rate of
15 \$23.62 to \$26.29 (11.3 percent over Step 2). For a 1-inch residential water customer with average
16 usage of 14,556 gallons per month, the additional monthly rate increase will be \$4.67, from the Step
17 2 rate of \$41.53 to \$46.20 (11.2 percent over Step 2). The third step of the wastewater rate phase-in
18 for residential customers will increase the monthly charge from the Step 2 rate of \$36.02 to 38.99, or
19 \$2.97 (8.2 percent over Step 2).

20 5. Decision No. 72026 also found that, with the exception of LPSCO's initial draft
21 recommendation, the various phase-in proposals were presented through final schedules and post-
22 hearing briefs and, as a result, there was no opportunity to develop the record fully regarding how a
23 phase-in surcharge mechanism would be implemented to enable the Company to recover the deferred
24 revenues and carrying charges during the first two stages of the phase-in. Therefore, the Commission
25 deferred consideration of the phase-in surcharge mechanism to Phase 2 of the proceeding. (*Id.* at 74.)

26 6. In his Phase 2 direct testimony, Mr. Sorenson stated that LPSCO proposed to recover
27 the deferred revenues and carrying charges through implementation of a surcharge of 10.98 percent
28 for water service and 8.46 percent for wastewater service. (Ex. A-1, at 1.) He indicated that the

1 surcharge was calculated assuming that the deferred revenues would be collected over an 18-month
 2 period, and applying the weighted average cost of capital (7.72 percent) determined by the
 3 Commission in Decision No. 72026. Mr. Sorenson explained that because the proposed surcharge
 4 would be applied as a percentage of customers' monthly bills, customers with higher bills would
 5 experience higher surcharges. As an example, he stated that a 5/8-inch meter residential customer
 6 with an average monthly bill would pay a surcharge of \$1.80 ($\16.37×10.98 percent), and a
 7 residential wastewater customer with a monthly bill of \$38.99 would pay a surcharge of \$3.30
 8 ($\$38.99 \times 8.46$ percent). (*Id.* at 2.) The surcharge calculations and sample residential bill impacts for
 9 water and wastewater customers are attached hereto as "Exhibit B."

10 7. Mr. Sorenson testified that through April 30, 2011, LPSCO had deferred revenues of
 11 over \$1.1 million due to the phase-in. He indicated that if the amount to be collected due to the
 12 phase-in is recovered sooner than the 18-month estimate, the surcharge would terminate early; and,
 13 conversely, the surcharge would continue longer than 18 months if all of the deferred revenue had not
 14 been collected during that period. (*Id.* at 3.)

15 8. Both Staff and RUCO agree with the Company's proposed surcharge mechanism. (Ex.
 16 S-2, at 2-3; Ex. R-1, at 4-5.) RUCO witness Rigsby testified that an 18-month recovery period for
 17 the deferred phase-in revenues "is reasonable and mitigates the possibility of intergenerational
 18 inequities ... to insure that those who were connected to the systems during the phase-in pay for their
 19 share of foregone revenues through the surcharge and those who were not on the system when the
 20 phase-in began pay as little as possible." (Ex. R-1, at 4-5.)

21 9. We find that LPSCO's proposed surcharge mechanism, to recover deferred revenues
 22 and carrying charges associated with implementation of the rate phase-in ordered by Decision No.
 23 72026, is reasonable and should be approved. In accordance with the Company's proposal, LPSCO
 24 should reconcile the collection of the surcharge amounts with the total amount to be collected, after
 25 12 months.⁴

26
 27 ⁴ This 12-month reconciliation should be filed in this docket and served on all parties. In addition, upon collection of the
 28 deferred revenues, and within 30 days after termination of the surcharge, LPSCO should docket and serve on all parties a
 final accounting of surcharge revenues.

1 **Hook-Up Fee Tariff**

2 10. LPSCO currently has in place a HUF tariff for its wastewater division of \$2,400 per
3 equivalent residential unit ("ERU")⁵ but does not currently have a HUF for its water division. The
4 Company is requesting to change the wastewater HUF to collect \$1,800 per ERU. (Ex. A-1, at 4.)
5 The Company is also seeking to implement a water HUF of \$1,800 for a 5/8-inch meter, \$2,700 for a
6 3/4-inch meter, and \$4,500 for a 1-inch meter. (*Id.*)⁶

7 11. According to LPSCO's proposed tariffs, the purpose of the water HUF is to "equitably
8 apportion the costs of constructing additional off-site facilities necessary to provide water production,
9 delivery, storage and pressure among all new service connections." (*Id.* at Attach. 2.) The purpose of
10 the wastewater HUF is to "equitably apportion the costs of constructing additional off-site facilities
11 necessary to provide wastewater treatment and disposal facilities among all new service laterals." (*Id.*
12 at Attach. 3.) The water and wastewater HUFs would be one-time charges applied only to prospective
13 new connections. (*Id.*)

14 12. Mr. Sorenson testified that in developing the amounts of the proposed HUFs, the
15 Company considered the desire to keep customer rates within a reasonable range, based on the
16 historical costs of plant per customer for water and sewer service on LPSCO's system and the
17 estimated costs for increased capacity and off-site facilities for new service connections. (Ex. A-1, at
18 4.) According to Mr. Sorenson, LPSCO also considered fairness to customers, and attempted to
19 assign to each customer within a class responsibility for approximately the same amount of utility
20 investment dedicated to its needs. (*Id.*) Finally, Mr. Sorenson claims that, in setting the proposed
21 HUF amounts, LPSCO attempted to maintain a reasonable balance in its capital structure between
22 contributions in aid of construction ("CIAC"), advances in aid of construction ("AIAC"), debt, and
23 equity. (*Id.* at 5.)

24 **"Active Adult" Communities**

25 13. Mr. Sorenson explained that LPSCO is proposing to include in both the water and
26 wastewater HUFs a separate tier for "Active Adult" communities that have age-restricted zoning

27 ⁵ ERU is a unit of measure that is used to equate non-residential or multi-family residential water usage to a specific
number of single family residences.

28 ⁶ LPSCO's proposed water and wastewater HUF tariffs are attached hereto as "Exhibit C" and "Exhibit D," respectively.

1 and/or CCRs that provide for age-restricted living. He indicated that the Company worked with
2 PebbleCreek to develop lower HUF amounts for such communities to recognize the differences
3 between a typical single family home and an individual dwelling in an active adult community. (*Id.*)

4 14. PebbleCreek filed the testimony of Steven Soriano to explain the characteristics of the
5 PebbleCreek development and the distinctions that exist between that community and typical single
6 family developments. (Ex. P-1.) Mr. Soriano stated that PebbleCreek includes more than 4,000
7 homes currently and is expected to have more than 6,000 homes at build-out. He indicated that the
8 age restrictions require at least one resident to be 50 years of age or older, and no residents younger
9 than 19 years old. He added that most of the homes are occupied by two or fewer people. (*Id.* at 2.)

