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



BRIAN C. McNEIL  
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: SEPTEMBER 1, 1999  
DOCKET NOS: SW-03036A-99-0160 and SW-03036A-99-0110  
TO ALL PARTIES:

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

SWEETWATER CREEK UTILITIES, INC.  
(RATE INCREASE/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:

SEPTEMBER 10, 1999

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:

SEPTEMBER 14, 1999 and SEPTEMBER 15, 1999

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

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

IN THE MATTER OF THE APPLICATION OF  
SWEETWATER CREEK UTILITIES, INC. FOR A  
PERMANENT RATE INCREASE AND  
APPROVAL OF A PAYMENT IN LIEU OF  
REVENUE TARIFF.

DOCKET NO. SW-03036A-99-0160

IN THE MATTER OF THE APPLICATION OF  
SWEETWATER CREEK UTILITIES, INC. FOR  
FINANCING APPROVAL.

DOCKET NO. SW-03036A-99-0110

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

**ORDER**

Open Meeting  
August 24 and 25, 1999  
Phoenix, Arizona

**BY THE COMMISSION:**

On December 3, 1998, Sweetwater Creek Utility, Inc. ("Sweetwater" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase and for approval of a Payment in Lieu of Revenue Tariff ("PILOR"). Subsequently, on February 22, 1999, Sweetwater filed an amendment to its rate application and an application requesting the Commission's approval for long-term debt in the amount of \$88,974.

On March 23, 1999, the Commission's Utilities Division ("Staff") filed notice that the rate application had met the sufficiency requirements of A.A.C. R14-2-103.

Applicant provided notice to its customers of the application for a permanent rate increase and the financing application on December 2, 1998, and August 12, 1999 respectively. In response thereto, the Commission has received two letters opposing a rate increase.

On June 7, 1999, Staff filed its Staff Report, recommending that the rates proposed by Staff be approved and also recommending approval of a substantial portion of the financing application

1 without a hearing.<sup>1</sup>

2 \* \* \* \* \*

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

5 **FINDINGS OF FACT**

6 1. Sweetwater is an Arizona corporation engaged in the business of providing wastewater  
7 treatment service to the public in an area approximately 1 ½ miles east of the City of Yuma, Yuma  
8 County, Arizona pursuant to authority granted by the Commission in Decision No. 59916 (December  
9 10, 1996).

10 2. Applicant's present rates and charges for water service were approved in Decision No.  
11 59916.

12 3. On December 3, 1998, Sweetwater filed with the Commission an application  
13 requesting authority to increase its rates and charges.

14 4. On February 22, 1999, Sweetwater filed an application with the Commission  
15 requesting the Commission's approval to issue up to \$88,974 in long-term debt.

16 5. On March 23, 1999, Staff filed notice that the rate application met the sufficiency  
17 requirements of A.A.C. R14-2-103.

18 6. During the test year ended August 31, 1998 ("TY"), Applicant served 183 customers.

19 7. On December 2, 1998, and August 12, 1999, Applicant notified its customers of the  
20 proposed rate increase, and of the requested financing, respectively. In response thereto, two  
21 customer letters protesting the proposed rates have been received by the Commission.

22 8. Staff conducted an investigation of Applicant's proposed rates and charges including  
23 the PILOR, and in the Staff Report filed June 7, 1999, recommended that its proposed rates and a  
24 substantial portion of Applicant's requested financing be approved without a hearing. Staff also  
25 recommended that the PILOR be denied.

26 9. The rates and charges for Applicant at present, as proposed in the application, and as

27

28 <sup>1</sup> Since Staff filed a consolidated Staff Report with respect to the above-captioned applications, they will be addressed jointly in this Order.

1 recommended by Staff are as follows:

	Present Rates	Proposed Rates	
		Applicant	Staff
<u>MONTHLY CHARGE:</u>			
2 Residential Customers	\$20.00	\$31.00	\$31.00
3 Commercial Customers	40.00	62.00	60.00
4 Payment in Lieu of Revenue (per new customer)	\$0.00	\$1,300.00	\$0.00
5 Capacity Charge (per lot)	0.00	850.00	0.00
<u>SERVICE CHARGES:</u>			
6 Establishment	\$20.00	\$20.00	\$25.00
7 Reconnection (Delinquent)	*	*	*
8 NSF Check	\$15.00	\$15.00	\$15.00
9 Deposit	**	**	**
10 Deposit Interest (Per Annum)	**	**	**
11 Reestablishment (Within 12 Months)	***	***	***
12 Late Payment Charge (Per Month)	1.50%	1.50%	1.50%

14 \* Actual cost to disconnect and reconnect.

15 \*\* Per Commission Rule A.A.C. R14-2-603(B).

16 \*\*\* Number of months off system times the monthly minimum. Per Commission Rule A.A.C. R14-2-603(D).

