

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER



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BRIAN C. McNEIL
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: February 16, 2000
DOCKET NO.: W-02137A-99-0278

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Marc E. Stern. The recommendation has been filed in the form of an Order on:

WILLIAMSON WATERWORKS, INC.
(RATES/FINANCING)

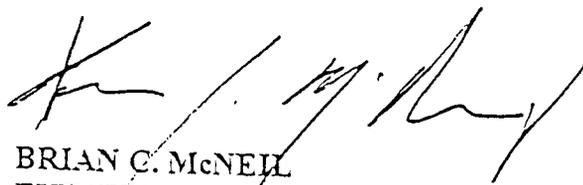
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

FEBRUARY 25, 2000

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

MARCH 1, 2000 AND MARCH 2, 2000

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250.


BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 CARL J. KUNASEK
CHAIRMAN

3 JIM IRVIN
COMMISSIONER

4 WILLIAM A. MUNDELL
COMMISSIONER

5
6 IN THE MATTER OF THE APPLICATION OF
WILLIAMSON WATERWORKS, INC. FOR A
7 PERMANENT RATE INCREASE AND
FINANCING APPROVAL.

DOCKET NO. W-02137A-99-0278

DECISION NO. _____

8 **ORDER**

9 Open Meeting
March 1 and 2, 2000
Phoenix, Arizona

10 **BY THE COMMISSION:**

11
12 On February 24, 1999, Williamson Waterworks, Inc. ("Williamson" or "Applicant") filed
13 with the Arizona Corporation Commission ("Commission") an application for a permanent rate
14 increase and a request for approval of financing.

15 On June 1, 1999, the Commission's Utilities Division ("Staff") filed notice that the portion of
16 the application related to the rate increase had met the sufficiency requirements of A.A.C. R14-2-103.
17 Based on its application Williamson would be treated as a Class D utility; however, pursuant to an
18 agreement with Staff, Applicant stipulated that the utility would be treated as a Class B water utility
19 with respect to the issuance of a final Order on the application by the Commission since it had been
20 filed as part of a group of five applications by its parent corporation, Brooke Utilities, Inc.
21 ("Brooke").

22 Applicant provided notice to its customers of the application on or about June 1, 1999. In
23 response thereto, the Commission has not received any letters or contacts raising any concerns or
24 opposition to the size of the proposed rate increase.

25 On December 6, 1999, Staff filed its Staff Report, recommending that the rates proposed by
26 Staff be approved and that a portion of the financing application also be approved. In response, on
27 January 6, 2000, Williamson filed a "Narrative Rebuttal" to the Staff Report. Thereafter, Staff filed a
28 response to Applicant's "Narrative Rebuttal."

* * * * *

1
2 Having considered the entire record herein and being fully advised in the premises, the
3 Commission finds, concludes, and orders that:

FINDINGS OF FACT

4
5 1. Pursuant to authority granted by the Commission, Williamson is an Arizona
6 corporation engaged in the business of providing water service to the public through two systems in
7 Pine and Strawberry, Gila County, Arizona.¹

8 2. Applicant provides water service by means of two separate systems, the Pine Water
9 System ("Pine") which acquired its Certificate of Convenience and Necessity ("Certificate") pursuant
10 to the terms of Decision No. 41302 (May 17, 1971) and the Strawberry Water System ("Strawberry")
11 which acquired its Certificate pursuant to Decision No. 51182 (July 23, 1980).

12 3. At present, Pine's and Strawberry's rates for water service were approved in Decision
13 No. 55143 (August 7, 1986).

14 4. On February 24, 1999, Williamson filed with the Commission an application
15 requesting authority to increase its rates and charges for both systems and requested approval for
16 previously unapproved debt, the issuance of common stock and for an open line of credit in the
17 amount of \$150,000 originally with Brooke. Brooke is controlled by Crystal Investments L.L.C.
18 ("Crystal") which owns 90 percent of the stock, and by Mr. Robert Hardcastle, Brooke's President,
19 who owns the remaining 10 percent of the stock. Crystal is controlled by a principal in Jaco Oil
20 Company ("Jaco"), Mr. Lee Jameson, and a Jameson family trust.

