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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

- SUSAN BITTER SMITH – Chairman
- BOB STUMP
- BOB BURNS
- DOUG LITTLE
- TOM FORESE

JAN 22 2015

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IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (LITCHFIELD PARK WATER AND SEWER), CORP. FOR APPROVAL OF AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER UTILITY SERVICE IN MARICOPA COUNTY, ARIZONA.

DOCKET NO. W-01427A-14-0134

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (LITCHFIELD PARK WATER AND SEWER), CORP FOR APPROVAL OF AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WASTEWATER UTILITY SERVICE IN MARICOPA COUNTY, ARIZONA.

DOCKET NO. SW-01428A-14-0180

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER UTILITY SERVICE IN MARICOPA COUNTY, ARIZONA.

DOCKET NO. W-01412A-14-0262

DECISION NO. 74910

OPINION AND ORDER

DATE OF HEARING: July 24, 2014 (Procedural Conference) and September 24, 2014 (Evidentiary Hearing)

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Sasha Paternoster

APPEARANCES: Mr. Patrick Black, FENNEMORE CRAIG, P.C., on behalf of Liberty Utilities (Litchfield Park Water and Sewer), Corp.

Mr. Robert J. Metli, MUNGER CHADWICK, P.L.C., on behalf of Valley Utilities Water Company;

Mr. William E. Lally, TIFFANY & BOSCO, P.A., on behalf of TRS 8, LLC; and

Mr. Matthew Laudone and Mr. Wesley Van Cleve, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

1 BY THE COMMISSION:

2 On April 17, 2014, Liberty Utilities (Litchfield Park Water and Sewer), Corp. (“Liberty” or
3 “Company”)¹ filed with the Arizona Corporation Commission (“Commission”), in Docket No. W-
4 01427A-14-0134, an application requesting that the Commission approve an extension of its current
5 Certificate of Convenience and Necessity (“CC&N”) to provide water utility service to a new area
6 known as Marbella Ranch development in Maricopa County, Arizona (“Water Docket”).

7 On May 2, 2014, Liberty filed, in the Water Docket, a Notice of Filing that included copies of
8 the written notice provided to all municipal managers within a five (5) mile radius of the proposed
9 extension area regarding Liberty’s water CC&N extension application on file with the Commission.

10 On May 13, 2014, Liberty caused a letter to be docketed, in the Water Docket, stating Liberty
11 agreed with the Commission’s Utilities Division (“Staff”) to suspend the sufficiency review to allow
12 the Company to file its related application for an extension of its current wastewater CC&N, and
13 indicating that a joint review by Staff of both the water and wastewater applications would be more
14 expeditious.

15 On May 19, 2014, Liberty filed, in the Water Docket, a Notice of Errata correcting errors in
16 its Legal Description and Master Water Report.

17 On June 3, 2014, Liberty filed with the Commission, in Docket No. SW-01428A-14-0180, an
18 application requesting that the Commission approve an extension of its current wastewater CC&N
19 (“Wastewater Docket”) to provide wastewater utility service to the same general area requested in its
20 Water Docket application.

21 On June 4, 2014, Liberty filed, in the Wastewater Docket, an Amended Application For
22 Extension of its wastewater CC&N.

23 On June 5, 2014, Liberty filed, in both the Water and Wastewater Dockets, a motion to
24 consolidate the dockets. Liberty stated that, by consolidating both proceedings, resources would be
25 better utilized as both dockets involve the extension of both the Company’s water and wastewater
26 CC&Ns to serve the same area known as Marbella Ranch development.

27
28 ¹In 2013, Liberty changed its name from Litchfield Park Service Company dba Liberty Utilities to Liberty Utilities
(Litchfield Park Water & Sewer) Corp. *See* Decision No. 74437 (April 18, 2014).

1 On June 13, 2014, by Procedural Order, the Water and Wastewater Dockets were
2 consolidated ("Consolidated Liberty Docket").

3 On June 18, 2014, Valley Utilities Water Company, Inc. ("Valley") filed an Application for
4 Leave to Intervene and Notice of Intent, stating it intended to file a competing application for
5 extension of its water CC&N to serve the Marbella Ranch development. No objections were filed in
6 opposition to Valley's request for intervention.

7 On June 30, 2014, by Procedural Order, Valley was granted intervention in the Consolidated
8 Liberty Docket.

9 On July 3, 2014, Staff filed a Sufficiency Letter in the Consolidated Liberty Docket, stating
10 that Liberty's applications for extensions of its water and wastewater CC&Ns had met the sufficiency
11 requirements as outlined in the Arizona Administrative Code ("A.A.C.").

