

ORIGINAL

OPEN MEETING



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MEMORANDUM

RECEIVED

Arizona Corporation Commission

DOCKETED

2012 SEP 19 P 4: 34

TO: THE COMMISSION

FROM: Utilities Division

SEP 19 2012

DATE: September 19, 2012

DOCKETED BY [Signature]

CORP COMMISSION
DOCKET CONTROL

RE: IN THE MATTER OF THE APPLICATION OF ORANGE GROVE WATER COMPANY, INC.'S APPLICATIONS FOR A PERMANENT RATE INCREASE AND A FINANCING APPROVAL. (DOCKET NOS. W-02237A-11-0180 AND W-02237A-11-0084)

I. Introduction and Background

Orange Grove Water Company, Inc. ("Orange Grove" or "Company") is a Class D water utility that provides water service to approximately 303 metered customers in Yuma County, Arizona. The current rates were authorized in Decision No. 72734, dated January 6, 2012. In addition, Decision No. 72734, authorized, a \$30,000 Water Infrastructure Finance Authority ("WIFA") loan needed to install an on-site emergency generator and a WIFA loan surcharge recovery mechanism that would enable Orange Grove to pay for the loan.

Decision No. 72734 ordered Orange Grove to file with Docket Control, within 60 days of closing the WIFA loan, an application using actual loan amounts, based on the methodology set forth in Exhibit A of the Decision, requesting implementation of a WIFA debt surcharge.

On July 31, 2012, the Company filed the required loan documentation for the \$30,000 WIFA loan. Also on July 31, 2012, the Company filed an application for implementation of a financing surcharge.

II. Review of WIFA Loan Surcharge Calculation Methodology

Based on the actual \$30,000 WIFA loan and the 4.2 percent interest rate, the Company requires an additional \$2,501.25 annually to pay for principal, interest, and income tax on the loan. To collect the \$2,501.25, the Company proposes a monthly WIFA loan surcharge of \$0.69 for a customer with a 5/8 x 3/4-inch meter, as shown in Schedule CSB-1. Staff has reviewed the Company's methodology of calculating the WIFA loan surcharge as ordered in Decision No. 72734. Staff concludes that the Company has correctly calculated the surcharge and recommends adoption.

When the \$0.69 WIFA loan surcharge is implemented, the typical bill for a 5/8 x 3/4-inch meter residential customer with a median usage of 6,611 gallons will increase by \$0.69 or 2.5 percent, from \$28.08 to \$28.77 as shown on Schedule CSB-2.

Staff recommends approval of the WIFA Loan surcharges presented below:

MONTHLY WIFA LOAN SURCHARGE

5/8 x 3/4-Inch Meter	\$ 0.69
3/4-Inch Meter	\$ 1.03
1-Inch Meter	\$ 1.72
1 1/2-Inch Meter	\$ 3.44
2-Inch Meter	\$ 5.50
3-Inch Meter	\$10.32
4-Inch Meter	\$17.20
6-Inch Meter	\$34.40

Staff recommends that the Company be required to file with the Commission a WIFA debt surcharge tariff consistent with the rates reflected above.

Staff recommends that the Company notify its customers of the WIFA Loan surcharge tariff approved herein within 30 days of the effective date of the Decision in this proceeding.

IV. Conclusions and Recommendations

Staff concludes that the Company has filed the required loan documentation pursuant to Decision No. 72734.

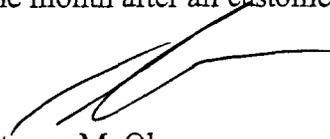
Staff concludes that authorization of a WIFA loan surcharge that includes the debt service costs on the financing is appropriate.

Staff recommends approval of a WIFA loan surcharge comprised of the monthly customer components presented in Schedule CSB-1.

Staff recommends that the Company file within 30 days of a Decision in this matter a WIFA loan surcharge tariff consistent with the rates reflected on Schedule CSB-1.

Staff recommends that the Company notify its customers, in a form acceptable to Staff, of the WIFA loan surcharge tariff approved herein within 30 days of the effective date of the Decision in this proceeding.