10 15. LPSCO's current wastewater HUF of \$2,450 is based on an ERU of 320 gallons per
11 day, which assumes 100 gallons of sewage per person multiplied by an average of 3.2 residents per
12 home. (*Id.* at 3.) Mr. Soriano claims that because communities like PebbleCreek have far fewer
13 residents than an average home (typically less than 2 per home), active adult communities effectively
14 subsidize conventional housing developments because the active adult developments typically
15 produce far less wastewater (based on an average of 1.9 residents for active adult homes and 3.2
16 residents for other single family homes). (*Id.*) As a result, Mr. Soriano contends that the proposed
17 active adult tier, which would require those developments to pay wastewater HUFs that are 59.44
18 percent of other residential HUFs, are justified because the active adult households have a wastewater
19 design capacity that is 59.38 percent of that for regular single family homes. (*Id.* at 4.)

20 16. On the water side, Mr. Soriano similarly claims that a lower HUF is justified for active
21 adult communities due to a lesser number of residents per household on average than typical single
22 family homes. He stated that the current Liberty Development Guide requires water systems to be
23 designed for conventional single family homes based on a standard of 150 gallons per day and an
24 average of 3.2 people per dwelling unit (average of 480 gallons per day). However, because active
25 adult communities have an average of 1.9 people per residence, Mr. Soriano indicates that setting the
26 water HUF at two-thirds of the rate applied to conventional homes is justified. (*Id.* at 3-4.)

27 17. No party disputed the evidence presented by LPSCO and PebbleCreek on this issue
28 and we believe it is reasonable to recognize the lower design capacity demands of active adult

1 communities in LPSCO's service area, based on the specific facts and circumstances presented in this
2 case. We therefore find the proposed active adult tier in LPSCO's HUFs to be reasonable.

3 Westcor

4 18. Westcor is in the process of developing a project known as Estrella Falls, a 330-acre
5 master planned, mixed use development, north of Interstate 10 between PebbleCreek Parkway and
6 Bullard Avenue in the City of Goodyear. According to Westcor witness Garrett Newland, 300 acres
7 of the 330-acre development are located north of McDowell Road in LPSCO's water and wastewater
8 service territory.⁷ (Ex. W-1, at 2-3.) Although most of the residential property has already been
9 developed, the commercial parcels are being developed in phases. Phase I is a portion of a 66-acre
10 "power center" that opened in 2008. Phase II will include the remainder of the power center as well
11 as a regional mall that is expected to open in 2014 or 2015. (*Id.* at 3.)

12 19. In 2001, Westcor and LPSCO entered into four master agreements regarding the off-
13 site facilities that would need to be constructed to serve the Estrella Falls development, and the
14 amount of contributions and advances Westcor would be required to pay for those facilities. Westcor
15 and LPSCO have since entered into a number of line extension agreements consistent with the prior
16 agreements. (*Id.* at 4-5.)

17 20. In 2008, Westcor filed a complaint against LPSCO (Docket No. SW-01428A-08-
18 0234) regarding one of the four master agreements, the Commercial Wastewater Agreement, due to a
19 disagreement between the parties as to the amount due by Westcor to secure wastewater capacity for
20 Phase II of the Estrella Falls development. LPSCO and Westcor eventually reached an agreement on
21 the amount due under the master agreement, and the Commission approved that amount (\$4,844,623)
22 as a reasonable compromise of the allocation of funding between Westcor and LPSCO for Phase II of
23 Estrella Falls.⁸ In that Decision, the Commission limited the AIAC refund amount to \$710,248,
24 thereby requiring that the amount to be recorded by LPSCO as CIAC under the agreement would be
25 no less than \$4,134,375. (*Id.* at 13.) Westcor tendered the \$4,844,623 due under the agreement to
26 LPSCO on November 3, 2008. (Ex. W-1, at 5.)

27 _____
28 ⁷ The City of Goodyear will provide service to the remaining 30 acres of the development.

⁸ Decision No. 70563 (October 23, 2008), at 11-12.

1 21. In this Phase 2 proceeding, LPSCO and Westcor agreed that Westcor should not be
2 subject to the HUFs that LPSCO is proposing, due to the significant off-site facilities investment
3 previously advanced or contributed by Westcor under the Estrella Falls master agreements. (Ex. W-1,
4 at 5; Ex. A-2, at 2.) Westcor requests that the Commission make clear in this Decision that LPSCO's
5 proposed HUFs should not require Westcor to pay LPSCO any additional funds for off-site facilities
6 within the Estrella Falls Master Plan area. No other party opposed the agreement between LPSCO
7 and Westcor.

8 22. We agree that the facilities and payments advanced and contributed by Westcor⁹ for
9 water and wastewater off-site facilities and infrastructure for the Estrella Falls development should
10 not require Westcor to be responsible for additional payments that would otherwise apply under the
11 HUFs proposed by LPSCO in this case.

12 23. We wish to reiterate that, as stated in Decision No. 70563, the findings regarding
13 facilities advanced or contributed by Westcor "may not be considered a precedent in any future
14 proceedings before this Commission and in no way constitutes a finding that any of the wastewater
15 facilities constructed to serve the Estrella Falls project are deemed reasonable or prudent. Rather, the
16 prudence of those facilities, for purposes of inclusion in rate base, is specifically reserved for
17 consideration in a future rate case." (Decision No. 70563, at 12-13.) Although Decision No. 70563
18 addressed only the commercial wastewater facilities that were disputed in that case, the same
19 qualification is applicable equally to other water and wastewater facilities advanced or contributed for
20 the Estrella Falls development and have not previously addressed in a rate case.

21 Future Ratemaking Treatment for HUFs Recorded as CIAC

22 24. No party, including RUCO, opposes LPSCO's proposed implementation of water and
23 wastewater HUFs to be used for construction of off-site facilities needed to serve new customers on
24 its system.¹⁰ (See Ex. R-1, at 6.) Nor does any party oppose the requirement that amounts collected
25 under the HUF tariffs must be recorded by LPSCO as CIAC. (Tr. 104.) Rather, the single narrow
26
27

28 ⁹ As indicated above, "Westcor" refers jointly to both Westcor/Goodyear L.L.C. and Globe Land Investors, L.L.C.

¹⁰ Neither PebbleCreek nor Westcor took a position on this issue.

1 disputed issue in this Phase 2 proceeding is related to the future ratemaking treatment to be accorded
2 to HUFs received by LPSCO that are recorded as CIAC.

3 25. Section IV(B) of LPSCO's proposed water and wastewater HUF tariffs contain the
4 following identical language:

5 (B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up
6 fees may only be used to pay for capital items of Off-site Facilities,
7 or for repayment of loans obtained to fund the cost of installation
8 of off-site facilities. Off-site hook-up fees shall not be used to
9 cover repairs, maintenance, or operational costs. The Company
10 shall record amounts collected under the tariff as CIAC; *however,*
11 *such amounts shall not be deducted from rate base until such*
12 *amounts have been expended for plant.* (emphasis added.)

