OPEN MEETING ITEM

ORIGINAL

0000136384

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

ERNEST G. JOHNSON
Executive Director

ARIZONA CORPORATION COMMISSION

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2012 MAY -7 P 3: 32

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
MAY 07 2012
DOCKETED BY JM.

DATE: MAY 7, 2012

DOCKET NOS.: W-03936A-11-0418 and W-03936A-12-0073

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 Order on:

EAGLETAIL WATER COMPANY, LLC
(RATES/FINANCE)

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:

Exceptions have been waived

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:

MAY 10, 2012

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.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF EAGLETAIL WATER COMPANY, L.L.C., FOR A PERMANENT RATE INCREASE.	DOCKET NO. W-03936A-11-0418
IN THE MATTER OF THE APPLICATION OF EAGLETAIL WATER COMPANY, L.L.C., FOR APPROVAL OF A LONG-TERM LOAN AND GRANT.	DOCKET NO. W-03936A-12-0073 DECISION NO. _____ **ORDER**

Open Meeting
May 22 and 23, 2012
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

PROCEDURAL HISTORY

1. On November 22, 2011, Eagletail Water Company, L.L.C. ("Eagletail" or "Company") filed with the Commission an application for a rate increase ("Rate Application"). In its application, Eagletail proposed total operating revenues of $49,921, an increase of $15,000, or 42.95 percent over test year revenues of $34,921. The Company's proposed rates would provide operating income of $16,153, and a 14.75 percent rate of return on its proposed original cost rate base ("OCRB") of $109,533, which the Company also proposed as its fair value rate base ("FVRB").

2. On December 29, 2011, the Company filed corrected schedules in support of its application, and stated that it had notified customers on December 21, 2011, of the proposed rate increase.

3. On January 5, 2012, the Commission's Utilities Division ("Staff") filed its Sufficiency Letter stating the application was sufficient pursuant to Arizona Administrative Code ("A.A.C.") R14-2-103, and classifying Eagletail as a Class E utility.

4. On February 22, 2012, Staff filed its Staff Report, recommending approval of the application subject to adoption of Staff's recommended rates and charges, and other compliance recommendations. The Staff Report was sent to Eagletail and indicated that any party could file comments to the Staff Report's recommendations by March 2, 2012. No comments or objections to the Staff Report have been received.

5. On March 1, 2012, in Docket No. W-03936A-12-0073, Eagletail filed an application for approval to obtain a long-term loan and grant ("Financing Application") from the Water Infrastructure Financing Authority of Arizona ("WIFA").

6. On April 6, 2012, a Recommended Order was issued in the Rate Application docket.

7. On April 12, 2012, Staff separately filed in each of the dockets a Joint Motion for Consolidation and Request for Suspension of the Time Clock. The Joint Motion stated that the issues in both cases are substantially the same and that consolidation will not prejudice the parties. The Joint Motion also requested a brief suspension of the time clock in the Rate Application docket, and indicated that Staff would make every effort to process the Financing Application, and provide a revised recommendation in the Rate Application docket, in a timely manner.

8. On April 23, 2012, a Procedural Order was issued consolidating the Rate and Financing Applications and suspending the Rate Application time clock rules indefinitely.

9. On April 27, 2012, Staff filed a Supplemental Staff Report recommending approval of the requested financing, as well as an infrastructure surcharge, subject to certain conditions and recommendations. (Supp. Staff Report.) Comments regarding Staff's recommendations were directed to be filed by May 7, 2012.

10. On May 1, 2012, Eagletail filed a letter verifying that it had hand delivered notice of the Company's curtailment plan and financing application to 49 customers on April 27, 2012.

11. On May 3, 2012, a customer contacted the Commission's Consumer Services Division stating opposition to Eagletail's financing application.

12. On May 4, 2012, Staff filed an Update on Company Status. Staff states that since it filed the Supplemental Staff Report on April 27, 2012, the Company's failed completely Staff considers Eagletail to be in an emergency situation. Details of Staff's filing are discussed below in the Financing Application section.

RATE APPLICATION

13. Eagletail is an Arizona public service corporation providing potable water service to approximately 57 customers. During the test year, 8 customers were served by 5/8-inch x ¾-inch meters; 45 customers were served by ¾-inch meters; and 4 customers were served by 1-inch meters. The Company's service area is located approximately 64 miles west of Phoenix, and 15 miles south of Interstate 10 in the Harquahala Valley, in the western part of Maricopa County, Arizona.

