

ORIGINAL

COMMISSIONERS  
BOB STUMP - Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

OPEN MEETING ITEM



0000148531

ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

SEP 26 2013

DATE: SEPTEMBER 26, 2013

DOCKET NO.: W-03718A-09-0359

DOCKETED BY *[Signature]*

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Yvette B. Kinsey. The recommendation has been filed in the form of an Order on:

SAHUARITA WATER COMPANY, LLC  
(MODIFYING DECISIONS NOS. 62032 AND 72177, PURSUANT TO  
A.R.S. § 40-252)

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:

OCTOBER 7, 2013

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:

OCTOBER 16, 2013 and OCTOBER 17, 2013

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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*Jodi A. Jerich*  
JODI JERICH  
EXECUTIVE DIRECTOR

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail [SBernal@azcc.gov](mailto:SBernal@azcc.gov).

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 BOB STUMP - Chairman  
4 GARY PIERCE  
5 BRENDA BURNS  
6 BOB BURNS  
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF  
9 SAHUARITA WATER COMPANY, LLC FOR A  
10 RATE INCREASE.

DOCKET NO. W-03718A-09-0359

DECISION NO. \_\_\_\_\_

**OPINION AND ORDER MODIFYING  
DECISIONS NOS. 62032 AND 72177,  
PURSUANT TO A.R.S. § 40-252**

11 DATE OF HEARING:

September 3, 2013

12 PLACE OF HEARING:

Tucson, Arizona

13 ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

14 APPEARANCES:

Lawrence V. Robertson, Jr, Attorney at Law,  
representing Sahuarita Water Company, LLC;  
and

15  
16 Wesley C. Van Cleve, Staff Attorney, Arizona  
17 Corporation Commission Legal Division on  
behalf of the Utilities Division.

18 **BY THE COMMISSION:**

19 \* \* \* \* \*

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

22 **FINDINGS OF FACT**

23 1. On October 30, 2012, Sahuarita Water Company, L.L.C. ("SWC" or "Company") filed a  
24 "Motion Pursuant to A.R.S. §40-252 for Order Altering And Amending Decision No. 62032 (And If  
25 Necessary, Decision No. 72177) ("§40-252 Motion").<sup>1</sup> SWC requested that the Commission re-open

26 \_\_\_\_\_  
27 <sup>1</sup> Filed in Docket Nos. W-02808A-99-0143 and W-03718A-99-0143, *In the Matter of the Joint Application of*  
28 *Interchange Water Company, Inc. and Rancho Sahuarita Water Company, L.L.C. For Approval of the Sale of Assets and*  
*Transfer of Certificate of Convenience and Necessity*. The Company originally filed an Application to modify its HUFs as  
a new matter on October 26, 2012. Following discussions with the Commission's Utilities Division ("Staff"), it was

1 its earlier Decisions in order to consider SWC's Application to amend its Offsite Facilities Hook-Up  
2 Fees ("HUFs").

3 2. The existing HUFs were developed by Staff and presented in a Staff Memorandum dated  
4 August 20, 1999, which was filed in Docket Nos. W-02808A-99-0143 and W-03718A-99-0143. The  
5 Commission adopted Staff's recommendations in Decision No. 62032 (November 2, 1999).<sup>2</sup>

6 3. The Commission reaffirmed the HUFs unchanged in Decision No. 72177 (February 11,  
7 2011), which was SWC's last rate case.<sup>3</sup>

8 4. SWC's current HUFs and the revised fees it proposed in its Application are as follows:<sup>4</sup>

<u>Meter Size</u>	<u>Current</u>	<u>Proposed</u>
5/8" x 3/4"	\$350.00	\$1,500.00
3/4"	420.00	1,800.00
1"	700.00	3,000.00
1 1/2"	1,400.00	6,000.00
2"	2,200.00	9,600.00
3"	4,200.00	18,000.00
4"	7,000.00	30,000.00
6" or greater	14,000.00	60,000.00