21 5. On June 1, 1999, Staff filed notice that the rate application met the sufficiency
22 requirements of A.A.C. R14-2-103.

23 6. During the Test Year ended June 30, 1998 ("TY"), Applicant served a total of 364
24 customers, 328 on its Pine system and 36 on its Strawberry system.

25 7. On June 1, 1999, Williamson notified its customers of the application herein and in
26 response thereto, the Commission has not received any telephone contacts or letters protesting the

27
28 ¹ Williamson is a wholly-owned subsidiary of Brooke which acquired Williamson on or about August 8,
1996, at which time Brooke acquired the outstanding stock of Mr. Richard S. Williamson in United Utilities, Inc., through
which he controlled 18 Arizona water utilities.

1 proposed rates.

2 8. Staff conducted an investigation of Applicant's proposed rates and charges and its
3 request for financing approval, and in the Staff Report filed December 6, 1999, recommended that its
4 proposed rates and that \$36,000 of what Staff termed "short-term" debt be converted to long-term
5 debt as requested by Williamson without a hearing. Staff further recommended the remainder of the
6 remaining debt be treated as paid in capital. Staff also recommended that the Commission approve an
7 issuance of common stock by Williamson in order to fund future capital expenditures.

8 9. The rates and charges for Applicant at present, as proposed in the application, and as
9 recommended by Staff are as follows:

	Present Rates		Proposed Rates	
	<u>Pine</u>	<u>Strawberry</u>	<u>Company</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>				
5/8" x 3/4" Meter	\$14.25	\$14.25	\$26.13	\$20.53
3/4" Meter	-	-	-	30.53
1" Meter	-	-	-	50.88
1 1/2" Meter	-	-	-	101.75
2" Meter	-	-	-	162.80
3" Meter	-	-	-	305.25
4" Meter	-	-	-	508.75
6" Meter	-	-	-	1,017.50
Gallons included in Minimum	0	0	0	0
<u>Commodity Charge in excess of minimum – Per 1,000 Gallons:</u>				
0 - 10,000 gallons	\$2.50	\$2.50	\$4.40	\$3.50
Over 10,000 gallons	\$3.75	\$3.75	\$8.00	\$3.50
<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u> (Refundable pursuant to A.A.C. R14-2-405)				
5/8" x 3/4" Meter	\$100.00	\$100.00	\$430.00	\$430.00
3/4" Meter	-	-	480.00	480.00
1" Meter	-	-	550.00	550.00
1 1/2" Meter	-	-	775.00	775.00
2" Meter	-	-	1,305.00	1,305.00
3" Meter	-	-	1,815.00	1,815.00
4" Meter	-	-	2,860.00	2,860.00
6" Meter	-	-	5,275.00	5,275.00

SERVICE CHARGE:

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Establishment	\$25.00	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	35.00	35.00	35.00	35.00
Reconnect	35.00	35.00	35.00	35.00
Reconnect (After Hours)	-	-	45.00	45.00
Deposit	*	*	*	*
Deposit Interest	6%	6%	6%	*
Reestablishment (Within 12 Months)	**	**	**	**
NSF Check	\$10.00	\$10.00	\$10.00	\$10.00
Deferred Payment (Per Month)	1.50%	1.50%	1.50%	1.50%
Meter Reread (If Correct)	\$10.00	\$10.00	\$25.00	\$15.00
Meter Test	25.00	25.00	25.00	25.00
Late Payment Penalty (Per Month)	Per rule	Per rule	Per rule	1.50%

* Per Commission Rule A.A.C. R-14-2-403(B).
 ** Number of months off system times the monthly minimum, per Commission Rule A.A.C. R14-2-403(D).

10. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") which is the same as its original cost rate base is determined to be a negative \$77,424.²

11. Applicant's present rates and charges produce adjusted operating revenues of \$79,384 and adjusted operating expenses of \$101,277³ which resulted in an adjusted operating loss of \$21,893 for the TY.

12. The rates and charges Applicant proposed would produce operating revenues of \$152,927 and operating expenses of \$123,305, resulting in net operating income of \$29,622.

13. The rates and charges Staff recommended would produce adjusted operating revenues of \$111,221 and adjusted operating expenses of \$102,621, resulting in net operating income of \$8,600.