13 26. In a recent case involving one of LPSCO's affiliate companies, Bella Vista Water
14 Company ("Bella Vista"), we agreed with Staff that HUFs received by Bella Vista should be recorded
15 as CIAC, but that those amounts should not be deducted from the company's rate base until they were
16 expended for plant.¹¹ In that decision, we directed Bella Vista to include in its HUF tariff the exact
17 language that is set forth in the last sentence of section IV(B) of LPSCO's proposed HUF tariffs in
18 this case (*i.e.*, "The Company shall record amounts collected under the tariff as CIAC; however, such
19 amounts shall not be deducted from rate base until such amounts have been expended for plant.")
20 (*Id.*)

21 27. In addition to the language cited above regarding the limitation on use of HUF funds
22 (Sec. IV(B)), the proposed tariffs would also require LPSCO to place those funds in an interest
23 bearing account. (Sec. IV(H).) The water HUF tariff contains the following language:

24 (H) Use of Off-Site Hook-Up Fees Received: All funds collected by
25 the Company as off-site hook-up fees shall be deposited into a separate
26 interest bearing trust account and used solely for the purposes of paying
27 for the costs of installation of off-site facilities, including repayment of
28 loans obtained for the installation of off-site facilities that will benefit the
entire water system. (*Id.*)

The wastewater HUF tariff contains the following, nearly identical language in Section IV(H):

¹¹ Decision No. 72251 (April 7, 2011), at 47.

1 (H) Use of Off-Site Hook-Up Fees Received: All funds collected by
 2 the Company as off-site facilities hook-up fees shall be deposited into a
 3 separate account and bear interest and shall be used solely for the purposes
 of paying for the costs of installation of off-site facilities, including
 repayment of loans obtained for the installation of off-site facilities.

4 28. LPSCO's proposed HUF tariffs would also impose annual reporting requirements on
 5 LPSCO regarding the amount of funds collected and spent, as well as other information. The
 6 following identical language is set forth in Section IV(L) of the water HUF tariff and in Section
 7 IV(K) of the wastewater HUF tariff:

8 Status Report Requirements to the Commission: The Company shall
 9 submit a calendar year Off-Site Hook-Up Fee status report each January to
 10 Docket Control for the prior twelve (12) month period, beginning January
 11 2012, until the hook-up fee tariff is no longer in effect. This status report
 12 shall contain a list of all customers that have paid the hook-up fee tariff,
 13 the amount each has paid, the physical location/address of the property in
 respect of which such fee was paid, the amount of money spent from the
 account, the amount of interest earned on the funds within the tariff
 funds during the 12 month period.

14 29. As set forth in these various provisions of the proposed HUF tariffs, once approved,
 15 LPSCO would be obligated to, among other things: record HUFs collected under the tariff as CIAC
 16 upon receipt of the funds; deposit all HUFs collected in a separate interest-bearing trust account that
 17 may be used only for off-site facilities, or repayment of loans used to construct off-site facilities; and
 18 submit an annual status report to the Commission with detailed information regarding the amount and
 19 source of HUFs collected and spent, as well as the location and description of the plant built with
 20 those funds. Although RUCO stated various concerns regarding the proposed tariffs, its primary
 21 objection is directed at the provision that would not require unexpended HUF CIAC to be deducted
 22 from rate base. All other parties support, or do not object to, the proposed HUF tariffs.

23 RUCO's Position

24 30. Despite the Commission's approval of the tariff language cited above in the Bella
 25 Vista case, RUCO opposes LPSCO's proposal to include the same language in its HUF tariffs in this
 26 proceeding. RUCO raises the following arguments in opposition to LPSCO's proposal: 1) HUF
 27 proceeds are CIAC and the National Association of Regulatory Utility Commissioners ("NARUC")
 28

1 Uniform System of Accounts ("USOA") and the Commission's rules require that CIAC be deducted
 2 from rate base; 2) LPSCO's proposed HUF tariffs are inconsistent with Commission precedent; 3)
 3 approval of the proposed HUF tariffs would represent poor public policy; 4) denial of the proposed
 4 HUF tariffs would not harm the Company; and 5) LPSCO has the ability to control the timing of rate
 5 applications to avoid any negative impact.

6 31. In support of its first argument, RUCO cites to section 271.A.1. of the NARUC
 7 USOA, which describes CIAC as follows:

8 271. Contributions in Aid of Construction

9 A. This account shall include:

- 10 1. Any amount or item of money, services or property received by a
 11 utility, from any person or governmental agency, any portion of
 12 which is provided at no cost to the utility, which represents an
 13 addition or transfer to the capital of the utility, and which is
 14 utilized to offset the acquisition, improvement or construction
 15 costs of the utility's property, facilities, or equipment used to
 16 provide utility services to the public.

17 RUCO contends that although LPSCO has agreed that HUF proceeds must be recorded as CIAC, the
 18 failure to deduct the HUF CIAC until corresponding plant is built would be inconsistent with
 19 NARUC requirements as well Commission rules. RUCO cites to Staff testimony and a Staff exhibit
 20 introduced during the Bella Vista hearing, claiming that Staff supported RUCO's position in that case
 21 on the basis that the NARUC USOA and a Rate Case and Audit Manual by the NARUC Staff
 22 Subcommittee on Accounting and Finance requires that CIAC be deducted from rate base. (Ex. R-2;
 23 RUCO Brief, at 4.) RUCO witness William Rigsby stated that CIAC from HUFs should be deducted
 24 from rate base, regardless of when plant is built with those funds, because the Company would still
 25 have use of the funds prior to plant being built and the Company could move the monies into other
 26 accounts or use the funds for other purposes. (Ex. R-1, at 10.)

27 32. RUCO also argues that, prior to Decision No. 72251 in the Bella Vista case, the
 28 Commission had rejected the argument that CIAC should not be deducted from rate base until plant

1 was built with the CIAC funds.¹² RUCO asserts that LPSCO has not made a compelling argument
2 that would justify departing from the Commission's decisions in those prior cases.

3 33. RUCO next claims that adopting the disputed language in LPSCO's proposed HUF
4 tariffs would result in poor public policy. RUCO cited the testimony presented by the Staff witness
5 in the Bella Vista case to support RUCO's assertion that failing to deduct CIAC from rate base would
6 create audit problems for Staff and RUCO because they would have to "chase the CIAC." (RUCO
7 Brief, at 6-7.) Mr. Rigsby reiterated this concern at the hearing, stating that "[t]his is just one more
8 item that an auditor is going to have to verify." (Tr. 83.) RUCO argues that the tariff change
9 approved in the Bella Vista case is less structured than for typical adjustor mechanisms, which
10 require reporting obligations. Mr. Rigsby also expressed a concern that, despite language in the
11 proposed HUF tariff that would place restrictions on use of the HUF funds, the Company could
12 decide to violate its tariffs and "move funds in and out of the account." (Tr. 81.) RUCO contends
13 that absent sufficient safeguards, the Commission should not follow the HUF CIAC policy adopted in
14 the Bella Vista proceeding.

15 34. RUCO also asserts that denial of the disputed HUF language would not harm LPSCO
16 because the Company would eventually be made whole. Mr. Rigsby testified that requiring HUF
17 CIAC to be treated as a deduction to rate base, without consideration of whether plant had been built,
18 is simply a timing issue and allows ratepayers to receive an up-front benefit while the Company
19 could potentially continue to earn a return between rate cases on plant that has been fully amortized
20 or depreciated. (Tr. 74-75.)