12 On July 10, 2014, Valley filed its competing application in Docket No. W-01412A-14-0262,
13 requesting an extension of Valley's water CC&N to provide service to the Marbella Ranch
14 development ("Valley Docket").

15 Also on July 10, 2014, a Procedural Order was issued scheduling a hearing in the
16 Consolidated Liberty Docket for September 3, 2014, and setting other procedural deadlines.

17 On July 15, 2014, Valley filed a Request for Procedural Conference to discuss potential
18 scheduling issues given the filing of its competing application.

19 On July 17, 2014, by Procedural Order, a Procedural Conference was scheduled for July 24,
20 2014.

21 On July 18, 2014, Liberty filed a Notice of Filing that included copies of the written notice
22 provided to all municipal managers within a five (5) mile radius of the proposed extension area
23 regarding Liberty's wastewater CC&N extension application on file with the Commission.

24 Also on July 18, 2014, Valley filed a Motion to Appear Telephonically for the July 24, 2014,
25 procedural conference stating that its counsel would be out of the state from July 23-25, 2014. By
26 Procedural Order dated July 21, 2014, the Motion was granted and the time clock suspended.

27 On July 23, 2014, TRS 8, LLC ("TRS 8"), which is the developer for Marbella Ranch, filed
28 public comment indicating that TRS 8 requests water and sewer services from Liberty and that TRS 8

1 did not request water services from Valley.

2 On July 24, 2014, a Procedural Conference was held as scheduled to address potential
3 scheduling conflicts as a result of Valley's filing its competing application to serve the proposed
4 extension area. Liberty, Valley, and Staff each appeared through counsel. At the conference, Staff
5 indicated consolidation of the matters was preferred so as not to strain Staff's finite resources. Valley
6 also sought to have the matters consolidated, but believed it was premature to consolidate the dockets
7 prior to its application being found sufficient.

8 On July 31, 2014, Staff filed a Sufficiency Letter in the Valley Docket, stating Valley's
9 application for an extension of its CC&N to provide water service had met the A.A.C. sufficiency
10 requirements.

11 On August 5, 2014, Valley filed, in the Consolidated Liberty Docket and the Valley Docket, a
12 motion to consolidate. Valley stated that the issues raised in each of the dockets are substantially the
13 same and that no party would be prejudiced by consolidation.

14 On August 7, 2014, by Procedural Order, the Consolidated Liberty Docket and the Valley
15 Docket were consolidated ("Consolidated Docket"). The Procedural Order reset the procedural
16 schedule on these consolidated matters, setting the hearing for September 24, 2014, and establishing
17 other procedural deadlines.

18 On August 12, 2014, a Procedural Order was issued resetting publication and mailing
19 deadlines for Liberty.

20 On August 22, 2014, Valley filed a Franchise Agreement Between Valley Utilities Water
21 Company, Inc. and Maricopa County. Also on this date, Valley filed Affidavits of Mailing and
22 Publication of Public Notice.

23 On August 29, 2014, Staff filed a Request for an Extension of Time to File Staff Report,
24 requesting an extension of the time deadline from August 29, 2014 to September 5, 2014, to file the
25 Staff Report. Staff's request stated it had consulted with counsel for both Liberty and Valley and
26 neither had an objection to the extension of the time deadline.

27 On September 2, 2014, by Procedural Order, Staff's Request for an Extension of Time to File
28 Staff Report from August 29, 2014 to September 5, 2014 was granted.

1 On that same date, TRS 8 filed an Application for Leave to Intervene.

2 On September 4, 2014, Staff filed its Staff Report, recommending approval of Liberty’s
3 applications subject to certain conditions.

4 On September 11, 2014, Liberty filed its Certification of Publication and Proof of Mailing
5 Notice.

6 On September 19, 2014, by Procedural Order, TRS 8 was granted intervention.

7 On September 24, 2014, the hearing in this matter was held as scheduled before a duly
8 authorized Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. Liberty,
9 Valley, TRS 8, and Staff appeared through counsel and no members of the public appeared to present
10 public comment. The parties presented evidence and testimony during the hearing. At the conclusion
11 of the hearing, the parties were instructed to file Closing Briefs, by October 17, 2014, in lieu of
12 closing arguments.

13 On October 15, 2014, one public comment in support of Valley’s application was docketed.

14 On October 17, 2014, the parties filed Closing Briefs.

15 Thereafter, this matter was taken under advisement pending submission of a Recommended
16 Opinion and Order to the Commission.

