

JIM IRVIN
COMMISSIONER - CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
J. KUNASEK
COMMISSIONER



ARIZONA CORPORATION COMMISSION



DATE: JULY 22, 1998

DOCKET NOS.: W-02860A-98-0227 and W-02860A-98-0259

TO ALL PARTIES:

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

NACO WATER COMPANY, LLC
(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:

JULY 31, 1998

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:

AUGUST 4, 1998 and AUGUST 5, 1998

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


JACK ROSE
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM IRVIN
3 COMMISSIONER - CHAIRMAN
4 RENZ D. JENNINGS
5 COMMISSIONER
6 CARL J. KUNASEK
7 COMMISSIONER

8 IN THE MATTER OF THE APPLICATION)
9 OF NACO WATER COMPANY, LLC)
10 FOR A PERMANENT RATE INCREASE AND)
11 FINANCING APPROVAL.)

DOCKET NO. W-02860A-98-0227
DOCKET NO. W-02860A-98-0259

12 DECISION NO. _____

13 **ORDER**

14 Open Meeting
15 August 4 and 5, 1998
16 Phoenix Arizona

17 **BY THE COMMISSION:**

18 On April 3, 1998, Naco Water Company, LLC ("Naco", "Company", or "Applicant") filed with
19 the Arizona Corporation Commission ("Commission") an application for a permanent increase in water
20 rates. In conjunction with the rate increase request, the Company is seeking financing approval in the
21 amount of \$620,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA"). On May
22 5, 1998, the Commission's Utilities Division Staff ("Staff") filed a notice that the rate application had
23 met the sufficiency requirement of A.A.C. R14-2-103 and classified Naco as a Class D Utility. Naco
24 notified its customers of its proposed rate increase and as a result, to date, the Commission has received
25 no complaints from customers.

26 On July 16, 1998, Staff filed its Staff Report, recommending that rates different than those
27 proposed by the Company be granted and recommending that the financing request be granted without
28 a hearing.

DISCUSSION

Naco is a limited liability company which, pursuant to Decision No. 16440-A (May 31, 1945),
is certified to provide water service in two areas. The first area consists of the Town of Naco and
contains the Naco Town site system. The second area is located approximately three miles east of Naco
and includes two systems: the Bisbee Junction and the Bisbee Highway system. All three water systems
are separate. The Company is not located in an Active Management Area.

1 The Commission approved the Company's current rates in Decision No. 60500 (November 25,
2 1997). In that Decision, Staff recommended that the Company file a new rate application and financing
3 application once the Company and the Arizona Department of Environmental Quality ("ADEQ") reached
4 agreement on major capital improvements needed to provide reliable service and rectify the "non-
5 accounted for" water loss. On April 14, 1998, the Company received a Binding Commitment for
6 Financial Assistance from WIFA.

7 Naco had 318 customers in the current Test Year ended December 31, 1997 ("TY"). Based on
8 TY results, as modified by Staff, the Company realized an operating income of \$909 on an Original Cost
9 Rate Base ("OCRB") of \$86,577, resulting in a 1.05 percent rate of return.

10 The Company's proposed rates would produce revenues of \$180,712 and an adjusted operating
11 income of \$79,179 for a 91.46 percent rate of return on adjusted OCRB. The Company's proposed rates
12 would increase the typical residential bill, having a median usage of 6,350 gallons, from \$19.52 to
13 \$35.28, an increase of 80.7 percent.

14 Staff proposed rates that produce a revenue level of \$155,530 resulting in operating income of
15 \$53,997, for a 62.37 percent rate of return on adjusted OCRB. Under Staff's proposed rates the typical
16 median residential bill would increase from \$19.52 to \$30.98, an increase of 58.7 percent.

17 Staff indicated there have been two informal complaints that were resolved and no formal
18 complaints filed against the Company since the Commission's decision in its last rate case, Decision No.
19 60500. In response to notice of the current rate application, Staff has received no consumer complaints
20 or inquiries.

21 The Company's application reflected a rate base of \$89,341. Staff adjusted rate base by \$2,764,
22 resulting in an adjusted rate base of \$86,577. Staff reduced Plant in Service by \$835; decreased
23 Accumulated Depreciation by \$1,205; and decreased the working capital allowance by \$724 based on
24 Staff's adjusted expense levels.

25 Operating Revenues and Expenses

26 The Company reported TY water sales of \$102,442, and Staff made no adjustments to that
27 revenue level.

28 The Company reported TY Operating Expenses of \$107,585. Staff made net adjustments of

1 (\$6,052), reducing TY Operating Expenses to \$101,533.