14. The Company's current rates became effective August 1, 2005, pursuant to Decision No. 67982 (July 18, 2005).

15. The water rates and charges for Eagletail currently, as proposed by the Company in its application, and as recommended by Staff in its Staff Report, are as follows:

	Current Rates	Proposed Rates Company	Proposed Rates Staff
MONTHLY USAGE CHARGE:			
5/8" x 3/4" Meter	$27.00	$39.98	$27.00
3/4" Meter	30.00	60.02	30.00
1" Meter	45.00	100.00	45.00
1 ½" Meter	50.00	199.88	150.00
2" Meter	61.00	319.80	240.00
3" Meter	105.00	599.63	480.00
4" Meter	135.00	999.38	750.00
6" Meter	220.00	1,998.75	1,500.00
Gallons included in Minimum (For All Meter Sizes)	0	0	0
Commodity Charge (Per 1,000 gallons)			
For all Meter Sizes			
0 – 3,000	$3.20	$4.80	N/A
3,001 – 25,000	4.25	6.38	N/A
Over 25,000	4.85	7.28	N/A
5/8" x ¾" Meter (Residential/Commercial)			
0 – 3,000	N/A	N/A	$3.90
3,001 – 15,000	N/A	N/A	5.85
Over 15,000	N/A	N/A	7.10

¾" Meter			
0 – 3,000	N/A	N/A	$3.90
3,001 – 15,000	N/A	N/A	5.85
Over 15,000	N/A	N/A	7.10
1" Meter			
0 – 14,000	N/A	N/A	$5.85
Over 14,000	N/A	N/A	7.10
1 1/2" Meter			
0 – 28,000	N/A	N/A	$5.85
Over 28,000	N/A	N/A	7.10
2" Meter			
0 – 56,000	N/A	N/A	$5.85
Over 56,000	N/A	N/A	7.10
3" Meter			
0 – 120,000	N/A	N/A	$5.85
Over 120,000	N/A	N/A	7.10
4" Meter			
0 – 285,000	N/A	N/A	$5.85
Over 285,000	N/A	N/A	7.10
6" Meter			
0 – 640,000	N/A	N/A	$5.85
Over 640,000	N/A	N/A	7.10
Standpipe, Bulk Water	N/A	N/A	$7.10

SERVICE LINE AND METER INSTALLATION CHARGES:

	Current Charges	Company's Proposed Charges	Staff Recommended Service Line Chg	Staff Recommended Meter Charge	Staff Recommended Total Charges
5/8" x 3/4" Meter	$440.00	$440.00	$350.00	$90.00	$440.00
3/4" Meter	510.00	510.00	350.00	160.00	510.00
1" Meter	590.00	590.00	380.00	210.00	590.00
1-1/2" Meter	825.00	825.00	430.00	395.00	825.00
2" Meter	1,415.00	1,415.00	630.00	785.00	1,415.00
3" Meter	2,105.00	2,105.00	810.00	1,295.00	2,105.00
4" Meter	3,120.00	3,120.00	1,120.00	2,000.00	3,120.00
6" Meter	5,715.00	5,715.00	1,740.00	3,975.00	5,715.00

	Present Rates	Proposed Rates Company	Proposed Rates Staff
SERVICE CHARGES:			
Establishment	$30.00	$40.00	$40.00
Establishment (After Hours)	45.00	55.00	(a)
Reconnection (Delinquent)	25.00	35.00	$35.00
Reconnection (Delinquent-After Hours)	45.00	50.00	(a)
Meter Test (If Correct)	30.00	30.00	$30.00
Deposit	*	*	*
Deposit Interest	*	$0.00	*

Re-establishment (Within 12 months)	**	$30.00	**
NSF Check	$25.00	30.00	$30.00
Deferred Payment	***	***	***
Meter Re-Read (If Correct)	$20.00	$20.00	$20.00
Late Payment Charge-Per Month	1.50%	2.00%	1.50%
Service Charge (After Hours)	N/A	N/A	$25.00
MONTHLY SERVICE CHARGE FOR FIRE SPRINKERS:			
4" or Smaller	****	****	****
6"	****	****	****
8"	****	****	****
10"	****	****	****
Larger than 10"	****	****	****

* Per Commission Rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

(a) Staff recommends the elimination of this service charge as it is covered by Staff's recommended after hours service charge.