Staff recommends that the WIFA loan surcharge be applied to customers' bills beginning the month after all customers have been notified.



Steven M. Olea
Director
Utilities Division

SMO:CSB:sms\WVC

ORIGINATOR: Crystal S. Brown

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF ORANGE GROVE
WATER COMPANY, INC.'S APPLICATION
FOR IMPLEMENTATION OF FINANCING
SURCHARGE

DOCKET NOS. W-02237A-11-0180
W-02237A-11-0084

DECISION NO. _____

ORDER

Open Meeting
October 4, 2012
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On January 6, 2012, the Commission issued Decision No. 72734 establishing new rates for Orange Grove Water Company, Inc. ("Orange Grove" or "Company") and authorizing long-term debt financing in the amount of \$30,000.

2. Decision No. 72734 ordered Orange Grove to file with Docket Control, within 60 days of closing the Water Infrastructure Finance Authority ("WIFA") loan, an application using actual loan amounts, based on the methodology set forth in Exhibit A of the Decision, requesting implementation of a WIFA debt surcharge.

...
...

1 3. Pursuant to Decision No. 72734, Orange Grove filed the required loan
2 documentation for the \$30,000 WIFA loan on July 31, 2012, with Docket Control. Also on July
3 31, 2012, the Company filed an application for implementation of a financing surcharge.

4

5 **Calculation of WIFA loan Surcharge**

6 4. Decision No. 72734 ordered that, upon the Company's filing of the appropriate
7 WIFA loan documentation, Staff shall calculate the actual WIFA loan surcharge and file the
8 appropriate surcharge amount to be collected from the Company's customers according to their
9 meter size. The Company has filed the required loan documentation and Staff has calculated the
10 WIFA loan surcharge necessary to recover the debt service cost.

11 5. Based on the actual \$30,000 WIFA loan and the 4.2 percent interest rate, the
12 Company requires an additional \$2,501.25 annually to pay for principal, interest, and income tax
13 on the loan.

14 6. Staff has reviewed the Company's methodology of calculating the WIFA loan
15 surcharge as ordered in Decision No. 72734. Staff concludes that the Company has correctly
16 calculated the surcharge and recommends adoption of the Company proposed surcharge.

17 7. When the \$0.69 WIFA loan surcharge is implemented, the typical bill for a 5/8 x
18 3/4-inch meter residential customer with a median usage of 6,611 gallons will increase by \$0.69 or
19 2.5 percent, from \$28.08 to \$28.77.

20 8. Staff recommends approval of the WIFA loan surcharges presented below:

21 **MONTHLY WIFA LOAN SURCHARGE**

22	5/8 x 3/4-Inch Meter	\$ 0.69
	3/4-Inch Meter	\$ 1.03
23	1-Inch Meter	\$ 1.72
	1 1/2-Inch Meter	\$ 3.44
24	2-Inch Meter	\$ 5.50
	3-Inch Meter	\$ 10.32
25	4-Inch Meter	\$ 17.20
	6-Inch Meter	\$ 34.40

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1 9. Staff recommends the Company be required to notify its customers of the WIFA
2 loan surcharge tariff approved herein within 30 days of the effective date of the Commission
3 Decision, in this proceeding.

4 10. We find that Staff's conclusions and recommendations are reasonable and should
5 be adopted.

6 CONCLUSIONS OF LAW

7 1. The Company is a public service corporation within the meaning of Article XV of
8 the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

9 2. The Commission has jurisdiction over the Company and of the subject matter of the
10 application.

11 3. Approval of a WIFA loan surcharge is consistent with the Commission's authority
12 under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

13 4. It is in the public interest to approve the Company's request for implementation of
14 the WIFA loan surcharge as discussed herein.

15 ORDER

16 IT IS THEREFORE ORDERED that the application by Orange Grove Water Company,
17 Inc. for the implementation of its WIFA loan surcharge mechanism is approved as discussed
18 herein.