14. Staff is recommending a revenue increase of approximately \$32,000 which Staff believes will enable Williamson to meet its operating needs and service Applicant's long-term financing needs arising from debt which Staff recommends be authorized hereinafter.

² Staff decreased Applicant's FVRB to a negative \$77,424 primarily due to an adjustment attributable to Gross Contributions of \$219,045, a substantial portion of which consisted of advances that are more than 10 years old that have not been repaid and must now be considered CIAC.

³ Staff removed \$22,028 from Applicant's claimed TY operating expenses primarily due to the amortization of Applicant's claimed water testing and rate case expenses over three years and by decreasing the depreciation expense by \$13,194 from a five percent composite rate to a 2.3543 percent composite rate to better reflect actual plant life.

1 15. Applicant's proposed rates would increase the average Pine customer's (1,842 gallons)
2 monthly bill by 81.6 percent, from \$18.85 to \$34.23, and the median Pine customer's (804 gallons)
3 monthly bill by 82.5 percent, from \$16.26 to \$29.67.

4 16. Applicant's proposed rates would increase the average Strawberry customer's (2,219
5 gallons) monthly bill by 81.3 percent, from \$19.80 to \$35.89, and the median Strawberry customer's
6 (1,356 gallons) monthly bill by 82 percent from \$17.64 to \$32.10.

7 17. Staff's proposed rates would increase the average Pine customer's (1,842 gallons)
8 monthly bill by 42.1 percent, from \$18.85 to \$26.80, and the median Pine customer's (804 gallons)
9 monthly bill by 42.5 percent from \$16.26 to \$23.16.

10 18. Staff's proposed rates would increase the average Strawberry customer's (2,219
11 gallons) monthly bill by 42.0 percent, from \$19.80 to \$28.12, and the median Strawberry customer's
12 (1,356 gallons) monthly bill by 42.3 percent from \$17.64 to \$25.10.

13 19. Based on its analysis, Staff concluded that Applicant's cost of capital consists of 76.37
14 percent long-term debt at a cost of 10 percent (with a weighted cost of 7.64 percent) and 23.63
15 percent equity at a cost of 11.00 percent (with a weighted cost of 2.60 percent) for an overall
16 weighted cost of capital of 10.24 percent.

17 20. Applicant's request for long-term financing approval arises out of past "short term"
18 loans reflected by a promissory note dated January 1, 1997, for an open line of credit with Brooke in
19 the amount of \$150,000, payable at 10 percent interest and whose terms expired on December 31,
20 1997.

21 21. Through the end of the TY, Williamson had utilized \$72,866 of unapproved debt from
22 its line of credit with Brooke using \$45,620 to cover capital improvements for Pine and Strawberry
23 and another \$27,246 to cover operating expenses and losses incurred by Applicant. Williamson is
24 requesting retroactive Commission approval of only \$36,000 of the previous unapproved debt as
25 long-term debt and the approval of the remaining balance, \$36,866, be offset by the sale of additional
26 stock in Williamson to Brooke.

27 22. Williamson is also requesting approval of a new open line of credit with Jaco in the
28 amount of \$150,000, payable at 10 percent interest per annum for a period of five years with a

1 maturity date of January 1, 2004, in order to fund planned future capital expenditures totaling
2 \$116,707, and to cover any unforeseen operating losses.

3 23. Under the circumstances herein, Staff recommended that the Commission approve the
4 \$36,000 requested by Applicant for long-term debt since this sum was less than that expended in the
5 past for capital improvements. Staff further recommended that the terms for this debt should neither
6 exceed an interest rate of 10 percent per annum nor have a repayment period of more than five years.

7 24. Staff is further recommending that the remaining balance, \$36,866, of previously
8 unauthorized debt be converted into paid in capital.

9 25. Lastly, in order to fund the projected capital expenditures for 1999, 2000, 2001 and
10 2002 as proposed by Applicant, Staff recommends that the Commission approve a common stock
11 issuance by Williamson in an amount not to exceed \$116,707 since Staff engineers found the capital
12 expenditures to be reasonable and necessary. Staff is not recommending the approval of any
13 additional long term debt in the form of a \$150,000 line of credit with Jaco as requested by
14 Williamson to fund future capital expenditures and unforeseen operationing losses.