21 35. Finally, RUCO asserts that because the Company controls the timing of its rate
22 application filings, it could time the application to avoid recording CIAC before the associated plant
23 is constructed. (Ex. R-1, at 12.) RUCO points to the \$4.8 million payment received from Westcor
24 pursuant to settlement of the complaint case as an example. In that case, the funds received from
25 Westcor were placed in an escrow account and not taken by LPSCO until shortly after the Phase 1
26 decision in this docket (Decision No. 72026) was issued. (Tr. 18-20.) RUCO concludes that the
27

28 ¹² RUCO cites *UNS Gas, Inc.*, Decision No. 70011 (November 27, 2007); *UNS Electric, Inc.*, Decision No. 70360 (May 27, 2008); and *H2O, Inc.*, Decision No. 71414 (December 8, 2009), to support its position.

1 Commission should treat the Bella Vista decision only as a “test case” to examine how well Staff and
2 the utility are able to track the unexpended HUFs, rather than following the Bella Vista decision in
3 this case.

4 LPSCO’s Position

5 36. LPSCO disagrees with RUCO’s assertion that the Company will have “control” over
6 the HUF funds because, pursuant to the proposed tariff, LPSCO would be required to maintain the
7 funds in a “separate, interest-bearing trust account and used solely for the purposes of paying for the
8 costs of installation of off-site facilities...” (Ex. A-1, Attachs. 2 and 3, at Sec. IV(H).) LPSCO argues
9 that it would not have the ability to use the HUF funds for any purpose other than designated
10 facilities construction and, as such, would have no ability to transfer funds between accounts for the
11 Company’s benefit.

12 37. The Company also disputes RUCO’s assertion that the proposed HUF tariff would
13 result in an overburdened Staff being unable to effectively track the HUF funds. LPSCO claims that
14 the monitoring and enforcement issue is present with every tariff, including HUF tariffs that do not
15 have the disputed language. LPSCO points out that the Company will be required to make annual
16 filings regarding the collected HUFs, including specific information about customers paying the fees,
17 the amounts paid, location of the property for the which the HUFs are to be used, interest earned, and
18 a list of facilities built with the HUFs. (*Id.*, Attach. 2 at Sec. IV(L) and Attach. 3 at Sec. IV(K).)

19 38. LPSCO contends that the Commission should not assume, as RUCO implies, that the
20 Company will violate its tariffs in order to gain an advantage over ratepayers. Finally, the Company
21 states that it is the Commission that determines what is in the public interest, and the Commission has
22 previously determined that the disputed language satisfies the concerns expressed by Staff in prior
23 cases. LPSCO therefore requests that the Commission approve the proposed HUF tariffs consistent
24 with the findings made in Decision No. 72251 for Bella Vista.

25 Discussion and Resolution

26 39. We find that LPSCO’s proposed water and wastewater HUF tariffs should be
27 approved in the form set forth in attached Exhibits C and D. We believe that the tariffs satisfy the
28

1 public interest with the inclusion of specific and detailed restrictions regarding the use of the HUF
2 funds collected by LPSCO, as well as the annual reporting requirements contained in the tariffs.

3 40. The decision to approve the HUF tariffs proposed by LPSCO is consistent with our
4 conclusion in the Bella Vista case, in which we approved a HUF tariff with language identical to that
5 contained in LPSCO's tariffs. That language, which requires HUF monies received by Bella Vista to
6 be recorded as CIAC when received, but, for ratemaking purposes, not to be deducted from rate base
7 until they are expended for plant, is consistent with both the letter and the spirit of the NARUC
8 accounting rules and the Commission's rate filing rules. The proposed LPSCO tariff affirmatively
9 requires the Company to record HUF funds as CIAC upon receipt, thereby satisfying concerns that
10 Staff expressed in prior cases that not treating HUF funds as CIAC when received could be
11 inconsistent with the NARUC USOA. Section 271 of the NARUC USOA provides that a company's
12 CIAC account should include money, services or property received at no cost to the utility, and which
13 are used to offset the acquisition, improvement or construction costs of the utility's property,
14 facilities, or equipment used to provide utility services to the public. Since there is no dispute that
15 HUF funds received by LPSCO will be recorded upon receipt as CIAC, the treatment required by the
16 tariff is in accord with the NARUC USOA. Further, Section 271 contemplates that the purpose of
17 requiring CIAC to be recorded in a separate account is to ensure that the HUF funds are "used to
18 *offset* the acquisition, improvement or construction costs" of facilities used to serve customers, a clear
19 indication that a matching of the cost-free funds received, with plant actually constructed, is intended.
20 RUCO witness Rigsby agreed that valid arguments could be made that the proposed treatment of
21 HUF CIAC is consistent with the underlying intent of Section 271, which is to prevent a company
22 from earning a return on plant built or acquired with non-investor supplied funds. (Tr. 74-78.)

23 41. With respect to the Commission's rules, RUCO asserts that A.A.C. R14-2-103,
24 Appendix B, requires that all CIAC on hand must be deducted from a company's rate base regardless
25 of whether plant has been built with the CIAC funds. In fact, Appendix B (as well as all of the other
26 schedules attached to R14-2-103), is clearly marked as "ILLUSTRATIVE SCHEDULE FORMAT"
27 thereby indicating that it is intended to be used by rate applicants as a guideline rather than an explicit
28 dictate. Even if the sample schedules were interpreted as mandatory, unalterable requirements,

1 nothing in the Commission's rules, or in Appendix B itself, requires that the Commission must
2 deduct CIAC from rate base if corresponding plant has not been constructed during the test year.
3 Indeed, as discussed above, the underlying rationale for deducting CIAC from rate base (to ensure
4 that a company does not earn a return on plant built with non-investor supplied funds) would be
5 undermined if the plant to be constructed with those funds has not yet been built – assuming, as is the
6 case here, sufficient safeguards are in place that restrict the company from using the unexpended
7 CIAC for other purposes.

8 42. Another overriding concern expressed by Mr. Rigsby is that tracking plant built with
9 CIAC would be more difficult, and would impose an onerous burden on Staff and RUCO. (Tr. 80-81,
10 83, 88.) As described above, the Company's proposed tariff would require LPSCO to submit, on an
11 annual basis, detailed descriptions of monies received and disbursed pursuant to the HUF tariffs,
12 thereby satisfying the concerns Staff had raised in prior cases. We believe the mechanisms
13 established in LPSCO's proposed HUF tariffs may actually provide Staff and intervenors with an
14 easier auditing device than currently exists, by requiring the separation of HUF funds into a separate,
15 interest-bearing account, and by requiring the ongoing disclosure of HUF transactions.

16 43. RUCO also stated its concern that LPSCO could simply ignore its tariffs and use the
17 money for purposes other than building off-site facilities, as required by the HUF tariffs. Mr. Rigsby
18 referred to the tariff restrictions as "self-imposed" by the Company, and suggested that because
19 LPSCO would maintain "control" over the CIAC trust account, it could violate the tariffs and "move
20 funds in and out of the account." (Tr. 81.) He conceded that LPSCO would violate its tariffs if it used
21 funds from the restricted account for non-permissible purposes, but suggested the Company would
22 only be subject to disallowances or penalties for such a violation if "it gets caught." (Tr. 87.) We do
23 not find it appropriate or useful to assume, without any basis, that a company would willingly and
24 knowingly violate its tariffs in the manner that RUCO suggests. If LPSCO, or any other company,
25 were to do so, it would potentially be subject to penalties, disallowances, and other remedial action
26 that the Commission deems appropriate under the circumstances. There is no indication in the record
27 that LPSCO would attempt to manipulate its HUF fund account and we therefore find RUCO's
28 argument on this issue to be unsubstantiated and without merit.