17 10. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined  
18 to be \$71,603, which is the same as its original cost rate base.<sup>2</sup>

19 11. Applicants present rates and charges produced adjusted operating revenues of  
20 \$45,500<sup>3</sup> and adjusted operating expenses of \$55,001<sup>4</sup> which resulted in an adjusted operating loss of  
21 \$9,501 for the TY.

22 12. The rates and charges Applicant proposed would produce operating revenues of  
23 \$95,524 (which sum includes \$26,000 attributable to the proposed PILOR) and operating expenses of  
24 \$78,358, resulting in net operating income of \$17,166 for a 18.88 percent rate of return on FVRB.

25 <sup>2</sup> Staff decreased Sweetwater's FVRB by \$19,318 primarily due to an adjustment to plant in service  
26 purportedly funded by the proposed PILOR, but the plant has not yet been constructed.

27 <sup>3</sup> Staff removed \$26,000 from Applicant's claimed TY operating revenues which were attributed to the  
28 proposed PILOR.

<sup>4</sup> Staff reduced claimed outside services expense by approximately \$13,600 primarily due to the  
reclassification of approximately \$15,000 used for the purchase and installation of a new electric panel, grinder pumps  
and floats for the plant and lift station which should have been capitalized.

1           13.     The rates and charges Staff recommended would produce operating revenues of  
2 \$70,099 and adjusted operating expenses of \$56,738, resulting in net operating income of \$13,361 for  
3 an 18.66 percent rate of return on FVRB.

4           14.     Staff is recommending the denial of Applicant's proposed PILOR of \$1,300 per new  
5 customer together with a proposed capacity charge of \$850 per lot because Staff believes the  
6 aggregate affect of both the capacity charge and the PILOR are the equivalent of a hook-up fee and  
7 that Applicant has failed to provide appropriate information to adequately determine what amount, if  
8 any, should be utilized for this charge.<sup>5</sup>

9           15.     Staff is recommending a revenue increase of approximately \$25,000 which Staff  
10 believes will enable Sweetwater to meet its operating needs and service long-term financing needs  
11 arising from debt between Sweetwater and its lenders.

12           16.     Applicant's proposed rates would increase the average monthly customer bill by 55  
13 percent, from \$20.00 to \$31.00.

14           17.     Staff's recommended rates would increase the average monthly customer bill by 55  
15 percent, from \$20.00 to \$31.00.

16           18.     Sweetwater's request for long-term financing approval arises from Applicant's  
17 refinancing of \$50,000 in debt approved in Decision No. 59916. Although Decision No. 59916  
18 approved a loan from a lender known as the Meyer Gift Trust, Sweetwater borrowed \$51,287 from  
19 Meyer Farms.

20           19.     In late 1997, Sweetwater re-financed the Meyer Farms debt together with accrued  
21 interest of \$6,577, with two loans from Santec Corporation totaling \$81,500 plus \$7,474 as accrued  
22 interest as of the date of the financing application.

23           20.     Sweetwater indicated to Staff that it did not seek Commission approval for these loans  
24 as Applicant believed them to be short-term transactions at the time.

25           21.     Sweetwater's request includes the \$81,500 borrowed from Santec together with

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26           <sup>5</sup>     In its analysis, Staff learned that Sweetwater had collected \$25,500 during the TY as a prepayment for  
27 an unapproved "capacity charge" from Hall Custom Builders for 30 lots upon which the developer is planning  
28 construction in the future. Applicant has not yet added plant to provide additional service for these lots. Until such time,  
Staff is recommending that this amount be treated on a deferral basis at which time Sweetwater should record the plant  
addition as CIAC.

1 \$7,474 of accrued interest repayable for 20 years at 10.25 percent interest.

2 22. After reviewing the utilization of the monies borrowed from Santec, Staff removed  
3 \$17,155 recommending the disallowance of the following: \$1,287 borrowed from Meyer Farms  
4 without authorization; \$6,577 in accrued interest on the Meyer Farms loan; \$1,817 utilized to pay  
5 operating expenses by Applicant; and \$7,474 in accrued interest on the unapproved Santec loan.

6 23. Staff is recommending that the Commission approve only \$71,819 of Applicant's  
7 request for long-term financing at an interest rate not to exceed 9.75 percent with a term of 20 years.  
8 Staff's recommended amount of debt includes the original debt and \$21,819 attributable to utility  
9 plant additions.

10 24. Staff indicated that its recommendation with respect to the interest rate on the  
11 recommended financing be set at a rate consistent with 200 basis points above the prime rate which at  
12 the time of Staff's recommendation was 7.75 percent, but presently is 8.00 percent.

13 25. Staff believes that if its recommended rates and charges are adopted they will enable  
14 Applicant to at have a Times Interest Earned Ratio of at least 1.50 and a Debt Service Coverage of at  
15 least 1.25 and enable Sweetwater to meet its long-term financing obligations.