19  
20 5. At an Open Meeting on February 11, 2013, the Commission voted pursuant to A.R.S.  
21 §40-252 to reopen Decision No. 72177 (February 11, 2011) and Decision No. 62032 (November 2,  
22 1999) (Docket Nos. W-02808A-99-0143 and W-03718A-99-0143), in order to consider SWC's  
23 request to modify its HUFs. The Commission directed the Hearing Division to conduct a Procedural

24 determined that it would be necessary to reopen the proceeding in which the HUFs were originally approved as well as  
25 the last rate case. Transcript of the September 3, 2013 Hearing ("Tr.") at 6.

26 <sup>2</sup> In these dockets, the Commission approved the sale of assets and transfer of the Certificate of Convenience and  
Necessity ("CC&N") from Interchange Water Company, Inc., to Rancho Sahuarita Water Company, LLC. Subsequently,  
Rancho Sahuarita Water Company, LLC transferred its CC&N to Sahuarita Water Company, LLC. See Decision No.  
27 70620 (November 19, 2008).

<sup>3</sup> In SWC's last rate case neither SWC nor Staff proposed any changes to the HUFs and Decision No. 72177 makes no  
28 mention of them.

<sup>4</sup> §40-252 Motion at 2.

1 ...

2 Conference in order to discuss procedures that would allow for the request to be processed and  
3 brought for a Commission decision.<sup>5</sup>

4 6. By Procedural Order dated March 13, 2013, the Hearing Division scheduled a  
5 telephonic Procedural Conference for March 26, 2013. On March 20, 2013, the parties jointly  
6 requested that the March 26, 2013, Procedural Conference be continued approximately 60 days in  
7 order to allow them to engage in settlement discussions.

8 7. By Procedural Order dated March 21, 2013, a telephonic Procedural Conference was  
9 set for May 29, 2013. Subsequently, by Procedural Order dated May 24, 2013, the Procedural  
10 Conference was rescheduled for May 28, 2013, to accommodate a scheduling conflict.

11 8. At the May 28, 2013, Procedural Conference the parties reported that they had reached  
12 an agreement that would settle this matter and that they expected to file an executed Settlement  
13 Agreement shortly. Staff recommended that because this matter resulted in a Settlement Agreement,  
14 and affects rates and charges, that an evidentiary hearing would be appropriate. The Company did not  
15 necessarily agree with the need for a hearing, but did not oppose Staff's recommendation.<sup>6</sup>

16 9. On May 29, 2013, Staff filed Notice of Filing Settlement Agreement and attached a  
17 fully executed copy of an Agreement which incorporates a proposed HUF Tariff. A copy of the  
18 Settlement Agreement is attached hereto as Exhibit A.

19 10. In a telephonic Procedural Conference on June 27, 2013, the parties appeared to  
20 discuss the method and form of providing notice and the timing of the hearing. Staff recommended  
21 publishing notice in a local newspaper, while the Company proposed mailing notice to developers  
22 who would be impacted by the HUF tariff. The method for disseminating notice was taken under  
23 advisement and SWC and Staff agreed to draft a proposed form of public notice.

24 11. On July 16, 2013, the Company filed a proposed form of public notice, which had  
25 been vetted by Staff.

26

27 <sup>5</sup> In the February 11, 2013 Open Meeting, the Commissioners discussed two options for resolving this matter including a  
Staff Report and Staff-prepared Order or a Recommended Opinion and Order prepared following a hearing, but left the  
28 specifics of how to proceed to the discretion of the parties and Hearing Division.

<sup>6</sup> Transcript of May 28, 2013 Procedural Conference at 8.