16. Staff determined Eagletail's OCRB to be $61,922, which is the same as its FVRB. Staff's recommended OCRB represents a $47,611 decrease to the Company's proposed OCRB of $109,533, due to Staff's adjustments to plant-in-service, accumulated depreciation, and working capital.

17. Staff's adjustments to plant-in-service resulted in a net reduction of $72,715 from Eagletail's proposed $175,421 for plant-in-service, to $102,706. (Staff Report, at 6.) Staff indicated that a significant portion of its recommended decrease to Eagletail's plant in service resulted from removal of a property tax liability that the Company incorrectly recorded as plant-in-service. Staff's analysis produced recommendations to: increase the structures and improvements account by $322; decrease the wells and springs account by $24,510; decrease the pumping equipment account by $8,666; decrease the water treatment equipment account by $3,501; decrease the transmission and distribution mains account by $35,015; and decrease the meters and meter installation account by $1,345. (*Id.*)

18. Staff also recommended a decrease to Eagletail's accumulated depreciation by $22,071, from the Company's proposed $63,533, to $41,462. Staff indicated that the adjustment

reflects the cumulative effect of its recommended adjustments to plant-in-service account balances, as well as recalculation of depreciation expense in the intervening years since the test year in the Company's prior rate case using the depreciation rates authorized by the Commission. (*Id.* at 7.)

19. The final rate base adjustment recommended by Staff would increase working capital from $0 to $3,033. According to Staff, it calculated cash working capital using the formula method, which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses, plus one-twenty-fourth of purchased power and purchased water expenses.

20. Staff made no adjustments to Eagletail's proposed test year operating revenues of $34,921. (*Id.* at DRE-3.)

21. Staff made several adjustments to Eagletail's proposed test year operating expenses, resulting in a net decrease of $336, from the Company's proposed $33,768, to $33,432. Staff recommended an operating expense increase of $5,000, from $1,860 to $6,860, for a part-time employee's wages related to field and operational activities. Staff indicated that a significant portion of the Company's field and operational responsibilities are handled by volunteers, but, according to the Company, many of the volunteers are of advanced age and declining health, making it difficult for them to perform tasks such as digging ditches, repairing leaks, reading meters, and other related activities. (Staff Report, at 7.) Staff also recommended increasing the Company's water testing expenses by $308; increasing rate case expense by $333 to reflect a three-year amortization of approximately $1,000 for rate case expense; and decreasing depreciation expense by $5,977 to reflect application of Staff's recommended depreciation rates to Staff's recommended plant balances for Eagletail. (*Id.* at 8.)

22. Staff also reduced Eagletail's proposed interest expense by $4,646, from $8,030 to $3,384, to reflect removal of interest expense associated with a personal loan obtained by the Company's owners. Staff's recommended adjustment is based on the Commission's denial of the Company's application for approval of financing in Decision No. 72731 (January 6, 2012), wherein the Commission found that the loan obtained by the Company's owners was not a loan obligation of Eagletail and it was not in the public interest to provide coverage for the loan in Eagletail's rates.

(*Id.*)[1]

23. Staff states that its recommended rates produce a 2.20 times interest earned ratio ("TIER") and a 1.84 debt service coverage ("DSC") ratio. TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A DSC greater than 1.0 means operating cash flow is sufficient to cover all obligations. Staff concluded that the cash flow generated by its recommended rates and charges is reasonable and sufficient. (*Id.* at 8-9)

24. Based on its review, Staff found Eagletail's total test year operating revenue to be $34,921, and test year operating expenses to be $33,434, resulting in test year operating income of $1,487 and a 2.40 percent rate of return on Staff's adjusted OCRB of $61,922. (Staff Report, at 4.)

25. Eagletail's proposed rates would produce total operating revenue of $49,921 and operating income of $16,153, for a 14.75 percent rate of return on the Company's proposed $109,533 OCRB.

26. Staff's recommended rates produce total operating revenue of $40,863, an increase of $5,942, or 17.02 percent, over Staff's adjusted test year revenue of $34,921. Staff's recommendation would provide the Company with operating income of $7,429, and a 12.0 percent rate of return on Staff's adjusted $61,922 OCRB.