16 26. Staff has verified that Sweetwater is current on its property tax payments to Yuma  
17 County and, as a sewer utility, has no sales tax liability for providing a service.

18 27. Sweetwater is presently in substantial compliance with the rules of the Arizona  
19 Department of Environmental Quality.

20 28. Staff's proposed rates and charges are reasonable and should be adopted as should the  
21 following additional Staff recommendations:

- 22 • that Applicant's proposed PILOR of \$1,300 per customer and capacity fee of  
23 \$850 per lot be denied at this time;
- 24 • that Sweetwater be ordered to cease charging a capacity fee and charge only  
25 those charges as are authorized in its tariff hereinafter;
- 26 • that Sweetwater be ordered to classify the \$25,500 collected during the TY as  
27 an unauthorized capacity fee be classified as a deferred credit until such time  
28 as Applicant invests the money in plant at which time Sweetwater should  
record the plant addition as CIAC;
- that Sweetwater include in its tariff a provision to allow for the flow-through of  
appropriate state and local sales taxes as provided for in A.A.C. R14-2-

608(D)(5);

- that Sweetwater’s request for approval of long-term financing be approved without a hearing in an amount not to exceed \$71,819 at an interest rate not to exceed 200 basis points above the prime rate (currently 8 percent) as of the effective date of this Decision and repayable over a term of 20 years;
- that Sweetwater be ordered to file a copy of all executed financing documents with the Commission as they become available;
- that Sweetwater be ordered to cease issuing long-term debt without Commission approval; and
- that Sweetwater be ordered to maintain its books and records in accordance with the NARUC Uniform System of Accounts.

**CONCLUSIONS OF LAW**

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

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

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

4. The rates and charges authorized hereinafter are just and reasonable and should be approved without a hearing.

5. Staff’s recommendations as set forth in Findings of Fact No. 28 are reasonable and should be adopted.

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

7. 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.

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

...

ORDER

IT IS THEREFORE ORDERED that Sweetwater Creek Utilities, Inc. is hereby directed to file on or before October 1, 1999, revised rate schedules setting forth the following rates and charges:

MONTHLY CHARGE:

Residential Customers	\$31.00
Commercial Customers	60.00

SERVICE CHARGES:

Establishment	\$25.00
Reconnection (Delinquent)	*
NSF Check	\$15.00
Deposit	**
Deposit Interest (Per Annum)	**
Reestablishment (Within 12 Months)	***
Late Payment Charge (Per Month)	1.50%

\* Actual cost to disconnect and reconnect.

\*\* Per Commission Rule A.A.C. R14-2-603(B).

\*\*\* Number of months off system times the monthly minimum. Per Commission Rule A.A.C. R14-2-603(D).

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after October 1, 1999.

IT IS FURTHER ORDERED that Sweetwater Creek Utilities, Inc. shall notify its customers of the rates and charges authorized hereinabove and the effective date of same by means of an insert in its next regular monthly billing statement.

IT IS FURTHER ORDERED that Sweetwater Creek Utilities, Inc. shall comply with all Staff recommendations which appear in Findings of Fact No. 28 hereinabove.

IT IS FURTHER ORDERED that Sweetwater Creek Utilities, Inc. shall be prohibited from the utilization of a Payment in Lieu of Revenue Tariff and the use of a capacity charge until further order by the Commission.

IT IS FURTHER ORDERED that Sweetwater Creek Utilities, Inc. be, and the same hereby is, authorized to issue long-term debt in an amount not to exceed \$71,819 for a term of 20 years at no

1 greater rate of interest than 200 basis points above the prime rate as of the effective date of this  
2 Decision.

3 IT IS FURTHER ORDERED that Sweetwater Creek Utilities, Inc. is hereby authorized to  
4 engage in any transactions and to execute any documents necessary to effectuate the authorization  
5 granted hereinabove.

6 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon  
7 Sweetwater Creek Utilities, Inc.'s use of the proceeds for the purposes set forth in the application.

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

11 IT IS FURTHER ORDERED that Sweetwater Creek Utilities, Inc. shall file with the Director  
12 of the Commission's Utilities Division within 30 days of finalization, a copy of all loan documents  
13 which set forth the terms of the proposed long-term debt, if not previously filed.

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

15 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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18 CHAIRMAN

COMMISSIONER

COMMISSIONER

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21 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
22 Secretary of the Arizona Corporation Commission, have  
23 hereunto set my hand and caused the official seal of the  
24 Commission to be affixed at the Capitol, in the City of Phoenix,  
25 this \_\_\_\_ day of \_\_\_\_\_, 1999.

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27 \_\_\_\_\_  
28 BRIAN C. McNEIL  
EXECUTIVE SECRETARY

26  
27 DISSENT \_\_\_\_\_  
28 MES:bbs

1 SERVICE LIST FOR:

SWEETWATER CREEK UTILITY, INC.

2 DOCKET NO.

SW-03036A-99-0160 and SW-03036A-99-0110

3

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