15 26. Under the terms of Applicant's loan agreement with Jaco, its minimum credit
16 requirements are for a Times Interest Earned Ratio ("TIER") of at least 1.50 and a Debt Service
17 Coverage ("DSC") of at least 1.25.

18 27. Staff believes that if its recommended rates and charges are adopted they will produce
19 revenues sufficient to enable Applicant to have a TIER of 2.39 and a DSC ratio of 1.64.

20 28. Staff has verified that Williamson is current on its property tax payments to Gila
21 County and for the collection and payment of its sales taxes.

22 29. Under the terms of Decision No. 60972 (June 19, 1998), under a corporate
23 reorganization by Brooke, the two Williamson systems (Pine and Strawberry) were to be transferred
24 to the Pine and Strawberry Water Cos. Inc., respectively; however, this reorganization was
25 conditioned upon Williamson filing, within 365 days of Decision No. 60972, a copy of the respective
26 system's franchise for its certificated service area and a statement from the Arizona Department of
27 Environmental Quality ("ADEQ") that the water which the respective system delivers to its
28 customers does not exceed the allowed Maximum Contaminant Level ("MCL") and meets the quality

1 standards of the Safe Drinking Water Act ("SDWA"). According to the Staff Report, Williamson
 2 had not complied with these conditions; however, on December 16, 1999, Williamson filed a copy of
 3 its franchise and was awaiting the results of recently conducted water tests.

4 30. Staff has made the following additional recommendations:

- 5 • that Williamson be ordered to initiate a back-flow prevention program and
 6 develop an emergency operation plan and submit same to Staff for its review;
- 7 • that Williamson include in its tariff a provision to allow for the flow-through of
 8 appropriate state and local sales taxes as provided in A.A.C. R14-2-608(D)(5);
- 9 • that the Commission approve long-term debt in an amount of \$36,000 for
 10 Williamson at an interest rate not to exceed 10 percent per annum and payable
 11 over five years;
- 12 • that the Commission order Williamson to convert \$36,866 in unauthorized debt
 13 to paid in capital;
- 14 • that the Commission authorize Williamson to issue up to \$116,707 in common
 15 stock to fund its capital expenditure program for the years 1999, 2000, and
 16 2001;
- 17 • that the Commission order Williamson to file, within 60 days of the effective
 18 date of this Decision, copies of all executed loan documents with the Director
 of the Commission's Utilities Division; and
- that the Commission condition approval and the effective date of the
 implementation of the rates authorized hereinafter upon Williamson filing a
 statement from ADEQ which indicate that Applicant's water system has no
 MCL violations and is delivering water that meets the quality standards of the
 SDWA.

19 31. Under the circumstances herein, we find that Staff's recommendations are reasonable
 20 and should be adopted. Staff's recommendations with respect to Applicant's revenue level should
 21 insure Applicant will be able to meet its obligations and provide its customers with quality service.

CONCLUSIONS OF LAW

22 1. Applicant is a public service corporation within the meaning of Article XV of the
 23 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301, and 40-302.

24 2. The Commission has jurisdiction over Applicant and of the subject matter of the
 25 application.

26 3. Notice of the application was provided in the manner prescribed by law.

27 4. The rates and charges authorized hereinafter are just and reasonable and should be
 28

1 approved without a hearing.

2 5. Staff's recommendations, as set forth in Findings of Fact No. 30, are reasonable and
3 should be adopted.

4 6. The proposed long-term financing is for lawful purposes within Applicant's corporate
5 powers, is compatible with the public interest, with sound financial practices, and the proper
6 performance by Applicant of service as a public service corporation, and will not impair Applicant's
7 ability to perform that service.

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

11 8. In consideration of Staff's recommendations with respect to Applicant's financing
12 request, no hearing is necessary and the request should be summarily granted.