1 44. We believe that the HUF tariffs attached hereto are reasonable and in the public
 2 interest based on a consideration of the entirety of the record, including, but not limited to, the
 3 requirements detailed above that obligate the Company to: record HUFs collected under the tariff as
 4 CIAC upon receipt of the funds; deposit all HUFs collected in a separate interest-bearing trust
 5 account that may be used only for off-site facilities, or repayment of loans used to construct off-site
 6 facilities (as long as the off-site facilities financed by such loans have not been included in rate base
 7 and reflected in rates prior to use of the CIAC for loan repayment); and submit an annual status report
 8 to the Commission with detailed information regarding the amount and source of HUFs collected and
 9 spent, as well as the location and description of the plant built with those funds. With these
 10 safeguards, LPSCO's proposed water and wastewater HUF tariffs should be approved.

CONCLUSIONS OF LAW

12 1. LPSCO is a public service corporation within the meaning of Article XV of the
 13 Arizona Constitution and A.R.S. §§ 40-250, 40-251, and 40-361.

14 2. The Commission has jurisdiction over LPSCO and the subject matter contained in the
 15 Company's application.

16 3. The rates, charges and conditions of service established herein are just and reasonable
 17 and in the public interest.

18 4. Notice of the application was given in accordance with the law.

ORDER

20 IT IS THEREFORE ORDERED that Litchfield Park Service Company is hereby authorized
 21 and directed to file with the Commission, on or before November 30, 2011, revised schedules of rates
 22 and charges consistent with the discussion herein, as set forth in Exhibit A attached hereto.

23 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective
 24 for all service rendered on and after December 1, 2011.

25 IT IS FURTHER ORDERED that the phase-in surcharge is approved as discussed
 26 hereinabove, in accordance with the calculations contained in attached Exhibit B.

27 IT IS FURTHER ORDERED that Litchfield Park Service Company shall notify its customers
 28 of the revised schedules of rates and charges, and phase-in surcharge, authorized herein by means of

1 an insert in its next regularly scheduled billing, or by separate mailing, in a form acceptable to Staff.
2 The notice shall include a description of the final step of the phase-in plan, as well as the phase-in
3 surcharge.

4 IT IS FURTHER ORDERED that Litchfield Park Service Company shall reconcile the
5 collection of the surcharge amounts with the total amount to be collected, after 12 months. The 12-
6 month reconciliation shall be filed with Docket Control as a compliance item in this docket, within 30
7 days thereafter, and served on all parties. In addition, upon full collection of the deferred revenues,
8 and within 30 days after termination of the surcharge, Litchfield Park Service Company shall file
9 with Docket Control as a compliance item in this docket, and serve on all parties, a final accounting
10 of surcharge revenues.

11 IT IS FURTHER ORDERED that Westcor/Goodyear L.L.C. and Globe Land Investors,
12 L.L.C., shall not be required to pay any additional amounts that would otherwise apply under the
13 HUF tariffs approved in this case due to the facilities and payments previously advanced and
14 contributed by Westcor/Goodyear L.L.C. and Globe Land Investors, L.L.C., for water and
15 wastewater off-site facilities and infrastructure for the Estrella Falls development.

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1 IT IS FURTHER ORDERED that Litchfield Park Service Company's water and wastewater
2 Hook-Up Fee tariffs, attached hereto as Exhibits C and D, respectively, are hereby approved, as
3 discussed hereinabove, subject to filing of final conforming tariffs, by November 30, 2011, in a final
4 form acceptable to Staff. The tariffs shall be effective for HUF funds received on or after December
5 1, 2011.

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

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

8
9
10 CHAIRMAN

COMMISSIONER

11
12 COMMISSIONER

COMMISSIONER

COMMISSIONER

13
14 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
15 Executive Director of the Arizona Corporation Commission,
16 have hereunto set my hand and caused the official seal of the
17 Commission to be affixed at the Capitol, in the City of Phoenix,
18 this _____ day of _____, 2011.

19 _____
20 ERNEST G. JOHNSON
21 EXECUTIVE DIRECTOR

22 DISSENT _____

23 DISSENT _____
24
25
26
27
28

1 SERVICE LIST FOR:

LITCHFIELD PARK SERVICE COMPANY

2 DOCKET NOS.:

SW-01482A-09-103, W-01472A-09-0104, W-01472A-09-0116 and W-01472A-09-0120

3

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WATER DIVISION RATE DESIGN 100 PERCENT PHASE IN

	Present Rates	Company Proposed	Recommended Order
Monthly Usage Charge			
5/8 x3/4" Meter - All Classes	\$ 6.75	\$ 10.20	\$ 10.20
3/4" Meter - All Classes	8.30	19.00	10.20
1" Meter - Residential	14.60	31.67	22.95
1" Meter - All Classes	14.60	31.67	25.50
1 1/2" Meter - All Classes	28.60	69.67	51.00
2" Meter - All Classes	56.50	111.47	81.60
3" Meter - All Classes	NT	NT	163.20
4" Meter - All Classes	132.00	348.33	255.00
6" Meter - All Classes	NT	NT	510.00
8" Meter - Bulk Resale Only	225.00	501.00	501.00
8" Meter - All Classes	225.00	501.00	841.50
10" Meter - All Classes	330.00	960.00	1,173.00
12" Meter - All Classes but irrigation	450.00	1,500.00	2,193.00
12" Meter - Irrigation	450.00	960.00	2,193.00
Construction Water - Hydrants	100.00	By Meter Size	
Commodity Rates			
5/8 x3/4" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 3,000 Gallons		\$ 1.25	
3,001 to 10,000 Gallons		\$ 1.80	
Over 10,000 Gallons		\$ 2.40	
0 to 3,000 Gallons			\$ 1.00
3,001 to 9,000 gallons			\$ 1.91
Over 9,000 gallons			\$ 3.03
3/4" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 50,000 Gallons		\$ 2.45	
Over 50,000 Gallons		\$ 3.05	
0 to 3,000 Gallons			\$ 1.00
3,001 to 9,000 gallons			\$ 1.91
Over 9,000 gallons			\$ 3.03
1" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 100,000 Gallons		\$ 2.45	
Over 100,000 Gallons		\$ 3.05	
0 to 5,000 Gallons			\$ 1.00
5,001 to 20,000 gallons			\$ 1.91
Over 20,000 gallons			\$ 3.03
5/8 x3/4" and 3/4" Meter (Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 3,000 Gallons		\$ 1.25	
3,001 to 10,000 Gallons		\$ 1.80	
Over 10,000 Gallons		\$ 2.40	
0 to 9,000 gallons			\$ 1.91
Over 9,000 gallons			\$ 3.03
1" Meter (Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 100,000 Gallons		\$ 2.45	
Over 100,000 Gallons		\$ 3.30	
0 to 20,000 gallons			\$ 1.91
Over 20,000 gallons			\$ 3.03