2 Staff reduced depreciation expense by \$2,816 based upon Staff's rates and plant balances;
3 decreased rate case expense by \$2,726 to reflect a three year amortization; decreased water testing
4 expense by \$2,416 based upon Staff Engineering's analysis of testing expense for the next three years
5 on an annual basis; reduced salaries and wages by \$3,366 to reflect a duplication of management costs;
6 and made several other minor adjustments. Staff's adjustments to revenue and expenses are reasonable.
7 The revenues and expenses approved herein would result in total operating revenue of \$155,530 and total
8 operating expenses of \$101,533, yielding operating income of \$53,997 or a 62.37 percent return on
9 OCRB. Staff's revenue level is predicated on the cost of debt service of \$53,088 annually and based on
10 the expenses allowed herein, the Company should have sufficient cash flow to meet its debt.

11 Rate Design and Cash Flow

12 Neither the Company nor Staff recommended changes in the Service Line and Meter installation
13 charges nor the service charges currently authorized in Decision No. 60500. Staff's rate design retains
14 the current two-tiered structure with no gallons in the monthly minimum charge, with the second tier
15 beginning at 10,001 gallons.

16 Financing Request

17 The Company's rate application includes a request for approval of financing a \$620,000 loan from
18 WIFA. The loan is for new construction and system upgrades to the Naco Townsite and Bisbee Junction
19 systems. The distribution mains are undersized; many of the mains are leaking and made of substandard
20 material; and additional storage is needed. The terms of the loan include an interest rate of 5.95 percent
21 for a period of 20 years, with monthly principal and interest payments of \$4,424, for a total of \$53,088
22 annually. Staff's recommended level of rates will allow the Company to meet that debt service.

23 Staff recommended that the financing be approved and also recommended that the Company place
24 \$13.91 per billing, per month, in a separate interest bearing account, to be used to make the monthly
25 \$4,424 payment. Staff believes that customer growth will allow the account to accumulate more than
26 the minimum of \$4,424 monthly and Staff believes the Company should be in a position to accelerate
27 repayment.

28 Engineering Staff recommended that six-inch diameter mains should be the minimum size used.

1 not the four-inch mains planned by the Company. Staff believes that six-inch mains would allow for fire
2 flow and future demand predicated on growth. Accordingly, Staff recommended that if additional
3 funding in the amount of \$51,619 is approved by WIFA to upgrade the mains, a surcharge should be
4 implemented once draw down of the \$620,000 is reached. The amount of the monthly surcharge would
5 be the \$368 additional debt service divided by the total number of active connections, charged to each
6 customer until the next rate application. The Company should notify the Director of the Utilities Division
7 of the amount of the surcharge and how it was calculated at the time the draw down of \$620,000 is
8 reached.

9 * * * * *

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

12 **FINDINGS OF FACT**

13 1. Naco is a limited liability company engaged in providing water service to the public in
14 the area of Town of Naco, Cochise County, Arizona pursuant to authority granted by the Commission
15 in Decision No. 16440-A (May 31, 1945).

16 2. On April 3, 1998, Naco filed an application with the Commission requesting authorization
17 to increase its rates and for approval of financing.

18 3. On May 5, 1998, Staff filed a notice that the rate case application had met the sufficiency
19 requirements of A.A.C. R14-2-103.

20 4. On July 16, 1998, Staff filed its Staff Report in which it recommended alternative rates
21 to those proposed by the Company and recommended approving the financing request without a hearing.

22 5. Applicant's present and proposed rates and charges, as well as Staff's proposed rates and
23 charges are as follows:

24 ...
25 ...
26 ...
27 ...
28 ...

	Present Rates	Proposed Rates	
		Company	Staff
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$ 10.00	\$17.50	\$15.68
3/4" Meter	10.00	17.50	15.68
1" Meter	25.00	33.00	30.68
1 1/2" Meter	35.00	46.00	40.68
2" Meter	42.00	54.00	47.68
3" Meter	150.00	160.00	160.00
4" Meter	250.00	260.00	260.00
6" Meter	500.00	510.00	510.00
Excess of Minimum - Per 1,000 Gallons			
1 to 10,000 Gallons	\$1.50	\$2.80	\$2.41
10,001 Gallons or more	2.27	3.95	3.18
Gallons included in minimum	0	0	0
Bulk Water Rate - per 1,000 Gallons:			
1 to 10,000 Gallons	\$1.50	\$2.80	\$2.41
10,001 Gallons or more	2.27	3.95	3.18
<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
(Refundable pursuant to A.A.C. R14-2-405)			
5/8" x 3/4" Meter	\$ 400.00	\$ 400.00	\$ 400.00
3/4" Meter	400.00	400.00	400.00
1" Meter	500.00	500.00	500.00
1 1/2" Meter	715.00	715.00	715.00
2" Meter	1,170.00	1,170.00	1,170.00
3" Meter	1,585.00	1,585.00	1,585.00
4" Meter	2,540.00	2,540.00	2,540.00
6" Meter	4,815.00	4,815.00	4,815.00
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	30.00	30.00	30.00
Reconnection (Delinquent)	25.00	25.00	25.00
Meter Test (If Correct)	30.00	\$30.00	\$30.00
Deposit	*	*	*
Deposit Interest	*	*	*
Reestablishment (Within 12 Months)	**	**	**
NSF Check	\$15.00	\$15.00	\$15.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Reread (If Correct)	\$10.00	\$10.00	\$10.00
Late Fee	0.00%	0.00%	0.00%