27. Eagletail's proposed rate design would retain its existing rate structure for all meter sizes, with three inverted tiers containing break-over points at 3,000 and 25,000 gallons per month. (*Id.* at 9.) Eagletail's proposed rates would result in an increase to the typical ¾-inch meter residential water bill, with average usage of 5,721 gallons per month, of $15.59, or 30.5 percent, from the current $51.17 to $66.76. (*Id.* at DRE-5.)

28. Staff recommends a rate structure with three inverted tiers for 5/8-inch x ¾-inch meters and ¾-inch meters, and two inverted rate tiers for all other meter sizes, with break-over points that increase by meter size. For the two smallest size meters, the break-over points would be set at 3,000 and 15,000 gallons per month, and for 1-inch meters the single break-over point would be at

[1] Eagletail filed on March 1, 2012 (Docket No. W-03936A-12-0073), a new financing application seeking authority to obtain a $65,000 loan or grant from the Water Infrastructure Finance Authority ("WIFA") for funds needed to repair a failing well pump.

14,000 gallons per month. (*Id.* at DRE-4.) Under Staff's recommended rates, a typical ¾-inch meter residential customer's water bill, with average usage of 5,721 gallons per month, would increase by $6.45, or 12.6 percent, from the current $51.17 to $57.62. (*Id.* at DRE-5.)[2]

29. In its application, Eagletail proposed increasing its establishment charge from $35 to $40, increasing its reconnection (delinquent) charge from $25 to $35, and increasing its non-sufficient funds check service charge from $25 to $35. Staff agreed that these service charge increases were reasonable and should be approved.

30. Eagletail also requested increases to its establishment (after hours) and reconnection (delinquent – after hours) charges. Rather than accepting the Company's proposed fee increases for those specific after hours services, Staff recommends instead that a general after-hours service fee of $25 be implemented for all services provided after normal business hours, if the services are requested by a customer or are provided for a customer's convenience. (*Id.* at 10.)

31. Staff's review of the Commission's Consumer Services database showed that between January 1, 2009 and February 10, 2012, there were two complaints against Eagletail, both of which were resolved and closed. One opinion has been filed in opposition to the Company's requested rate increase. (Staff Report, at 4.)

32. Staff states that Eagletail is current on its property and sales tax payments, and is in good standing with the Commission's Corporations Division. (*Id.* at 5.)

33. Eagletail is not located within an Arizona Department of Water Resources ("ADWR") active management area ("AMA"), and is therefore not subject to AMA monitoring and reporting requirements. Staff indicated that as of January 19, 2012, Eagletail was compliant with ADWR requirements governing water providers and/or community water systems. (Staff Engineering Report, at 8.)

34. According to Staff, the Arizona Department of Environmental Quality ("ADEQ") has determined that Eagletail is in full compliance with ADEQ requirements and is currently delivering water that meets water quality standards required by A.A.C. Title 18, Chapter 4. (*Id.* at 7.)

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[2] See discussion below regarding the combined impact of Staff's recommended base rate increase and infrastructure surcharge.

35. Staff indicated that during its review of Eagletail's last rate proceeding in 2005, it was discovered that the Company was experiencing a water loss rate of more than 53 percent. Staff stated that non-account water should usually be 10 percent or less. (*Id.* at 5.) According to Staff, a leak repair fund was approved for Eagletail, and the Company was directed to report water losses and to develop a water loss plan. (*Id.* at 6.)

36. According to Staff, Eagletail reported a test year water loss rate of 43.16 percent. Staff indicates that Eagletail sent a letter to Staff in 2008 explaining that the Company's high water loss rate is due to the nature of its service area, which consists of approximately 35 miles of distribution lines in a very rural area, and the majority of the water lines are more than 30 years old. According to the Company's letter, it strives to repair leaks in a timely manner but leaks are difficult to detect, and the Company is operated solely by volunteers. The letter further stated that "[w]e are operating as a self-preservation effort to keep good potable water available in our area." (*Id.* at 5-6.)

37. Staff stated that ADEQ and WIFA have programs in place to provide water system evaluations, and WIFA may provide up to $35,000 in grant money to help prepare water facilities for future infrastructure construction. Staff indicated that this type of technical guidance may benefit Eagletail in addressing its water loss issues; and Staff therefore recommends that the Company be required to file, within 180 days of the effective date of this decision, documentation demonstrating that appropriate applications have been made to WIFA and ADEQ for technical system evaluation and grant program funding. (*Id.* at 6.)