17 * * * * *

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

20 **FINDINGS OF FACT**

21 **I. Background**

22 1. Liberty is an Arizona “C” corporation that provides water and wastewater utility
23 service to the public in communities within the cities of Litchfield Park, Goodyear, and Avondale,
24 and in adjacent unincorporated areas of Maricopa County in the west Phoenix valley, west of the
25 Agua Fria River and north of Interstate Highway 10. Liberty is a Class A public service corporation
26 pursuant to the A.A.C. Liberty has approximately 18,400 water customers and approximately 20,500
27
28

1 wastewater customers.²

2 2. Liberty, an Arizona corporation, is owned by Liberty Utilities, a Delaware
3 corporation, through its operating subsidiary Liberty Utilities (West). Liberty's ultimate parent is
4 Algonquin Power & Utilities Corp., a Canadian corporation whose shares are traded on the Toronto
5 Stock Exchange.³

6 3. Valley is a family-owned, closely held Arizona "C" corporation. Valley provides
7 water utility service, pursuant to a CC&N granted by the Commission in 1954, to approximately
8 1,450 connections in an approximately five-square-mile unincorporated area of Maricopa County
9 located east of Luke Air Force Base.⁴

10 4. On April 17, 2014 and June 3, 2014, Liberty filed applications for an extension of its
11 current CC&N to provide water and wastewater utility service, respectively, to what is to be the
12 subdivision known as Marbella Ranch in Maricopa County, Arizona, the legal description of which is
13 set forth in Exhibit A, attached hereto and incorporated herein by reference.

14 5. On June 18, 2014, Valley filed a competing application to extend its CC&N to provide
15 water utility service to the Marbella Ranch development.

16 6. Liberty and Valley are requesting Commission approval to extend their water CC&Ns
17 to serve a 365 acre property (approximately $\frac{3}{4}$ of a square mile) in Maricopa County, of which
18 approximately 248 acres will be Marbella Ranch Subdivision and approximately 117 acres will be
19 restricted use land. Liberty has also requested extension of its wastewater CC&N to serve the
20 proposed area.

21 7. The proposed extension area is located on El Mirage Road alignment between
22 Glendale Avenue and Northern Avenue, in Section 2 of Township 2 North, Range 1 West, in an
23 unincorporated area of Maricopa County west of Luke Air Force Base.⁵ Liberty's current CC&N is
24 not contiguous with the proposed extension area, while Valley's existing CC&N is contiguous on the
25 east and south sides of the proposed extension area.⁶

26 _____
² Exhibit S-1 at 1.

27 ³ Id.

⁴ Id.

⁵ Id. at 2.

28 ⁶ Id.

1 8. The requested area is to be developed in two phases, with the southern portion
2 encompassing Phase I to include 600 single family homes and the northern portion encompassing
3 Phase II to include 660 dwelling units (300 single family homes and 360 apartment units) as well as a
4 50.5 acre industrial parcel.

5 9. According to Liberty, all utility construction for Phase I will be completed in year one
6 and all utility construction for Phase II will be completed in year two.⁷ Valley did not provide a
7 complete engineering plan or a projected construction schedule but stated it was adopting Liberty's
8 plan.⁸

9 10. The Marbella Ranch development is intended as an entry level community for first
10 time homebuyers and, as the property owner, TRS 8 is concerned with the ultimate costs to future
11 homeowners.⁹ When analyzing which service provider would be better suited to serve Marbella
12 Ranch, TRS 8 considered the costs to the developer and the eventual homebuyer.¹⁰

13 11. Liberty has received a request for service to provide water and wastewater service
14 from the developer and property owner, TRS 8, which covers the entire proposed extension area.
15 TRS 8 did not request water service from Valley. Liberty is willing to provide wastewater utility
16 service to the proposed extension area if Valley is awarded the extension of its water CC&N to serve
17 the Marbella Ranch development. However, Liberty states as a condition to only providing
18 wastewater services, each home will need to be equipped with a sewer shut off valve at a cost of \$250
19 to \$400 per home.¹¹

20 12. Liberty and Valley have an existing working relationship as Liberty provides
21 wastewater utility services to approximately 49 percent of Valley's current water customers.¹²
22 According to Liberty, there has been an occasion where a Valley water customer failed to pay their
23 sewer bill and, given the absence of a sewer shut off valve, Liberty was forced to arrange a backhoe
24

25 _____
26 ⁷ Exhibit S-1, Attachment A at 3.

27 ⁸ Id.

28 ⁹ Tr. at 113.

¹⁰ Id.

¹¹ Liberty's Closing Brief at 8.

¹² Testimony of Robert L. Prince at 6.