* Per Commission rule A.A.C. R14-2-403(B).

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

1 6. Naco's fair value rate base ("FVRB"), as indicated by the Staff Report, is determined to
2 be \$86,577 which is the same as its OCRB.

3 7. Naco's present rates and charges produce adjusted revenues for the TY of \$102,422 and
4 adjusted operating expenses of \$101,533, resulting in operating income of \$909.

5 8. Naco's proposed rates and charges would produce revenues of \$180,712, adjusted
6 operating expenses of \$101,533, and operating income of \$79,179, a 91.46 percent rate of return on
7 FVRB.

8 9. Staff's proposed rates and charges would produce revenues of \$155,530, adjusted
9 operating expenses of \$101,533, and operating income of \$53,997, for a 62.37 percent rate of return on
10 FVRB.

11 10. Staff's adjustments to revenues and expenses, as reflected in the Staff Report are
12 reasonable, consequently we approve TY expenses totaling \$101,533 which based on Staff's proposed
13 rates and charges results in operating income of \$53,997 for a 62.37 percent rate of return of FVRB.

14 11. Naco had 318 customers at the end of the TY, 304 with 5/8"x 3/4" meters with an average
15 monthly usage of 8,433 gallons and a median monthly usage of 6,350 gallons. The Company had six 1-
16 inch meter customers, six 1 1/2" meter customers, and two 2-inch meter customers.

17 12. Naco's proposed rates would increase the median residential bill by 80.7 percent, from
18 \$19.52 to \$35.28 and the average monthly bill by 81.5 percent from \$22.65 to \$41.11.

19 13. Staff's proposed rates would increase the median residential bill by 58.7 percent from
20 \$19.52 to \$30.98 and the average monthly bill by 59.0 percent from \$22.65 to \$36.00.

21 14. Staff recommended its proposed rates be granted without a hearing.

22 15. Staff's revenue level and the rates ordered herein are just and reasonable.

23 16. Naco is current with its property taxes.

24 17. ADEQ has determined that the Naco Townsite system and the Bisbee Junction system are
25 currently delivering water that meets the Safe Drinking Water Act quality requirements. The Bisbee
26 Highway system is considered semi-public since it serves fewer than 15 service connections and fewer
27 than 25 customers, and therefore, ADEQ does not actively regulate this system.

28 18. The Company has requested approval to borrow \$620,000 from the WIFA for the purpose

1 of new construction and system upgrades to the Naco Townsite and Bisbee Junction systems.

2 19. The WIFA will lend the funds to Naco for 20 years at an approximate 5.95 percent annual
3 interest rate.

4 20. In addition to its proposed rates and charges and recommending approval of the financing
5 request, Staff recommended that:

- 6 (a) the Company set up a separate interest bearing account and encumber \$13.91 per
7 billing, per month¹ for the purpose of repayment of the WIFA loan, within 60 days
8 of the effective date of this decision;
- 9 (b) if WIFA approves additional debt to upgrade the mains, the Company should be
10 authorized to implement a surcharge to recover the additional debt service, upon
11 draw down of the \$620,000 and notification to the Director of the Utilities
12 Division;
- 13 (c) in addition to the collection of its regular rates and charges, the Company shall
14 collect from its customers their proportionate share of any privilege, sales, or use
15 tax as provided for in A.A.C. R14-2-409(D); and
- 16 (d) the Company be ordered to comply with the Engineering Staff's recommendations
17 concerning water loss data submission, including installing well meters and
18 recording water pumped, with data submitted to the Commission every six
19 months, as outlined in the Engineering Report.

20 **CONCLUSIONS OF LAW**

21 1. Naco is a public service corporation within the meaning of Article XV of the Arizona
22 Constitution and A.R.S. Sections 40-250 and 40-251.