19 IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. is hereby
20 authorized and directed to file with the Commission's Docket Control, as a compliance item in this
21 docket, within 30 days of the effective date of this Decision, a revised tariff setting forth the
22 following WIFA loan surcharges:

23 MONTHLY WIFA LOAN SURCHARGE

24	5/8 x 3/4-Inch Meter	\$ 0.69
	3/4-Inch Meter	\$ 1.03
25	1-Inch Meter	\$ 1.72
	1 1/2-Inch Meter	\$ 3.44
26	2-Inch Meter	\$ 5.50
	3-Inch Meter	\$ 10.32
27	4-Inch Meter	\$ 17.20
28	6-Inch Meter	\$ 34.40

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IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. shall notify its customers, in a form acceptable to Staff, of the WIFA loan surcharge tariff approved herein within 30 days of the effective date of this Decision.

IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. shall apply the WIFA loan surcharge to customers' bills beginning the month after all customers have been notified.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

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

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:CSB:sms\WVC

1 SERVICE LIST FOR: Orange Grove Water Company, Inc.
2 DOCKET NOS. W-02237A-11-0180 and W-02237A-11-0084

3 Ms. Kathleen Day, President
4 Orange Grove Water Company, Inc
5 PO Box 889
6 Yuma, Arizona 85366

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8 Chief Counsel, Legal Division
9 Arizona Corporation Commission
10 1200 West Washington Street
11 Phoenix, Arizona 85007

12 Steven M. Olea
13 Director, Utilities Division
14 Arizona Corporation Commission
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SCHEDULE CSB-1

WIFA LOAN SURCHARGE CALCULATION - EXAMPLE

Loan Amount: \$30,000
 Term: 20 Years
 Interest Rate Before Subsidy: 4.20%
 WIFA Subsidy Rate: 100%
 WIFA Interest rate (9.25% x 100%): 4.200% If interest rate is not found on TABLE A, use the next highest percentage

Step 1 - Find the Annual Payment on Loan

\$30,000 Total Amount of Loan
 0.0743 TABLE A, Conversion Factor Table, Column B
 \$2,229.00 Annual Principle and Interest Payment

Step 2 - Find the Annual Interest Payment on Loan

\$30,000 Total Amount of Loan
 0.0418 TABLE A, Conversion Factor Table, Column C
 \$1,254.00 Annual Interest Payment on Debt

Step 3 - Find the Annual Principal Payment on Loan

\$30,000 Total Amount of Loan
 0.0324 TABLE A, Conversion Factor Table, Column D
 \$972.00 Annual Principal and Interest Payment

Step 4 - Find the Gross Revenue Conversion Factor

1.283183245

Step 5 - Find the Incremental Income Tax Factor

1.28318 minus 1 = 0.28318

Step 6 - Find the Annual Income Tax Component of Surcharge Revenue

0.28318 Incremental Income Tax Factor (from Step 5)
 \$972.00 Multiplied by: Annual Principal Payment on Loan (from Step 3)
 \$275.25 Annual Income Tax Component of the Annual Surcharge Revenue

Step 7 - Find the Debt Service Component of the Annual Surcharge Revenue

\$1,254.00 Annual Interest Payment on Debt (from Step 2)
 \$972.00 Plus: Annual Principal Payment (from Step 3)
 \$2,226.00 Debt Service Component of the Annual Surcharge Revenue

Step 8 - Find the Annual Surcharge Revenue Requirement Needed for the Loan

\$275.25 Annual Income Tax Component of the Annual Surcharge Revenue (from Step 6)
 \$2,226.00 Plus: Debt Service Component of the Annual Surcharge Revenue (from Step 7)
 \$2,501.25 Total Annual Surcharge Revenue Requirement for the Loan

Step 9 - Find the Equivalent Bills

Equivalent Bills				
Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Multiplier	Number of Customers	Number of Months in Year	Equivalent Bills Col B x C x D
5/8" x 3/4" Meter	1	303	12	3,636
3/4" Meter	1.5	0	12	-
1" Meter	2.5	0	12	-
1 1/2" Meter	5	0	12	-
2" Meter	8	0	12	-
3" Meter	15	0	12	-
4" Meter	25	0	12	-
6" Meter	50	0	12	-
		303		3,636