1 to dig up the sewer line in order to terminate service.¹³

2 13. The present case is one of the first CC&N extension requests to be brought before the
3 Commission since changes were made to the applicable rules in January 2010. The relevant changes
4 require comprehensive documentation to demonstrate the financial condition of the applicant so that
5 Staff may make appropriate financing recommendations to ensure the applicant's continued
6 viability.¹⁴

7 14. According to Staff, an over-reliance on advances in aid of construction ("AIAC") and
8 contributions in aid of construction ("CIAC") can lead to a utility not having a sufficient rate base to
9 earn a reasonable rate of return.¹⁵ To ensure a company remains financially viable, Staff stated it
10 generally recommends that private, investor-owned utilities have a combined AIAC and net CIAC
11 funding ratio not in excess of 30 percent of total capital.¹⁶

12 15. As a result of the rule changes and the information provided by Liberty and Valley to
13 comply with those changes, Staff had the ability to review both companies' current capital structures
14 and make recommendations on how to fund future infrastructure.

15 **II. Liberty's Application**

16 **Existing/Proposed Water System**

17 16. Liberty's existing water system consists of 12 wells, three arsenic treatment facilities,
18 two storage tanks, three booster systems, and a distribution system that serves approximately 18,500
19 customers.¹⁷

20 17. Staff concluded that Liberty's water system, with a total source capacity of 13,100
21 gallons per minute ("GPM") and storage capacity of 10.6 million gallons ("MG"), has adequate well
22 production and storage capacity to serve Liberty's existing customers and reasonable growth in the
23 proposed extension area.¹⁸

24
25 ¹³ Tr. at 27, 33. Where a sewer customer fails to pay its bill in an integrated system, the provider may shut off both water
26 and wastewater service. In the absence of a sewer shut off valve in a bifurcated water/wastewater provider scenario, the
27 sewer line must be physically dug up to terminate service to a customer who has not paid their bill.

¹⁴ See A.A.C. R14-2-402(B).

¹⁵ Exhibit S-1, Attachment C at 3.

¹⁶ Id.

¹⁷ Exhibit S-1, Attachment A at 10.

¹⁸ Id.

1 18. Liberty estimated a total combined cost for Phases I and II of the extension area of
2 approximately \$7,774,363 for additional water plant facilities needed to serve the proposed extension
3 area.¹⁹

4 19. Staff reviewed the proposed costs for the water system and found them to be
5 reasonable.²⁰ However, Staff stated it did not make a “used and useful” determination for the
6 proposed plant-in-service and no conclusions should be inferred for rate making or rate base
7 purposes.²¹

8 20. Liberty will charge its existing water rates in the proposed extension area. Liberty’s
9 current base water rates for service are: \$13.26 for 5/8 x 3/4 inch meters; \$13.26 for 3/4 inch meters;
10 and \$29.84 for 1 inch meters.²² Liberty’s typical monthly residential bill for a 3/4 inch meter with a
11 customer with median usage of 8,000 gallons is approximately \$25.²³

12 21. Staff states that Maricopa County Environmental Services Department (“MCESD”)²⁴
13 has determined that Liberty’s water system is in compliance and is currently delivering water that
14 meets water quality standards as determined by the A.A.C.²⁵

15 22. The Liberty water system is located in the Phoenix Active Management Area
16 (“AMA”) and the Arizona Department of Water Resources (“ADWR”) has determined that the
17 system is in compliance with its requirements governing water providers and/or community water
18 systems.²⁶

19 23. Staff reported that there are no delinquent Commission compliance items for
20 Liberty.²⁷

21 24. Liberty has an approved water Offsite Hookup Fee Tariff on file with the
22 Commission.²⁸

24 ¹⁹ Id. at 4-6.

25 ²⁰ Id. at 6.

26 ²¹ Id.

27 ²² Liberty’s Closing Brief at 6-7.

28 ²³ Tr. at 113.

²⁴ MCESD is the formally delegated agent of the Arizona Department of Environmental Quality.

²⁵ Exhibit S-1, Attachment A at 11.

²⁶ Id. at 12.

²⁷ Id.

²⁸ Id. at 13.