WATER DIVISION RATE DESIGN 100 PERCENT PHASE IN

	Present Rates	Company Proposed	Recommended Order
1½" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 90,000 Gallons		\$ 2.75	
Over 90,000 Gallons		\$ 3.47	
0 to 40,000 gallons			\$ 1.91
Over 40,000 gallons			\$ 3.03
2" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 140,000 Gallons		\$ 2.75	
Over 140,000 Gallons		\$ 3.47	
0 to 60,000 gallons			\$ 1.91
Over 60,000 gallons			\$ 3.03
3" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 120,000 gallons	NT	NT	\$ 1.91
Over 120,000 gallons	NT	NT	\$ 3.03
4" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 180,000 gallons		\$ 2.75	\$ 1.91
Over 180,000 gallons		\$ 3.47	\$ 3.03
6" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 360,000 gallons	NT	NT	\$ 1.91
Over 360,000 gallons	NT	NT	\$ 3.03
8" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 650,000 gallons		\$ 2.75	\$ 1.91
Over 650,000 gallons		\$ 3.47	\$ 3.03
8" Meter	(Bulk resale only)		
All Gallons	NT	\$ 1.50	\$ 1.50
10" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 940,000 gallons		\$ 2.75	\$ 1.91
Over 940,000 gallons		\$ 3.47	\$ 3.03
12" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 1,248,000 Gallons		\$ 2.75	
Over 1,248,000 Gallons		\$ 3.47	
0 to 1,200,000 gallons			\$ 1.91
Over 1,200,000 gallons			\$ 3.03
Construction Water			
All Gallons	\$ 2.50	\$ 3.47	\$ 3.03

WATER DIVISION RATE DESIGN 100 PERCENT PHASE IN

Service Line and Meter installation Charges	Present Rates			Company Proposed			Recommended Order		
	Line	Meter	Total	Line	Meter	Total	Line	Meter	Total
5/8" x 3/4" Meter			\$ 300	\$ 385	\$ 135	\$ 520	\$ 385	\$ 135	\$ 520
3/4" Meter			300	385	215	600	385	215	600
1" Meter			325	435	255	690	435	255	690
1 1/2" Meter			500	470	465	935	470	465	935
2"			675	-	-	-	-	-	-
Over 2"			At Cost	-	-	-	-	-	-
2" Turbine Meter			NT	630	965	1,595	630	965	1,595
2" Compound Meter			NT	630	1,690	2,320	630	1,690	2,320
3" Turbine Meter			NT	805	1,470	2,275	805	1,470	2,275
3" Compound Meter			NT	845	2,265	3,110	845	2,265	3,110
4" Turbine Meter			NT	1,170	2,350	3,520	1,170	2,350	3,520
4" Compound Meter			NT	1,230	3,245	4,475	1,230	3,245	4,475
6" Turbine Meter			NT	1,730	4,545	6,275	1,730	4,545	6,275
6" Compound Meter			NT	1,770	6,280	8,050	1,770	6,280	8,050
8" & Larger			NT	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
Service Charges									
Establishment (a)			\$ 20.00			\$ 20.00			\$ 20.00
Establishment (After Hours) (a)			40.00			40.00			40.00
Re-Establishment of Service (a)			(b)			(b)			(b)
Reconnection (Regular Hours) (a)			50.00			50.00			50.00
Reconnection (After Hours) (a)			65.00			65.00			65.00
Meter Test (if correct) (c)			25.00			25.00			25.00
Meter Re-Read (if correct)			5.00			5.00			5.00
NSF Check			25.00			25.00			25.00
Deferred Payment, Per Month			1.50%			1.50%			1.50%
Late Charge			(d)			(d)			(d)
Service Calls - Per Hour/After Hours (e)			40.00			40.00			40.00
Deposit Requirement			(f)			(f)			(f)
Deposit Interest			3.50%			3.50%			3.50%
* Hydrant Meter Deposit:									
5/8" x 3/4" Meter			\$ 1,500.00			\$ 1,500.00			\$ 135.00
3/4" Meter			1,500.00			1,500.00			215.00
1" Meter			1,500.00			1,500.00			255.00
1 1/2" Meter			1,500.00			1,500.00			465.00
2" Turbine Meter			1,500.00			1,500.00			965.00
2" Compound Meter			1,500.00			1,500.00			1,690.00
3" Turbine Meter			1,500.00			1,500.00			1,470.00
3" Compound Meter			1,500.00			1,500.00			2,265.00
4" Turbine Meter			1,500.00			1,500.00			2,350.00
4" Compound Meter			1,500.00			1,500.00			3,245.00
6" Turbine Meter			1,500.00			1,500.00			4,545.00
6" Compound Meter			1,500.00			1,500.00			6,280.00
8" & Larger			NT			At Cost			At Cost

NT = No Tariff

(a) Service charges for customers taking both water and sewer service are not duplicative.

(b) Minimum charge times number of months disconnected.

(c) \$25 plus cost of test.

(d) Greater of \$5.00 or 1.5% of unpaid balance.

(e) No charge for service calls during normal working hours.

(f) Per Rule R14-2-403(B): Residential - two times the average bill. Commercial - two and one-half times the average bill.

* Shall have a non-interest bearing deposit of the amount indicated, refundable in its entirety upon return of the meter in good condition and payment of final bill.

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WASTEWATER DIVISION RATE DESIGN 100 PERCENT PHASE IN

Monthly Usage Charge	Present	Company Proposed	Recommended Order Full Rates
Residential - Per Unit / Month	\$ 27.20	\$ 48.21	\$ 38.99
Multiple Unit Service - Per Unit / Month	25.25	44.76	\$ 36.19
Small Comm.	46.00	81.54	\$ 65.93
Regular Domestic	25.75	45.64	\$ 36.91
Restaurants, Motels, Grocery, DC	25.75	45.64	\$ 36.91
Wig. Resort/ Room	25.25	44.76	\$ 36.19
Wig. Resort/ Main	1,000.00	1,772.50	\$ 1,433.30
Element. School	680.00	1,205.30	\$ 974.64
Mid. & High School	800.00	1,418.00	\$ 1,146.64
Community College	1,240.00	2,197.90	\$ 1,777.29
Effluent Sales *	Market	Market	Market

* Small commercial is a wastewater commercial customer that averages a maximum of 10,000 gallons of water usage per month.

** Regular Domestic is a wastewater commercial customer that averages a minimum of 10,000 gallons of water usage per month.

** Market Rate - Maximum effluent rate shall not exceed \$430 per acre foot based on a potable water rate of \$1.32 per thousand gallons and shall not be less than \$0.17 per thousand gallons.

Commodity Charge (per 1,000 gallons of water)	Present	Company Proposed	Recommended Order Full Rates
Regular Domestic	\$ 2.25	\$ 3.99	\$ 3.22
Restaurants, Motels, Grocery, DC	3.00	5.32	4.30

Service Charges	Present	Company Proposed	Recommended Order Full Rates
Establishment (a)	\$ 20.00	\$ 20.00	\$ 20.00
Establishment (After Hours) (a)	\$ 40.00	\$ 40.00	\$ 40.00
Re-Establishment of Service (a)	(b)	(b)	(b)
Reconnection (Regular Hours) (a)	50.00	50.00	50.00
Reconnection (After Hours) (a)	65.00	65.00	65.00
NSF Check	\$ 25.00	\$ 25.00	\$ 25.00
Deferred Payment, Per Month	1.50%	1.50%	1.50%
Late Charge	(c)	(c)	(c)
Service Calls - Per Hour/After Hours (d)	40.00	40.00	40.00
Deposit Requirement	(e)	(e)	(e)
Deposit Interest	3.50%	3.50%	3.50%
Service Lateral Connection Charge- All Sizes	(f)	(f)	(f)
Main Extension Tariff	(g)	(g)	(g)

(a) Service charges for customers taking both water and sewer service are not duplicative.