38. In addition, due to the Company's continued high water loss rates, Staff recommends that Eagletail be required to file within 90 days, for Staff's review and consideration, at least three Best Management Practices ("BMPs") in substantial conformance with Staff's BMP templates, and that no more than two of the BMPs come from the "Public Awareness/Public Relations" or "Education and Training" categories. (*Id.*)

39. Staff indicated that Eagletail had no delinquent Commission compliance items as of January 19, 2012, according to the Commission's Compliance Section database. (*Id.* at 8.)

40. According to Staff, Eagletail's water system consists of one well, one pressure tank, one storage tank, two booster pumps, chlorination equipment, and a distribution system that served

57 customers during the test year. Staff concluded that the Company has adequate production and storage capacity to serve its existing customer base and reasonable growth. (*Id.* at 1, 7.)

41. Staff indicated that the Company has approved Backflow Prevention and Curtailment Plan tariffs on file with the Commission. (*Id.* at 10.)

42. Following is a summary of Staff's recommendations, as described in the Rate Application Staff Report:

- Commission approval of Staff's proposed rates and charges, as set forth in Schedule DRE-4 to the Staff Report; and authorization for the Company to collect those rates and charges, as well a proportionate share of any privilege, sales, or use tax, as provided for in A.A.C. R14-2-409.D.
- Eagletail be required to file with Docket Control, as a compliance item in this docket, within 30 days of the effective date of this Decision, a tariff schedule of its new rates and charges.
- Eagletail be required to apply to ADEQ and WIFA for technical system evaluation and grant program funding, and to file with Docket Control within 180 days of the effective date of this Decision, as a compliance item in this docket, documentation demonstrating that the Company made the appropriate applications to ADEQ and/or WIFA for the evaluation and funding.
- Eagletail be required to file with Docket Control within 90 days of the effective date of this Decision, as a compliance item in this docket, at least three BMPs in the form of tariffs that substantially conform to Staff's BMP templates, for Staff's review and consideration; and that a maximum of two of the BMPs come from the "Public Awareness/Public Relations" or "Education and Training" categories.
- Commission approval of the typical and customary depreciation rates, as set forth in Table B of Section H of the Staff Engineering Report.
- Commission approval of the separate installation charges for service line and meter installation, as set forth in Table C of Section I of the Staff Engineering Report. (Staff Report, at 11.)

43. As indicated above, Eagletail did not file any comments or objections to any of Staff's proposed rates, charges and recommendations regarding the Rate Application.

FINANCING APPLICATION

44. In its Financing Application, Eagletail requested authority to obtain a 20-year amortizing loan from WIFA in order to repair the Company's failing well pump. Eagletail estimates that the well repairs would cost approximately $65,000.

45. Based on its review, Staff determined that the proposed well rehabilitation project is

appropriate and the proposed cost is reasonable under the circumstances. However, Staff indicated that no used and useful determination of the proposed plant was made, and no particular future treatment should be inferred for ratemaking or rate base purposes. (Supp. Staff Report, at 1-2.)

46. Staff indicated that Eagletail's existing capital structure, as of December 31, 2010, consisted of $5,150 short term debt, $50,167 long-term debt, and negative equity of $27,848. After the issuance of the proposed $65,000 loan, Eagletail's pro forma capital structure would consist of $7,202 short-term debt, $113,116 long-term debt, and $27,848 negative equity. (*Id.* at 3.)

47. Staff's pro forma DSC analysis indicates that with the recommended revenue increase of $40,863 in permanent rates, $5,213 of additional revenue is needed to achieve a DSC of 1.25, assuming a 20-year amortizing loan at an interest rate of 4.5 percent. Staff states that with this additional revenue, the Company would have the ability to meet all of its obligations including WIFA's requirement to fund a Debt Service Reserve Fund equal to 20 percent of debt service. (*Id.*)