1 **Existing/Proposed Wastewater System**

2 25. According to Staff's Engineering Report, Liberty owns and operates the Palm Valley
3 Water Reclamation Facility ("WRF"), two lift stations, and a collection system.²⁹

4 26. Staff states the Palm Valley WRF has a treatment capacity of 5.1 million gallons per
5 day and consists of raw sewage inflow lift stations, headworks, grit removal, equalization basin, three
6 sequential batch reactors, four tertiary disk filters, seven UV disinfection trains, and a backup
7 disinfection system of chlorination/dechlorination unit.³⁰

8 27. According to Staff, the Arizona Department of Environmental Quality ("ADEQ")
9 allows final treated effluent for reuse via Arizona Aquifer Permit Nos. 47746 and 53068.³¹ Liberty
10 disposes of final effluent on different reuse sites or into the Roosevelt Irrigation District Canal via
11 Arizona Pollutant Discharge Elimination System Permit No. 45829.³²

12 28. Staff concluded that Liberty's wastewater system will have adequate capacity to serve
13 Liberty's existing customers as well as reasonable growth in the extension area.³³

14 29. Liberty submitted the proposed costs for wastewater facilities needed to serve the
15 requested extension area. Liberty's projections estimate a total combined cost for Phases I and II of
16 approximately \$4,313,652 for wastewater facilities in the requested extension area.³⁴

17 30. Staff concluded that Liberty's proposed cost to construct facilities needed to serve the
18 extension area is reasonable. However, Staff stated it did not make a "used and useful" determination
19 for the proposed plant-in-service and no conclusions should be inferred for rate making or rate base
20 purposes.³⁵

21 31. Liberty will charge its existing wastewater rates in the proposed extension area.³⁶

22 32. ADEQ's Compliance Status Report dated July 10, 2014, indicated that the Palm
23 Valley WRF was not in full compliance³⁷ but was not in violation at a level at which ADEQ will take

24 ²⁹ Id. at 11.

25 ³⁰ Id.

26 ³¹ Id.

27 ³² Id.

28 ³³ Id.

³⁴ Id. at 8-10.

³⁵ Id. at 10.

³⁶ Exhibit S-1 at 4.

³⁷ According to Staff, the violations were a result of turbidity and E Coli exceeding limits.

1 action or issue a Notice of Opportunity to Correct or Notice of Violation and/or is in compliance with
2 the Order/Judgment.³⁸

3 33. Liberty has an approved wastewater Offsite Hookup Fee Tariff, Curtailment and
4 Backflow/Cross Connection Tariffs, and ten approved Best Management Practice (“BMP”) Tariffs on
5 file with the Commission.³⁹

6 **Financing**

7 34. Liberty proposes to finance the water and wastewater infrastructure needs with a
8 combination of contributions, advances, and equity.⁴⁰ At hearing, Gregory Sorenson, the president of
9 Liberty for Arizona and Texas, estimated the total cost for water and wastewater infrastructure in the
10 extension area would be funded with 60-65 percent of non-CIAC or AIAC funds.⁴¹

11 35. Mr. Sorenson testified that Liberty’s current capital structure is roughly 80-85 percent
12 equity and 15-20 percent debt.⁴² Mr. Sorenson further testified that Liberty’s most recent rate case
13 utilized a 2012 test year and determined the water and sewer combined rate base is approximately
14 \$57 million.⁴³

15 36. Staff indicated that Liberty’s combined total AIAC and net CIAC results in 44 percent
16 of total capital for its water system.⁴⁴ Staff stated Liberty’s wastewater system has a combined AIAC
17 and net CIAC of 61 percent of total capital.⁴⁵ Liberty’s pro-forma (including the proposed CC&N
18 extension) combined AIAC and net CIAC funding ratio for the water system is 43 percent and 59
19 percent for the wastewater system.⁴⁶

20 **Staff’s Recommendations**

21 37. Staff is recommending the Commission approve Liberty’s application for extension of
22 its CC&N to provide water and wastewater service, subject to conditions. Liberty objected to Staff’s
23 original Recommendation No. 5 as it conflicted with its hook-up fee tariff. As a result, Staff

24 ³⁸ Exhibit S-1, Attachment A at 12.

25 ³⁹ Exhibit S-1 at 4; Exhibit S-1, Attachment A at 13.

26 ⁴⁰ Exhibit S-1 at 3-4.

26 ⁴¹ Tr. at 46.

26 ⁴² Id. at 44.

27 ⁴³ Id. at 46-47.

27 ⁴⁴ Exhibit S-1, Attachment C at 2.

28 ⁴⁵ Id.

28 ⁴⁶ Id.