(b) Minimum charge times number of months disconnected.

(c) Greater of \$5.00 or 1.5% of unpaid balance.

(d) No charge for service calls during normal working hours.

(e) Per Rule R14-2-603B: Residential - two times the average bill.

Non-residential - two and one-half times the average bill.

(f) At cost. Customer/Developer shall install or cause to be installed all Service Laterals as a non-refundable contribution-in-aid of construction.

(g) All Main Extensions shall be completed at cost and shall be treated as non-refundable contribution-in-aid of construction.

DECISION NO. _____

EXHIBIT B

Exhibit Page 1 of 2

Litchfield Park Service Company
Phase-in Surcharge Calculation - Water

- [1] Total water rate revenue before increase \$ 6,751,188 (excludes other revenues)
- [2] Water rate increase per Decision \$ 4,388,891 (excludes other revenues)
- [3] Total water rate revenues after rate increase \$ 11,140,079 (excludes other revenues)

- [4] Total monthly rate increase [2]/[12] \$ 365,741
- [5] Phase 1 - First 6 months 50%
- [6] Phase 2 - Next 6 months 75%
- [7] Phase 3 - Thereafter 100%

[8] Interest Rate (WACC per Decision) 7.72%

	Yr 1 Collected	Cummulative Yr 1 Collected	Cummulative Yr 1 Uncollected w/o Interest	Cummulative Yr 1 Uncollected with Interest	Yr 1 Interest	Cummulative Yr 1 Interest
Month 1	\$ 182,870	\$ 182,870	\$ 182,870	\$ 182,870	\$ 1,176	\$ 1,176
Month 2	\$ 182,870	\$ 365,741	\$ 365,741	\$ 366,917	\$ 2,361	\$ 3,537
Month 3	\$ 182,870	\$ 548,611	\$ 548,611	\$ 552,148	\$ 3,552	\$ 7,089
Month 4	\$ 182,870	\$ 731,482	\$ 731,482	\$ 738,571	\$ 4,751	\$ 11,841
Month 5	\$ 182,870	\$ 914,352	\$ 914,352	\$ 926,193	\$ 5,959	\$ 17,799
Month 6	\$ 182,870	\$ 1,097,223	\$ 1,097,223	\$ 1,115,022	\$ 7,173	\$ 24,972
Month 7	\$ 274,306	\$ 1,371,528	\$ 1,188,658	\$ 1,213,630	\$ 7,808	\$ 32,780
Month 8	\$ 274,306	\$ 1,645,834	\$ 1,280,093	\$ 1,312,873	\$ 8,446	\$ 41,226
Month 9	\$ 274,306	\$ 1,920,140	\$ 1,371,528	\$ 1,412,755	\$ 9,089	\$ 50,315
Month 10	\$ 274,306	\$ 2,194,446	\$ 1,462,964	\$ 1,513,279	\$ 9,735	\$ 60,050
Month 11	\$ 274,306	\$ 2,468,751	\$ 1,554,399	\$ 1,614,449	\$ 10,386	\$ 70,437
Month 12	\$ 274,306	\$ 2,743,057	\$ 1,645,834	\$ 1,716,271	\$ 11,041	\$ 81,478
Balances at end of 12 Months (Year 1)		[9] \$ 2,743,057	[10] \$ 1,645,834	[11] \$ 1,727,312		[12] \$ 81,478

[13] Total uncollected with interest at end of Year 1 = [11]

[14] Monthly amount to be collected over next 18 months =PMT([8]/12,18,-[13])

[15] Total amount to be collected including interest [14] x 18

[16] Total interest charges [15] - [10]

Computation of Surcharge Rate

- [17] Monthly surcharge revenues = [14]
- [18] Monthly revenues after rate increase [3]/[12]
- [19] Surcharge rate per dollar of total monthly revenues [17]/[18]

Sample Bills

	5/8x3/4 Inch Residential	3/4 Inch Residential	1 Inch Residential
Gallons	4,661	8,909	8,209
Average Monthly Bill	\$ 16.37	\$ 26.29	\$ 46.20
% Surcharge	10.98%	10.98%	10.98%
Surcharge	\$ 1.80	\$ 2.89	\$ 5.07
Total Average Monthly Bill with Surcharge	\$ 18.17	\$ 29.18	\$ 51.27

DECISION NO. _____

Litchfield Park Service Company
Phase-in Surcharge Calculation - Wastewater

	Yr 1 Collected	Cummulative Yr 1 Collected	Cummulative Yr 1 Uncollected w/o Interest	Cummulative Yr 1 Uncollected with Interest	Yr 1 Interest	Cummulative Yr 1 Interest
[1] Total Sewer Rate Revenue Before Increase	\$ 6,190,260	\$ 112,386	\$ 112,386	\$ 112,386	\$ 723	\$ 723
[2] Sewer Rate Increase per Decision	\$ 2,697,269	\$ 224,772	\$ 224,772	\$ 224,772	\$ 1,451	\$ 2,174
[3] Total Sewer Rate Revenues After Rate Increase	\$ 8,887,529	\$ 337,159	\$ 337,159	\$ 337,159	\$ 2,183	\$ 4,357
[4] Total monthly rate increase [2]/12	\$ 224,772	\$ 449,545	\$ 449,545	\$ 449,545	\$ 2,920	\$ 7,277
[5] Phase 1 - First 6 months	50%	\$ 561,931	\$ 561,931	\$ 561,931	\$ 3,662	\$ 10,939
[6] Phase 2 - Next 6 months	75%	\$ 674,317	\$ 674,317	\$ 674,317	\$ 4,408	\$ 15,347
[7] Phase 3 - Thereafter	100%	\$ 842,897	\$ 842,897	\$ 842,897	\$ 4,798	\$ 20,146
[8] Interest Rate (WACC per Decision)	7.72%	\$ 1,011,476	\$ 1,011,476	\$ 1,011,476	\$ 5,191	\$ 25,336
Month 1		\$ 168,579	\$ 168,579	\$ 168,579	\$ 5,586	\$ 30,922
Month 2		\$ 168,579	\$ 1,180,055	\$ 1,180,055	\$ 5,863	\$ 36,905
Month 3		\$ 168,579	\$ 1,348,635	\$ 1,348,635	\$ 6,383	\$ 43,288
Month 4		\$ 168,579	\$ 1,517,214	\$ 1,517,214	\$ 6,786	\$ 50,074
Month 5		\$ 168,579	\$ 1,685,793	\$ 1,685,793	\$	\$
Month 6		\$	\$	\$	\$	\$
Month 7		\$	\$	\$	\$	\$
Month 8		\$	\$	\$	\$	\$
Month 9		\$	\$	\$	\$	\$
Month 10		\$	\$	\$	\$	\$
Month 11		\$	\$	\$	\$	\$
Month 12		\$	\$	\$	\$	\$
Balances at end of 12 Months (Year 1)		[9] \$ 1,685,793	[10] \$ 1,011,476	[11] \$ 1,061,550	[12] \$ 50,074	\$