23 2. The Commission has jurisdiction over the Company and of the subject matter of the
24 application.

25 3. Notice of the application was provided in the matter prescribed by law.

26 4. Staff's recommendations contained in Findings of Fact No. 20 are reasonable.

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

6. The financing approved herein is for the purposes stated in the application and is

¹ Based upon TY number of customers, a minimum amount of \$4,424 would be deposited monthly, and customer growth will allow the account to accumulate more and allow the Company to accelerate repayment of the loan.

1 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
 2 chargeable to operating expenses or to income.

3 **ORDER**

4 IT IS THEREFORE ORDERED that Naco Water Company, LLC shall file on or before August
 5 31, 1998, the following amended schedule of rates and charges:

6 **MONTHLY USAGE CHARGE:**

7	5/8" x 3/4" Meter	\$15.68
	3/4" Meter	15.68
8	1" Meter	30.68
	1 1/2" Meter	40.68
9	2" Meter	47.68
	3" Meter	160.00
10	4" Meter	260.00
	6" Meter	510.00

11 Gallonage Charge - per 1,000 Gallons:

12	1 to 10,000 Gallons	\$2.41
13	10,001 Gallons or more	\$3.18

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

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

15	5/8" x 3/4" Meter	\$ 400.00
16	3/4" Meter	400.00
	1" Meter	500.00
17	1 1/2" Meter	715.00
	2" Meter	1,170.00
18	3" Meter	1,585.00
	4" Meter	2,540.00
19	6" Meter	4,815.00

20 **SERVICE CHARGES:**

21	Establishment	\$25.00
	Establishment (After Hours)	\$30.00
22	Reconnection (Delinquent)	\$25.00
	Meter Test (If Correct)	\$30.00
23	Deposit	*
	Deposit Interest (Per Annum)	*
24	Reestablishment (Within 12 Months)	**
	NSF Check	\$15.00
25	Deferred Payment (Per Month)	1.50%
	Meter Reread (If Correct)	\$10.00
26	Late Fee (Per Month)	1.50%

27 * Per Commission rule A.A.C. R14-2-403(B).

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

1 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
2 provided on and after September 1, 1998.

3 IT IS FURTHER ORDERED Naco Water Company, LLC shall notify its customers of the rates
4 and charges authorized herein and the effective date of same by means of an insert in its next regular
5 monthly billing.

6 IT IS FURTHER ORDERED that Naco Water Company, LLC is hereby authorized to borrow
7 up to \$620,000 from the Water Infrastructure Finance Authority of Arizona for a term of up to twenty
8 years.

9 IT IS FURTHER ORDERED that Naco Water Company, LLC is hereby also authorized to
10 borrow up to \$51,619 from the Water Infrastructure Finance Authority of Arizona for a term of up to
11 twenty years, in order to upgrade mains to the six-inch size recommended by Staff.

12 IT IS FURTHER ORDERED that if the Water Infrastructure Finance Authority of Arizona
13 approves the additional \$51,619 in financing, Naco Water Company, LLC is hereby authorized to
14 implement a surcharge as recommended by Staff and approved by the Director of the Utilities Division.

15 IT IS FURTHER ORDERED that Naco Water Company, LLC is hereby authorized to engage
16 in any transactions and to execute any documents necessary to effectuate the authorization granted
17 hereinabove.

18 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon Naco Water
19 Company, LLC's use of the proceeds for the purposes set forth in the application.

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

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1 IT IS FURTHER ORDERED that to the extent not already accomplished, Naco Water Company,
2 LLC shall comply with Staff's recommendations set forth in Findings of Fact No. 20.

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

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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7 COMMISSIONER - CHAIRMAN

COMMISSIONER

COMMISSIONER

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9 IN WITNESS WHEREOF, I, JACK ROSE, Executive Secretary of the Arizona
10 Corporation Commission, have hereunto set my hand and caused the official seal
11 of the Commission to be affixed at the Capitol, in the City of Phoenix, this
_____ day of _____, 1998.

12
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14 _____
JACK ROSE
EXECUTIVE SECRETARY

15
16 DISSENT _____
LAF:dap

1 SERVICE LIST FOR: NACO WATER COMPANY, LLC
2 DOCKET NOS.: W-02860A-98-0227 and W-02860A-98-0259

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4 Salim S. Dominquez, Jr.
5 NACO WATER COMPANY, LLC
6 P.O. Box 85160
7 Tucson, Arizona 85754

8 Paul Bullis, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13
14 Director Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington Street
17 Phoenix, Arizona 85007
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