1 amended its original recommendation relating to the funding of future infrastructure. Staff's final
2 recommendations are as follows:

- 3 1) That Liberty charge its existing rates and charges in the proposed extension area.
- 4 2) That Liberty file with Docket Control, a copy of the Certificate of Approval to
5 Construct ("ATC") for Phase I water plan as a compliance item in this docket no
6 later than December 31, 2015.
- 7 3) That Liberty file with Docket Control, a copy of the ATC for Phase I wastewater
8 plan as a compliance item in this docket no later than December 31, 2015.
- 9 4) That Liberty file with Docket Control, a copy of the county franchise agreement
10 for the extension area as a compliance item in this docket no later than December
11 31, 2015.
- 12 5) That Liberty fund its future infrastructure needs with 70 percent equity and no
13 more than 30 percent AIAC and CIAC combined, subject to Liberty's applicable
14 water and wastewater hook-up fee tariffs.

15 38. Staff further recommends that the Commission's Decision granting this extension of
16 Liberty's CC&N be considered null and void, after due process, should Liberty fail to meet
17 Conditions Nos. 2, 3, and 4, within the time specified.

18 **III. Valley's Application**

19 **Existing/Proposed Water System**

20 39. Valley's existing water system consists of seven active wells, two arsenic treatment
21 facilities, six storage tanks, and a distribution system that serves approximately 1,450 customers.⁴⁷

22 40. Staff concluded that Valley's water system, with a total source capacity of 1,530 GPM
23 and storage capacity of 2.06 MG, has adequate well production and storage capacity to serve Valley's
24 existing customers and reasonable growth in Phase I of the proposed extension area. Staff stated an
25 additional water source will be needed to serve customers in Phase II of the requested area but Valley
26 stated Well No. 1 would provide adequate production.⁴⁸

27 _____
28 ⁴⁷ Exhibit S-1, Attachment A at 10-11.

⁴⁸ Id. at 11.

1 41. Valley estimated a total combined cost for Phases I and II of approximately
2 \$7,450,762⁴⁹ for additional water plant facilities needed to serve the proposed extension area.⁵⁰

3 42. Valley states it entered into a Main Extension Agreement with the City of Glendale,
4 which provides water service to the Northern Parkway via a water main on Dysart Road, that
5 envisions development on the east and west side of Dysart as established by the reimbursement
6 provision.⁵¹ In its Closing Brief, Valley also points out that it has pre-existing water mains on the
7 south and west sides of the proposed extension areas.

8 43. Staff reviewed Valley's proposed costs for the water system and found them to be
9 reasonable. However, Staff stated it did not make a "used and useful" determination for the proposed
10 plant-in-service and no conclusions should be inferred for rate making or rate base purposes.⁵²

11 44. If awarded the CC&N, Valley will charge its existing water rates in the proposed
12 extension area. Valley's current base water rates for service are: \$18.40 for 5/8 x 3/4 inch meters;
13 \$27.60 for 3/4 inch meters; and \$46.00 for 1 inch meters.⁵³ Valley's typical monthly residential bill
14 for a 3/4 inch meter with a median usage of 8,000 gallons is approximately \$46.⁵⁴

15 45. Staff stated that MCESD has determined that Valley's water system is in compliance
16 and is currently delivering water that meets water quality standards as determined by the A.A.C.⁵⁵

17 46. Valley's water system is located in the Phoenix AMA and ADWR has determined that
18 the system is in compliance with its requirements governing water providers and/or community water
19 systems.⁵⁶

20 47. Staff reported that there are no delinquent Commission compliance items for Valley.⁵⁷

21 48. Valley has an approved Curtailment and Backflow/Cross Connection Tariff on file
22 with the Commission.⁵⁸

23 _____
24 ⁴⁹ This amount is inclusive of Liberty's estimated on-site water expenses, given Valley's adoption of Liberty's on-site construction plan.

25 ⁵⁰ Id. at 6-7.

26 ⁵¹ Valley's Closing Brief at 2.

27 ⁵² Exhibit S-1, Attachment A at 6.

28 ⁵³ Liberty's Closing Brief at 6-7.

⁵⁴ Tr. at 113.

⁵⁵ Exhibit S-1, Attachment A at 11.

⁵⁶ Id. at 12.

⁵⁷ Id.

⁵⁸ Id.

1 49. Valley has five approved BMP Tariffs on file with the Commission.⁵⁹

2 50. Valley docketed a copy of the franchise agreement it has with Maricopa County
3 covering the proposed extension area.

4 **Financing**

5 51. Valley proposes to finance the water facilities entirely with AIAC.⁶⁰

6 52. According to Staff, Valley's water system has a combined total AIAC and net CIAC
7 of 76 percent of total capital.⁶¹ Valley's pro-forma (including the proposed CC&N extension)
8 combined AIAC and net CIAC funding ratio is 88 percent.⁶²

9 **Staff's Recommendations**

10 53. Staff provided recommendations in the event the Commission decides to grant
11 Valley's application for extension of its CC&N to provide water service. Staff recommends the
12 approval should be subject to the following conditions:

- 13 1) That Valley charge its existing rates and charges in the proposed extension area.
- 14 2) That Valley file with Docket Control, a copy of the ATC for Phase I water plan as
15 a compliance item in this docket no later than December 31, 2015.
- 16 3) That Valley fund the entire construction costs with equity.