48. According to Staff, an infrastructure surcharge is typically recommended to pay for debt service that is incurred for necessary capital improvements when cash flow from base rates is insufficient. Staff calculated that the estimated monthly surcharge needed to provide the additional $5,213 of revenue to service the WIFA loan would be $5.08 for 5/8-inch x ¾-inch meters (8 customers); $7.62 for ¾-inch meters (45 customers); and $12.70 for 1-inch meters (4 customers). Combining Staff's recommended $40,863 increase in base revenues with the proposed infrastructure surcharge would increase typical monthly bills for ¾-inch meter customers, with average usage of 5,721 gallons per month, by $14.07, or 27.5 percent, from the current $51.17 to $65.24. (*Id.*)

49. With respect to Eagletail's Financing Application, Staff made the following recommendations:

- Grant authorization for Eagletail to incur an 18- to 20-year amortizing loan in an amount not to exceed $65,000, at an interest rate not exceeding the available WIFA rate, for purposes of financing the proposed rehabilitation of the Company's well.
- Establish an expiration date of 24 months from the effective date of this Decision for authorization to incur any unused portion of the authorized debt.
- Grant authorization to charge an infrastructure surcharge to be effective upon subsequent Commission approval.

- Direct Eagletail to file as a compliance item in this docket, within 30 days of the execution of any financing transaction authorization, confirmation of execution of the financing transaction and certification by an authorized Company representative that the terms of the financing comply with the authorizations granted.
- Direct Eagletail to file in this docket, upon filing of the loan closing notice and the provision of the loan documents to Staff, an application requesting to implement an associated surcharge.
- Direct Staff to calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration within 30 days of the filing of a surcharge implementation request by the Company, and for Staff to calculate the surcharge based on the actual loan debt service (principal and interest) payments using the current customer count at the time of the loan closing.[3]
- Authorize Eagletail to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.
- Authorize Eagletail to engage in any transaction and execute any documents necessary to effectuate the authorization granted.
- Authorize Eagletail to make monthly adjustments to its rates and charges via a Water Hauling Surcharge to recover the costs incurred for bulk water purchases and transportation ("Water Hauling Costs") in the event the Company experiences extreme water shortages requiring the hauling of water from other sources. The Water Hauling Surcharge would be calculated on a rate per 1,000 gallons as follows: the total Water Hauling costs incurred in a given month divided by the total amount of water sold (in thousands) in that month. The method for customer billing would be: apply the surcharge rate to the actual gallons (in thousands) sold to each customer in that month to arrive at that customer's surcharge amount, which will appear as a separate line item on the customer's bill the following month.
- Adopt the Staff recommendations set forth in the original Staff Report filed on February 22, 2012.

Staff's Status Update

50. As stated above, Staff filed an update on Eagletail's status on May 4, 2012, indicating that the complete failure of the Company's only well pump has created an emergency that requires immediate attention. Staff stated that the Company has provided four notices to customers requesting that they conserve water as much as possible; informing them that water hauling was necessary

[3] The Supplemental Staff Report included duplicate recommendations on this issue with either 30 or 60 day requirements. (Supp. Staff Report, at 4.) Given the urgency of the Company's current situation, we will adopt the 30-day requirement for Staff to calculate the appropriate WIFA surcharge and submit a recommended order.

because of the pump failure; urging them to boil water before drinking; and informing them that a loan to fund the well repairs was being requested. (Staff Update, at 1.)

51. According to Staff, Eagletail is currently being provided with water hauled by the local fire department to the Company's storage tank. The fire department is currently hauling approximately 17,000 gallons per day, without charge, except for transportation costs. (*Id.* at 2.) Staff indicates that the hauled water is being pumped from a nearby farm and is not certified as potable water; however, Eagletail's operator has been chlorinating and testing the water before it is distributed to customers. Staff states that it communicated with the Maricopa County Environmental Services Department ("MCESD") on May 3, 2012, and MCESD indicated that Eagletail's current receipt of water hauled by the fire department is not acceptable and the Company must begin using a certified water hauler. MCESD has provided Eagletail with an additional notice to provide to customers that instructs customers to drink only bottled water. (*Id.*)

52. Staff states the final cost of the well pump repairs may be less than the $65,000 estimate because the vendor's estimate was based on using an 8-inch casing, but the well currently has only a 6-inch casing which may be less expensive to repair. Staff inquired whether the vendor may be able to begin the well repairs prior to Eagletail obtaining the proposed WIFA loan. The Company informed Staff that although the vendor is doing his best to work with the Company, the vendor is not financially able to front the funds necessary to purchase the necessary parts. (*Id.* at 3.)