1           17.     The Company's analysis of the need to increase its HUFs was based on a review of the  
2 Company's 2011 Water System Updated Master Plan dated August 2012 prepared by Westland  
3 Resources, Inc. ("Westland"); review of backbone infrastructure budgets and cost estimates prepared  
4 by the Company and Westland; review of customer growth projections prepared by the Company;  
5 and review of projected levels of Contributions In Aid of Construction ("CIAC") and CIAC  
6 amortizations prepared by the Company.<sup>7</sup> Mr. Jones analyzed the Company's projected expenditures  
7 on off-site plant additions and the funding sources for those expenditures and projected rate base  
8 related to wells, storage tanks, booster pumping facilities, treatment facilities and transmission mains  
9 ("Off-Site Facilities"). The Company believes that the data supports the HUFs as proposed in its §40-  
10 252 Motion and initial Application.<sup>8</sup> However, because Staff informed the Company that the initially-  
11 proposed HUFs were in excess of what Staff could support, the Company determined to engage in  
12 settlement discussions.<sup>9</sup> Although the proposed Settlement Agreement results in HUF charges that are  
13 lower than those SWC originally proposed, the Company believes that the charges contained in the  
14 Settlement Agreement are supported by the data and are just and reasonable.<sup>10</sup>

15           18.     Mr. Jones testified that the "HUFs agreed to in the Settlement Agreement provide a  
16 necessary source of developer provided funds to help finance needed expansions in [SWC's] Off-Site  
17 Facilities"; and furthermore that the "use of developer provided funds decreases the amount of  
18 required rate relief in future rate cases and alleviates concern that existing customers are being asked  
19 to subsidize new growth."<sup>11</sup>

20           19.     The Company projects that growth in SWC's service area will increase in coming  
21 years, and believes that it is important to have the new HUFs in place prior to that growth wave in  
22 order to avoid having existing customers fund the costs of the plant needed to serve that growth.<sup>12</sup>

23           20.     Staff notes that the Settlement Agreement does not alter the fair value rate base  
24 ("FVRB") that was established in Decision No. 72177, and explains that revenue generated from off-

25 \_\_\_\_\_  
26 <sup>7</sup> Ex A-7 Jones Dir at 2-3; Tr. at 11.

<sup>8</sup> Ex A-7 Jones Dir at 5.

27 <sup>9</sup> Ex A-7 Jones Dir at 4; Tr. at 12.

<sup>10</sup> Ex A-7 Jones Dir at 6; Tr. at 12.

<sup>11</sup> Ex A-7 Jones Dir at 6; Tr. at 14-15.

28 <sup>12</sup> Tr. at 17.

1 site hook-up fees is not considered operating revenue, but is rather considered CIAC. As CIAC, the  
 2 fees can be collected and not affect FVRB until such time as those funds are expended on plant and  
 3 that plant is put into service. At that time, the appropriate CIAC amount off-sets plant-in-service so  
 4 that the utility does not earn a return on investments not funded by shareholders/owners.<sup>13</sup>

5 21. Staff believes that the Settlement Agreement treats fairly the interests of the Company  
 6 and its ratepayers, and that the HUFs are in the public interest because “the CIAC represented in  
 7 hook-up fees allows a utility to purchase plant for growth and expansion without unduly increasing  
 8 the return ratepayers fund in current rates for future growth.”<sup>14</sup> In addition, Staff states “it allows  
 9 developers to fund an appropriate portion of utility plant needed for expansion.”<sup>15</sup>

10 22. Staff agreed that from an engineering perspective, the Company’s initial proposal was  
 11 appropriate, but Staff was concerned that having 50 percent of construction costs funded by HUFs  
 12 was too high. Staff’s target is that HUFs should be closer to 30 percent of the equity portion of the  
 13 capital structure.<sup>16</sup>

14 23. The parties agreed that the settlement process was open and transparent, with both  
 15 parties having the opportunity to raise any issue and have their issues considered.<sup>17</sup>

16 24. The HUF Tariff contained in the Settlement Agreement conforms substantially to  
 17 Staff’s standard template HUF tariff and to other similar tariffs recently approved by the  
 18 Commission.<sup>18</sup>

19 25. The proposed HUFs in the Settlement Agreement more accurately reflect the current  
 20 construction costs for the anticipated Off-Site Facilities than do the current HUFs, and will more  
 21 likely avoid the situation in which HUFs are insufficient and existing ratepayers will need to  
 22 subsidize growth.<sup>19</sup> The proposed HUFs strike a balance between protecting current ratepayers from

23 ...