17 54. Staff further recommends that the Commission's Decision granting this extension of
18 CC&N to Valley be considered null and void, after due process, should Valley fail to meet Condition
19 No. 2 within the time specified.

20 **IV. Discussion**

21 55. Staff concluded that both Liberty and Valley are fit and proper entities to extend their
22 respective CC&Ns, but is recommending that the Commission approve Liberty's applications. Staff
23 stated that there are several advantages to awarding the CC&N to Liberty's integrated water and
24 wastewater system. Staff considered the efficiencies of a combined bill, centralized customer
25 service, the ability to share the costs of plant purchases, engineering services, and insurance, as well

26 _____
27 ⁵⁹ Id.

⁶⁰ Exhibit S-1 at 3-4.

⁶¹ Id.

28 ⁶² Id.

1 as the ease of disconnecting service for the nonpayment of utility bills, to support its belief that an
2 integrated system of a single utility will be more efficient than the provision of water/wastewater
3 service provided by separate entities. Staff also pointed to Liberty's request for service from the
4 developer, Liberty's lower water rates, and the simplicity in which Liberty's unified water and
5 wastewater system could comply with groundwater management requirements compared to the water
6 and wastewater combination of Valley and Liberty.⁶³

7 56. Despite Liberty's ongoing objections, Staff continues to recommend Liberty fund the
8 infrastructure needed to serve the extension area with 70 percent equity and no more than 30 percent
9 combined AIAC and CIAC, subject to its applicable hook-up fee tariffs, to provide a better balance of
10 financial risk for Liberty and its ratepayers.⁶⁴

11 57. Although Staff recommends approval of Liberty's application to extend its water
12 CC&N, Staff sees Valley as a "viable alternative" given the close proximity of Valley's existing
13 CC&N to the extension area, the economies of scale the proposed increase would create for Valley,
14 and that this is the last contiguous parcel of land to which Valley could expand its service area.⁶⁵

15 58. Liberty agrees with Staff that its integrated water and wastewater system will be the
16 best way to serve the interests of the developer and future homeowners. Liberty asserts that the
17 inherent efficiencies of a combined system, TRS 8's request for Liberty to provide service, Liberty's
18 lower utility rates, the redundancies in its larger system that can provide uninterrupted service, and its
19 greater access to financial markets, better serve the public interest.

20 59. Liberty disagrees with Staff as it relates to the financing restrictions for new water and
21 wastewater infrastructure to be used to serve Marbella Ranch. Liberty argues that Staff's
22 recommendation is inappropriate within the confines of a CC&N hearing, unnecessary given
23 Liberty's healthy financial position, incongruous if Liberty is forced to finance utility infrastructure
24 that is not given a "used and useful" determination, and improper as it is seen as an attempt to
25 manage Liberty's internal business affairs.⁶⁶ Staff responds that Commission-directed funding

26
27 ⁶³ Exhibit S-1 at 6.

⁶⁴ Staff's Closing Brief at 6.

⁶⁵ Id. at 4.

28 ⁶⁶ Liberty's Closing Brief at 9-13.

1 restrictions do not establish whether plant constructed was prudent and, therefore, “used and useful.”
2 Instead, Staff argues that those restrictions are an exercise of the Commission’s exclusive ratemaking
3 authority that protect the ratepayers’ interests.⁶⁷

4 60. TRS 8 supports Liberty’s applications to extend its water and wastewater CC&Ns to
5 serve Marbella Ranch and indicates that it would “reevaluate its options” if Liberty is not granted the
6 CC&N. TRS 8 explains ownership preference, Valley’s inability to serve, affordable rates for
7 customers, and public interest benefits strongly favors awarding Liberty the water CC&N.⁶⁸

8 61. Valley asserts it is fit and proper to serve the proposed extension area and states
9 granting it the water CC&N would be in the public interest given the positive impact the extension
10 would have on Valley. Valley states its customer base would increase by 87 percent and its rate base
11 would increase by 421 percent, which would allow Valley to benefit from economies of scale and
12 assist in a healthier financial structure.⁶⁹ Additionally, Valley has offered to enter into a water shut
13 off agreement to abate concerns over the non-payment of sewer bills in a bifurcated system.⁷⁰