[13] Total uncollected with interest at end of Year 1 = [11]

[14] Monthly amount to be collected over next 18 months = PMT([8]/12, 18, -[13])

[15] Total amount to be collected including interest [14] x 18

[16] Total interest charges [15] - [10]

Computation of Surcharge Rate

[17] Monthly surcharge revenues = [14]

[18] Monthly revenues after rate increase [3]/12

[19] Surcharge rate per dollar of total monthly revenues [17]/[18]

Sample Bills

	Residential	Small Commercial
Monthly Bill	\$ 38.99	\$ 65.93
% Surcharge	8.46%	8.46%
Surcharge	\$ 3.30	\$ 5.58
Total Monthly Bill with Surcharge	\$ 42.29	\$ 71.51

		Revised	SHEET NO.	
Litchfield Park Service Company		Revised	SHEET NO.	
(Name of Company)	(Name of Service Area)			

WATER HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to Litchfield Park Service Company - Water Division ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement entered into 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 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, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means Litchfield Park Service Company - Water Division.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities necessary to the Company to serve new service connections within a development, or installs such water facilities necessary to serve new service connections and transfers 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. 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 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.

ISSUED:			EFFECTIVE:	
	Month Day Year			Month Day Year
		ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company		
		12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
		Decision No.		

DECISION NO. _____

		Revised	SHEET NO.	
<u>Litchfield Park Service Company</u>		Revised	SHEET NO.	
(Name of Company)				
	(Name of Service Area)			

III. Water Hook-up Fee

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

Meter Size	Size Factor	Total Fee(a)
5/8" x 3/4"	1	\$1,800
3/4"	1.5	\$2,700
1"	2.5	\$4,500
1-1/2"	5	\$9,000
2"	8	\$14,400
3"	16	\$28,800
4"	25	\$45,000
6" or larger	50	\$90,000

(A) For "Active Adult" communities with demonstrated age-restricted zoning and/or CCRs providing for age-restricted living, the Total Fee shall be Two-Thirds (2/3) of the Total Fee shown above, based on an ERU factor of 190 gallons per day.

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 to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall record amounts collected under the tariff as CIAC; however, such amounts shall not be deducted from rate base until such amounts have been expended for plant.

(C) Time of Payment:

- 1) For those requiring a Main Extension Agreement: In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise 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 Hook-Up Fees required hereunder shall be made by the Applicant, Developer or Builder no later than within 15 calendar days after

ISSUED:			EFFECTIVE:	
	Month Day Year			Month Day Year
		ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company 12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
		Decision No.		

DECISION NO. _____

Litchfield Park Service Company		Revised	SHEET NO.	
(Name of Company)		Revised	SHEET NO.	
	(Name of Service Area)			

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) For those connecting to an existing main: In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the Hook-Up Fee 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 make an advance commitment to provide or actually 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 due hereunder has not been paid.

(F) Large Subdivision/Development Projects: In the event that the Applicant, Developer or Builder is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its reasonable discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's, Developer's or Builder's construction schedule and water service requirements. In the alternative, the Applicant, Developer, or Builder shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as Hook-Up Fees 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 installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

ISSUED:			EFFECTIVE:	
	Month Day Year			Month Day Year
		ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company 12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
		Decision No.		

DECISION NO. _____

<u>Litchfield Park Service Company</u>		Revised	SHEET NO.	
(Name of Company)		Revised	SHEET NO.	
	(Name of Service Area)			

(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 to Docket Control for the prior twelve (12) month period, beginning January 2012, 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 physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

ISSUED:			EFFECTIVE:	
	Month Day Year			Month Day Year
		ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company 12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
		Decision No.		

DECISION NO. _____

		Revised	SHEET NO.	
Litchfield Park Service Company		Revised	SHEET NO.	
(Name of Company)				
	(Name of Service Area)			

WASTEWATER HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to Litchfield Park Service Company – Wastewater Division (“the Company”) pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment and disposal facilities among all new service laterals. These charges are applicable to all new service laterals undertaken via Collection Main Extension Agreements, or requests for service not requiring a Collection Main Extension Agreement, entered into 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-14-2-601 of the Arizona Corporation Commission’s (“Commission”) rules and regulations governing sewer utilities shall apply interpreting this tariff schedule.

“Applicant” means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builders of new residential subdivisions, and industrial or commercial properties.

“Company” means Litchfield Park Service Company – Wastewater Division.

“Collection Main Extension Agreement” means an agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of wastewater facilities necessary to serve new service laterals, or install wastewater facilities to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as “Wastewater Facilities Agreement”.

“Off-site Facilities” means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, force mains, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and benefit the entire wastewater system.

“Service Lateral” means and includes all service laterals for single-family residential, commercial, industrial or other uses.

III. Wastewater Hook-up Fee

For each new residential service lateral, the Company shall collect a Hook-Up Fee of \$1,800 based on the Equivalent Residential Unit (“ERU”) of 320 gallons per day. Commercial and industrial applicants shall pay

ISSUED:			EFFECTIVE:	
	Month Day Year			Month Day Year
		ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company		
		12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
		Decision No.		

DECISION NO. _____

		Revised	SHEET NO.	
Litchfield Park Service Company		Revised	SHEET NO.	
(Name of Company)				
	(Name of Service Area)			

based on the total ERUs of their development calculated by dividing the estimated total daily wastewater capacity usage needed for service using standard engineering standards and criteria by the ERU factor of 320 gallons per day. For "Active Adult" communities with demonstrated age-restricted zoning and/or CCRs providing for age-restricted living, the Hook-Up Fee shall be \$1,070, based on an ERU factor of 190 gallons per day.

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of Off-site Facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall record amounts collected under the tariff as CIAC; however, such amounts shall not be deducted from rate base until such amounts have been expended for plant.

(C) Time of Payment:

- (1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Collection Main Extension Agreement, payment of the fees required hereunder shall be made by the Applicant, Developer or Builder within 15 days of execution of a Main Extension Agreement.
- (2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Collection Main Extension Agreement, the Hook-Up Fee charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(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, 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 make an advance commitment to provide or actually provide wastewater service to any Developer, Builder or other

ISSUED:		EFFECTIVE:	
Month	Day	Month	Day
Year		Year	
	ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company		
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	Decision No.		

DECISION NO. _____

		Revised	SHEET NO.
Litchfield Park Service Company		Revised	SHEET NO.
(Name of Company)			
	(Name of Service Area)		

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 connect service or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant, Developer or Builder is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its reasonable discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's, Developer's or Builder's construction schedule and water service requirements. In the alternative, the Applicant, Developer, or Builder shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site facilities 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 facilities hook-up fees shall be deposited into a separate account and bear interest and shall be used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(I) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection 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 facilities hook-up fees, or if the off-site facilities 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) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January to Docket Control for the prior twelve (12) month period, beginning January 2012, 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 physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and an itemization of all facilities that have been installed using the tariff funds during the 12 month period.

ISSUED:		EFFECTIVE:	
Month Day Year		Month Day Year	
	ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company		
	12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
	Decision No.		