Step 10 - Find the Monthly Surcharge for the 5/8" x 3/4" Meter Size Customers

\$2,501.25 Total Annual Surcharge Revenue Requirement for the Loan (from Step 8)
 3,636 Divided by: Total Number of Equivalent Bills
 \$ 0.69 Monthly Surcharge for 3/4" Customers

Step 11 - Find the Monthly Surcharge for the Remaining Meter Size Customers

Equivalent Bills				
Col A	Col B	Col C	Col D	
Meter Size	NARUC Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C	
5/8" x 3/4" Meter	1	\$ 0.69	\$ 0.69	
3/4" Meter	1.5	\$ 0.69	\$ 1.03	
1" Meter	2.5	\$ 0.69	\$ 1.72	
1 1/2" Meter	5	\$ 0.69	\$ 3.44	
2" Meter	8	\$ 0.69	\$ 5.50	
3" Meter	15	\$ 0.69	\$ 10.32	
4" Meter	25	\$ 0.69	\$ 17.20	
6" Meter	50	\$ 0.69	\$ 34.40	

Orange Grove Water Company
 Docket Nos. W-02237A-11-0084 & W-02237A-11-0180
 Test Year Ended December 31, 2010

Schedule CSB-1
 Page 2 of 2

TABLE A
Conversion Factor Table (Based on a 20-year Loan)

Line No.	Column A Annual Interest	Column B Annual Payment Conversion Factor	Column C Annual Interest Payment Conversion Factor	Column D Annual Principal Payment Conversion Factor
1	3.50%	0.0696	0.0344	0.0352
2	3.75%	0.0711	0.0369	0.0342
3	4.00%	0.0727	0.0394	0.0333
4	4.25%	0.0743	0.0419	0.0324
5	4.50%	0.0759	0.0444	0.0316
6	4.75%	0.0775	0.0468	0.0307
7	5.00%	0.0792	0.0493	0.0299
8	5.25%	0.0809	0.0518	0.0291
9	5.50%	0.0825	0.0543	0.0283
10	5.75%	0.0843	0.0568	0.0275
11	6.00%	0.0860	0.0593	0.0267
12	6.25%	0.0877	0.0618	0.0259
13	6.50%	0.0895	0.0643	0.0252
14	6.75%	0.0912	0.0668	0.0245
15	7.00%	0.0930	0.0692	0.0238
16	7.25%	0.0948	0.0717	0.0231
17	7.50%	0.0967	0.0742	0.0224
18	7.75%	0.0985	0.0767	0.0218
19	8.00%	0.1004	0.0792	0.0211

SCHEDULE CSB-2

Orange Grove Water Company
 Docket Nos. W-02237A-11-0084 & W-02237A-11-0180
 Test Year Ended December 31, 2010

Schedule CSB-2

TYPICAL BILL ANALYSIS

Residential Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 303

Staff and Company Proposed	Gallons	Present Rates	Present Rates	Dollar Increase	Percent Increase
		Without \$0.69 Surchage	With \$0.69 Surchage		
Average Usage	7,727	\$31.15	\$31.84	\$0.69	2.2%
Median Usage	6,611	\$28.08	\$28.77	\$0.69	2.5%

Present Rates
 Residential 5/8 x 3/4 Inch Customers

Gallons Consumption	Present Rates Without Surchage	Present Rates With Surchage	% Increase
0	\$12.15	\$12.84	5.7%
1,000	14.15	14.84	4.9%
2,000	16.15	16.84	4.3%
3,000	18.15	18.84	3.8%
4,000	20.90	21.59	3.3%
5,000	23.65	24.34	2.9%
6,000	26.40	27.09	2.6%
7,000	29.15	29.84	2.4%
8,000	31.90	32.59	2.2%
9,000	35.21	35.90	2.0%
10,000	38.52	39.21	1.8%
15,000	55.07	55.76	1.3%
20,000	71.62	72.31	1.0%
25,000	88.17	88.86	0.8%
50,000	170.92	171.61	0.4%
75,000	253.67	254.36	0.3%
100,000	336.42	337.11	0.2%
125,000	419.17	419.86	0.2%
150,000	501.92	502.61	0.1%
175,000	584.67	585.36	0.1%
200,000	667.42	668.11	0.1%

Decision No. _____