13 **ORDER**

14 IT IS THEREFORE ORDERED that Williamson Waterworks, Inc. is hereby directed to file
15 on or before March 31, 2000, a revised rate schedule setting forth the following rates and charges:

16

17 **MONTHLY USAGE CHARGE:**

18	5/8" x 3/4" Meter	\$20.35
	3/4" Meter	30.53
19	1" Meter	50.88
	1 1/2" Meter	101.75
20	2" Meter	162.80
	3" Meter	305.25
21	4" Meter	508.75
22	6" Meter	1,017.50

23 **GALLONAGE CHARGE – Per 1,000 Gallons** \$3.50

24 **SERVICE LINE AND METER INSTALLATION CHARGES:**

25 (Refundable pursuant to A.A.C. R14-2-405)

26	5/8" x 3/4" Meter	\$430.00
	3/4" Meter	480.00
27	1" Meter	550.00
28	1 1/2" Meter	775.00

1	2" Meter	1,305.00
	3" Meter	1,815.00
2	4" Meter	2,860.00
	6" Meter	5,275.00

SERVICE CHARGE:

4	Establishment	\$25.00
5	Establishment (After Hours)	35.00
6	Reconnect	35.00
	Reconnect (After Hours)	45.00
7	Deposit	*
	Deposit Interest	*
8	Reestablishment (Within 12 Months)	**
9	NSF Check	\$10.00
	Deferred Payment (Per Month)	1.50%
10	Meter Reread (If Correct)	\$15.00
	Meter Test	25.00
11	Late Payment Penalty (Per Month)	1.50%

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

13 ** Number of months off system times the monthly minimum, per Commission Rule
A.A.C. R14-2-403(D).

14 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
15 provided on and after the first day of the month following that in which Williamson Waterworks,
16 Inc., files, with the Director of the Utilities Division, a statement from ADEQ that the utility has no
17 MCL violations and is delivering water which meets the quality standards of the Safe Drinking Water
18 Act.

19 IT IS FURTHER ORDERED that Williamson Waterworks, Inc. shall notify its customers of
20 the rates and charges authorized hereinabove and the effective date of same by means of an insert in
21 its next regular monthly billing statement which precedes the month of implementation.

22 IT IS FURTHER ORDERED that Williamson Waterworks, Inc., shall file, within 60 days of
23 the effective date of this Decision, with the Director of the Commission's Utilities Division a copy of
24 the notice mailed to its customers.

25 IT IS FURTHER ORDERED that Williamson Waterworks, Inc. shall comply with all Staff
26 recommendations which appear in Findings of Fact No. 30 hereinabove.

27 IT IS FURTHER ORDERED that Williamson Waterworks, Inc. shall file a copy of its ADEQ
28 back-flow prevention program and a copy of its emergency operation plan with the Commission's

1 Director of Utilities.

2 IT IS FURTHER ORDERED that Williamson Waterworks, Inc. shall include in its tariff a
3 provision to allow for the flow-through of any proportionate state and local taxes in accordance with
4 A.A.C. R14-2-409(D)(5).

5 IT IS FURTHER ORDERED that Williamson Waterworks, Inc. be, and the same hereby is,
6 authorized to issue long-term debt in an amount not to exceed \$36,000 for a term of five years at no
7 greater rate of interest than ten percent per annum.

8 IT IS FURTHER ORDERED that Williamson Waterworks, Inc. shall convert \$36,866 in
9 previously unauthorized debt to paid in capital.

10 IT IS FURTHER ORDERED that Williamson Waterworks, Inc. be, and the same hereby is,
11 authorized to issue up to \$116,707 in common stock to fund projected capital expenditures.

12 IT IS FURTHER ORDERED that Williamson Waterworks, Inc. is hereby authorized to
13 engage in any transactions and to execute any documents necessary to effectuate the authorization
14 granted hereinabove and file, within 60 days of the effective date of this Decision, with the Director
15 of the Commission's Utilities Division, certification that the transactions have been completed and
16 copies of all executed loan documents.

17 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon
18 Williamson Waterworks, Inc.'s use of the proceeds for the purposes set forth in the application.

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

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IT IS FURTHER ORDERED that Williamson Waterworks, Inc. shall cease from issuing any additional long-term debt without prior Commission approval in the future.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary 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 _____, 2000.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____
MES:bbs

1 SERVICE LIST FOR: WILLIAMSON WATERWORKS, INC.

2 DOCKET NO. W-02137A-99-0278

3
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