53. The Staff Update states that Eagletail's pump repair request is on WIFA's Project Priority List, and that WIFA intended to visit the Company on May 7, 2012, and assist it in completing the loan application. Although the loan application deadline for WIFA's June 2012 board meeting has already passed, given the urgency of the situation WIFA indicated that it will attempt to have the matter considered at the June board meeting if Commission approval of the financing request is expedited. (*Id.*)

54. We find, for the reasons described in Staff's May 4, 2012 Update, that an emergency exists with respect to the Eagletail's operations that justifies immediate action to approve the Company's financing request and Staff's recommended Water Hauling Surcharge. As described in Staff's May 4, 2012 report, Eagletail's well pump is completely inoperable and the Company

currently has no alternative to hauling water in order to provide service to customers. Moreover, MCESD has determined that the current temporary arrangement, whereby the local fire department is hauling water from a nearby farm's well, is not acceptable and the Company must obtain water from a certified water hauler, which will result in significant expenses being incurred by the Company until its well can be repaired. We find that in order to provide funds on an expedited basis, and as a means of mitigating the emergency conditions that currently exist on Eagletail's system, it is necessary to approve Staff's recommended Water Hauling Surcharge. Once enacted, the Water Hauling Surcharge should be calculated in the manner described above in Staff's recommendations.

55. Staff's recommendations regarding Eagletail's Financing Application are reasonable and should be approved.

CONCLUSIONS OF LAW

1. Eagletail is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-302, and 40-303.

2. The Commission has jurisdiction over the Company and the subject matter of the applications.

3. Notice of the applications was given in accordance with the law.

4. The rates and charges discussed and authorized herein are just and reasonable and should be approved.

5. The financing approved herein is for lawful purposes within Eagletail's corporate powers, is compatible with the public interest, with sound financial practices and with the proper performance by Eagletail's of service as a public service corporation and will not impair the Company's ability to perform that service.

6. The financing approved herein is for the purposes stated in the application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

7. Staff's recommendations regarding the Rate and Financing Applications, as discussed herein, are reasonable and should be adopted.

8. An emergency exists with respect to the Eagletail's operations that justifies immediate

action to approve the Company's financing request and Staff's recommended Water Hauling Surcharge.

ORDER

IT IS THEREFORE ORDERED that Eagletail Water Company, L.L.C., is hereby directed to file with Docket Control, as a compliance item in this docket, by no later than May 31, 2012, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:	
5/8" x 3/4" Meter	$27.00
3/4" Meter	30.00
1" Meter	45.00
1 ½" Meter	150.00
2" Meter	240.00
3" Meter	480.00
4" Meter	750.00
6" Meter	1,500.00
Commodity Charge (Per 1,000 gallons)	
5/8" x ¾" Meter (Residential/Commercial)	
0 – 3,000	$3.90
3,001 – 15,000	5.85
Over 15,000	7.10
¾" Meter	
0 – 3,000	$3.90
3,001 – 15,000	5.85
Over 15,000	7.10
1" Meter	
0 – 14,000	$5.85
Over 14,000	7.10
1 1/2" Meter	
0 – 28,000	$5.85
Over 28,000	7.10
2" Meter	
0 – 56,000	$5.85
Over 56,000	7.10
3" Meter	
0 – 120,000	$5.85
Over 120,000	7.10
4" Meter	
0 – 285,000	$5.85
Over 285,000	7.10
6" Meter	

0 – 640,000	$5.85
Over 640,000	7.10
Standpipe, Bulk Water	$7.10

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

	Service Line	Meter	Total Charges
5/8" x 3/4" Meter	$350.00	$90.00	$440.00
3/4" Meter	350.00	160.00	510.00
1" Meter	380.00	210.00	590.00
1-1/2" Meter	430.00	395.00	825.00
2" Meter	630.00	785.00	1,415.00
3" Meter	810.00	1,295.00	2,105.00
4" Meter	1,120.00	2,000.00	3,120.00
6" Meter	1,740.00	3,975.00	5,715.00

SERVICE CHARGES:

Establishment	$40.00
Reconnection (Delinquent)	$35.00
Meter Test (If Correct)	$30.00
Deposit	*
Deposit Interest	*
Re-establishment (Within 12 months)	**
NSF Check	$30.00
Deferred Payment	***
Meter Re-Read (If Correct)	$20.00
Late Payment Charge-Per Month	1.50%
Service Charge (After Hours)	$25.00
4" or Smaller	****
6"	****
8"	****
10"	****
Larger than 10"	****

* Per Commission Rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after June 1, 2012.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., shall notify its customers of the authorized rates and charges approved herein, and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly

scheduled billing, and shall file copies with Docket Control within 10 days of the date notice is sent to its customers, as a compliance item in this docket.