24 ...

25 <sup>13</sup> Ex S-1 Carlson Dir at 5.

26 <sup>14</sup> Ex S-1 Carlson Dir at 5.

27 <sup>15</sup> Ex S-1 Carlson Dir at 5; Tr. at 35

28 <sup>16</sup> Tr. at 38-39 and 41.

<sup>17</sup> Ex S-1 Carlson Dir at 2-3; Tr. at 42-43.

<sup>18</sup> Tr. at 13.

<sup>19</sup> Tr. at 16.

1 funding plant needed to serve future ratepayers and the goal of a financially healthy and reasonable  
2 FVRB.<sup>20</sup>

3 26. It is in the public interest to approve the Settlement Agreement and the incorporated  
4 HUF Tariff.

5 **CONCLUSIONS OF LAW**

6 1. SWC is a public service corporation pursuant to Article XV of the Arizona  
7 Constitution and A.R.S. §§ 40-250 and 40-251.

8 2. The Commission has jurisdiction over SWC and the subject matter of the application.

9 3. Notice of the application was provided in conformance with law.

10 4. The HUF Tariff incorporated in the Settlement Agreement between SWC and Staff is  
11 fair and reasonable and results in just and reasonable rates.

12 **ORDER**

13 IT IS THEREFORE ORDERED the Settlement Agreement attached hereto as Exhibit A,  
14 which modifies Sahuarita Water Company, Inc.'s Hook-up Fee Tariff, is hereby approved.

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28 <sup>20</sup> See Tr. at 24-26.

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IT IS FURTHER ORDERED that within fifteen days of the effective date of this Decision, Sahuarita Water Company, LLC shall file as a compliance item in this docket, an Off-Site Facilities Hook-up Fee Tariff that conforms to the Tariff set forth in the Settlement Agreement.

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, JODI JERICH, 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 \_\_\_\_\_ 2013.

\_\_\_\_\_  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_  
JR:ru

1 SERVICE LIST FOR: SAHUARITA WATER COMPANY, LLC

2 DOCKET NO.: W-03718A-09-0359

3 Lawrence V. Robertson Jr.  
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17 Utilities Division  
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19 1200 W. Washington Street  
20 Phoenix, Arizona 85007

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## EXHIBIT A

**SETTLEMENT AGREEMENT**

The purpose of this Settlement Agreement ("Agreement") is to settle the issue regarding modification of Sahuarita Water Company L.L.C.'s ("SWC") Hook Up Fees ("HUF") originally established in Decision No. 62032, Docket No. W-02808A-99-0143, Sale of assets & transfer of CC&N from Interchange Water Company, Inc. to Rancho Sahuarita Water Company L.L.C. (the "Docket" or "Rate Case"). This Agreement is entered into by SWC and Arizona Corporation Commission Utilities Division ("Staff"), the only two parties to this Docket (a "Party", or collectively, the "Parties").

**Terms And Conditions**

In consideration of the promises and agreements contained herein, the Parties agree that each of the following numbered sections and subsections comprise the Parties' Agreement.