IT IS FURTHER ORDERED that, in addition to collection of its regular rates and charges, Eagletail Water Company, L.L.C., shall collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., shall apply to ADEQ and WIFA for technical system evaluation and grant program funding, and shall file with Docket Control within 180 days of the effective date of this Decision, as a compliance item in this docket, documentation demonstrating that the Company made the appropriate applications to ADEQ and/or WIFA for the evaluation and funding.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., shall file with Docket Control within 90 days of the effective date of this Decision, as a compliance item in this docket, at least three BMPs in the form of tariffs that substantially conform to Staff's BMP templates, for Staff's review and consideration; and that a maximum of two of the BMPs come from the "Public Awareness/Public Relations" or "Education and Training" categories.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., shall use the depreciation rates set forth in Table B of Section H of the Staff Engineering Report.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., is hereby authorized to incur an 18- to 20-year amortizing WIFA loan in an amount not to exceed $65,000, at an interest rate not exceeding the available WIFA rate, for purposes of financing the proposed rehabilitation of the Company's well.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., shall file with Docket Control within 30 days of the loan closing, as a compliance item in this docket, copies of the fully executed financing documents.

IT IS FURTHER ORDERED that the loan authorization shall have an expiration date of 24 months from the effective date of this Decision to incur any unused portion of the authorized debt.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., is hereby authorized to charge an infrastructure surcharge to be effective upon subsequent Commission approval.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., shall file with Docket Control, as a compliance item in this docket, within 30 days of the execution of any financing transaction, confirmation of execution of the financing transaction and certification by an authorized Company representative that the terms of the financing comply with the authorizations granted herein.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., shall file with Docket Control, as a compliance item in this docket, upon filing of the loan closing notice and the provision of the loan documents to Staff, an application requesting implementation of an associated surcharge.

IT IS FURTHER ORDERED that Staff shall calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration within 30 days of the filing of a surcharge implementation request by the Company. Staff shall calculate the surcharge based on the actual loan debt service (principal and interest) payments using the current customer count at the time of the loan closing.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., is authorized to grant liens in favor of the lender as required to secure the financings authorized.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., is hereby authorized to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted above.

IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., is authorized to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.

IT IS FURTHER ORDERED that the financing authority granted herein is expressly contingent upon Eagletail Water Company, L.L.C.'s use of the proceeds for the purposes set forth in the application.

IT IS FURTHER ORDERED that approval of the financing set forth herein does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that Staff's recommended Water Hauling Surcharge is hereby

approved and Eagletail Water Company, L.L.C., shall, within 30 days of the effective date of this Decision, prepare and file with Docket Control, as a compliance item in this docket, a tariff in accordance with Staff's recommendation. Once implemented, Eagletail shall make monthly adjustments to its rates and charges via a Water Hauling Surcharge to recover the costs incurred for bulk water purchases and transportation in the event the Company experiences extreme water shortages requiring the hauling of water from other sources. The Water Hauling Surcharge shall be calculated on a rate per 1,000 gallons as follows: the total water hauling costs incurred in a given month divided by the total amount of water sold (in thousands) in that month. The method for customer billing would be: apply the surcharge rate to the actual gallons (in thousands) sold to each customer in that month to arrive at that customer's surcharge amount, which will appear as a separate line item on the customer's bill the following month. Notice of the Water Hauling Surcharge shall be provided in a form acceptable to Staff.

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IT IS FURTHER ORDERED that Eagletail Water Company, L.L.C., shall file annually, as part of its annual report, an affidavit with the Commission's Utilities Division attesting that it is current in paying its property taxes in Arizona.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

SERVICE LIST FOR: EAGLETAIL WATER COMPANY, L.L.C.

DOCKET NOS.: W-03936A-11-0418 and W-03936A-12-0073

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