1. **Recitals**
  - 1.1 On October 31, 2012, SWC filed with the Commission a Motion Pursuant to A.R.S. §40-252 for an Order Altering and Amending Decision No. 62032 (and, if Necessary, Decision No. 72177) in Docket No. W-02808A-99-0143 and W-03718A-99-0143.
  - 1.2 On February 11, 2013, at an Open Meeting, The Arizona Corporation Commission ("Commission") voted pursuant to A.R.S. §40-252 to reopen Decision No. 72177 and Decision No. 62032 in order to consider the request of SWC to modify its HUF.
  - 1.3 The Commission directed the Hearing Division to conduct a Procedural Conference in order to discuss procedures that would allow for the request to be processed and brought for a Commission decision.
  - 1.4 No other entity filed to intervene.
  - 1.5 A Procedural Order was issued on March 13, 2013, scheduling a Procedural Conference on March 26, 2013 for the purpose of discussing a procedure for considering SWC's request to modify its HUF.
  - 1.6 On March 20, 2013, in a joint telephonic conference with the Administrative Law Judge ("ALJ"), counsel for the Company and Staff requested that the March 26, 2013, Procedural Conference be continued approximately 60 days in order to allow the parties to engage in settlement discussion.
  - 1.7 This Agreement is a result of the Parties' good faith efforts to settle the issue regarding the modification of SWC's HUF.

- 1.8 The Parties agree and represent on their belief that the terms and conditions of this Agreement will serve the public interest by providing a just and reasonable resolution of SWC's request to modify its HUF. The adoption of this Agreement will further serve the public interest by allowing all parties to obtain greater certainty and avoid the expense, delay, and risk associated with continued protracted litigation.
- 1.9 As further reflected in this Agreement, the Parties acknowledge that under Arizona law the Commission has plenary authority over the determination of fair value and setting of rates.
- 2. Resolution of HUF Modification Issue**
- 2.1 In order to reach a full settlement, the Parties have agreed that SWC's HUF be approved as set forth in the tariff attached as Exhibit A to this Agreement.
- 2.2 In the event that at some future date Staff determines the continued use of the HUF would have a negative effect on SWC's capital structure Staff may seek to modify or eliminate the HUF in SWC's next rate case.
- 3. Commission Approval**
- 3.1 The Parties acknowledge and agree that the determination of SWC's fair value rate base, and establishment of just and reasonable rates thereon, requires Commission approval, and that the Commission will independently consider and evaluate the terms of this Agreement. With respect to approval of this Agreement, the Parties agree as follows:
- (a) To support and defend the Agreement by filing testimony as may be required by the Administrative Law Judge, appearing at any and all hearings, open meetings or other proceedings in the Docket related to the Agreement, and taking any and all other steps reasonably necessary to obtain Commission adoption of the material terms of the Agreement, including, but not limited to, eliciting support from its constituents.
  - (b) To waive all rights to appeal a Commission decision, provided the Commission adopts the material terms of this Agreement.
  - (c) A final, non-appealable Commission order adopting the material terms of this Agreement shall constitute Commission approval of the Agreement for purposes of the Agreement.
  - (d) Consistent with any order of the Commission, but not less than fifteen days after the Commission issues an order in this matter, SWC shall file a compliance tariff for Staff review and approval. Such compliance tariffs, however, will become effective upon the effective date of the Commission's Order in this proceeding.
- 3.2 The Parties further agree that in the event the Commission fails to issue an order adopting all material terms of this Agreement or modifies or adds material terms to this Agreement, any or all of the Parties may withdraw from this Agreement, and such Party

or Parties may pursue their respective remedies at law without prejudice. For the purposes of this Agreement, whether a term is material shall be left to the discretion of the Party choosing to withdraw from the Agreement. The Parties agree that this Agreement will not have any binding force or effect until its material terms are adopted as an order of the Commission.

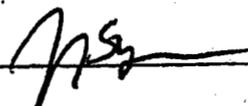
#### **4. Miscellaneous Provisions**

- 4.1** With respect to the Parties' Agreement as set forth herein, the Parties further agree to the following general terms and conditions of their agreement to settle their dispute(s) regarding the Company's request to modify its HUF:
- (a) That each person whose signature appears below is fully authorized and empowered to execute this Agreement.
  - (b) That each Party is represented by competent legal counsel and that they understand all of the terms of this Agreement, that it has had an opportunity to participate in the drafting of this Agreement and fully review this Agreement with its counsel before signing, and that it executes this Agreement with full knowledge of the terms of the Agreement.
  - (c) Nothing in this Agreement shall be construed as an admission by any of the Parties that any of the positions taken by any Party in this proceeding is unreasonable or unlawful. In addition, acceptance of this Agreement by any of the Parties is without prejudice to any position taken by any party in these proceedings.
  - (d) This Agreement represents the Parties' mutual desire to compromise and settle in good faith all disputed issues regarding SWC's request to modify its HUF in a manner consistent with the public interest. The terms and provisions of this Agreement apply solely to and are binding only in the context of the circumstances and those purposes. None of the positions taken in this Agreement by any of the Parties may be referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except in furtherance of this Agreement.
  - (e) All negotiations relating to this Agreement are privileged and confidential. No Party is bound by any position asserted in negotiations, except as expressly stated in this Agreement. The Parties expressly agree that evidence of conduct or statements made in the course of negotiating this Agreement shall not be offered and are not admissible before this Commission, any other regulatory agency, or any court.
  - (f) Each of the terms and conditions of the Agreement is in consideration and support of all other terms. Accordingly, the terms are not severable except upon express consent of the Parties.

(g) This Agreement may be executed in counterparts. This Agreement also may be executed electronically or by facsimile.

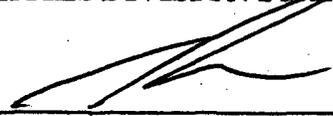
Executed this 29<sup>th</sup> day of May, 2013.

**SAHUARITA WATER COMPANY, L.L.C.**

By:  \_\_\_\_\_

**Its: Vice-President of Sharpe & Associates, Inc.,  
Manager of Sahuarita Water Company, LLC**

**ARIZONA CORPORATION COMMISSION  
UTILITIES DIVISION STAFF\***

By:  \_\_\_\_\_

Its: *Director* \_\_\_\_\_

**EXHIBIT A**

**TARIFF SCHEDULE**

UTILITY: Sahuarita Water Company, L.L.C.  
 DOCKET NO. W-03718A-09-0359

DECISION NO. \_\_\_\_\_  
 EFFECTIVE DATE: \_\_\_\_\_

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

The purpose of the off-site hook-up fees payable to Sahuarita Water Company, L.L.C. ("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 established after the effective date of this tariff undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement. 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 Sahuarita Water Company, L.L.C.

"Main Extension Agreement" means any agreement whereby an Applicant 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 transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial or other uses, regardless of meter size.

**III. Off-Site Water Hook-up Fee**

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

<b>OFF-SITE HOOK-UP FEE TABLE</b>		
<b>Meter Size</b>	<b>Size Factor</b>	<b>Total Fee</b>
5/8" x 3/4 "	1	\$1,000
3/4"	1.5	\$1,500
1"	2.5	\$2,500
1-1/2 "	5	\$5,000
2"	8	\$8,000
3"	16	\$16,000
4"	25	\$25,000
6" or larger	50	\$50,000

**IV. Terms and Conditions**

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

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities or for repayment of loans obtained 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.

(C) Time of Payment:

- 1) For those requiring a Main Extension Agreement: In the event that the Applicant is required to enter into a Main Extension Agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements or construct such 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 no later than 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).
- 2) For those connecting to an existing main: In the event that the Applicant 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.

Revised: 10-26-11

DECISION NO. \_\_\_\_\_

(D) Off-Site Facilities Construction By Developer: Company and Applicant may agree to construction of off-site facilities necessary to serve a particular development by Applicant, 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 and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant 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 and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant 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 to actually provide water service to any Applicant in the event that the Applicant 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 and/or Development Projects: In the event that the Applicant is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and water service requirements. In the alternative, the Applicant 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. 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.

(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 bank 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.

(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 bank account 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 31<sup>st</sup> to Docket Control for the prior twelve (12) month period, beginning January 31, 2015, 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.