14 62. Valley is opposed to Staff’s recommendation which would require Valley to finance
15 needed utility infrastructure with 100 percent equity if awarded the water CC&N for Marbella Ranch
16 and indicated it would be “very difficult” for it to satisfy that recommendation.⁷¹ Valley states that
17 such a recommendation quashes the ability of smaller water companies to grow, giving larger
18 companies a considerable advantage.⁷² Staff commends Valley’s financial improvements of
19 changing its negative equity position to a positive one and asserts that allowing Valley to fund the
20 entire project using only AIAC could minimize the financial gains Valley has made.⁷³

21 63. Staff proposed an alternative recommendation in which the company awarded the
22 water CC&N can choose how to finance the plant as long as it does not worsen the current percentage
23 of combined AIAC and CIAC, but the Company must docket a plan by July 31, 2015, showing how
24

25 ⁶⁷ Staff’s Closing Brief at 10.

26 ⁶⁸ TRS 8’s Closing Brief at 2-4.

27 ⁶⁹ Valley’s Closing Brief at 3-4.

28 ⁷⁰ Id. at 6.

⁷¹ Tr. at 105.

⁷² Valley’s Closing Brief at 4-5.

⁷³ Staff’s Closing Brief at 9.

1 it will meet and maintain a 70 percent equity to 30 percent AIAC/CIAC ratio.⁷⁴ Neither Liberty or
 2 Valley support Staff's alternative recommendation.⁷⁵

3 **V. Analysis**

4 64. We agree with Staff that, given the totality of the circumstances in the present case,
 5 the public interest will be better served by awarding Liberty an extension of its water and wastewater
 6 CC&Ns. We base that determination on the myriad of factors weighing in Liberty's favor: 1) an
 7 integrated water and wastewater system that allows for a single bill and a centralized customer
 8 service department, resulting in lower cost of service expense; 2) a larger system with redundancies
 9 that may enhance the ability to maintain uninterrupted service; 3) ability to more easily share
 10 customer information to account for groundwater credits; 4) greater access to capital markets; 5)
 11 lower costs to future homeowners via lower water rates and avoided costs (i.e., the avoidance of costs
 12 associated with installing a sewer shut off valve in the event of bifurcated service); and 6) a request
 13 for service from the developer of the extension area.

14 65. Further, we find Staff's recommendation relating to how Liberty should fund its future
 15 infrastructure unnecessary in this instance given that Liberty is a small component of its substantially
 16 larger parent company which has access to the capital markets. In addition, Liberty's proposal to
 17 finance plant for this project using 60-65 percent non-AIAC or CIAC funds maintains its current
 18 capital structure and Staff recognizes that Liberty's risk for rate base erosion is minimal.⁷⁶ Based on
 19 the foregoing, we decline to adopt Staff's recommendation 5 or Staff's alternative recommendation.

20 66. Staff's recommendations, as modified herein, are reasonable and should be adopted.

21 **CONCLUSIONS OF LAW**

22 1. Liberty and Valley are public service corporations within the meaning of Article XV
 23 of the Arizona Constitution and A.R.S. §§ 40-281, 40-282, and 40-252.

24 2. The Commission has jurisdiction over Liberty and Valley and the subject matter of
 25 their applications.

26 3. Notice of the applications was provided in accordance with the law.

27 ⁷⁴ Tr. at 145.

28 ⁷⁵ Liberty's Closing Brief at 10, footnote 23.

⁷⁶ Staff's Closing Brief at 7.

1 considered null and void, after due process.

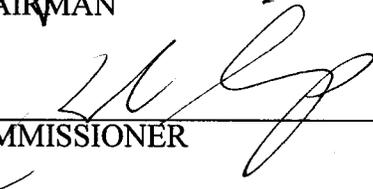
2 IT IS FURTHER ORDERED that the application of Valley Utilities Water Company, Inc. for
3 an extension of its Certificate of Convenience and Necessity is hereby denied.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

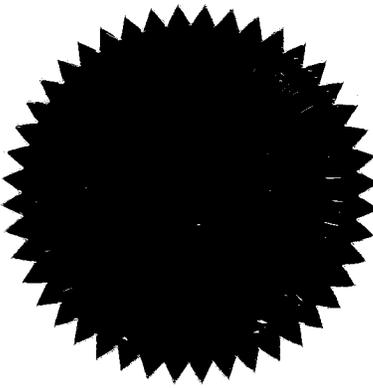
6
7 
8 CHAIRMAN


COMMISSIONER

9
10 
COMMISSIONER


COMMISSIONER


COMMISSIONER



11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this 21st day of January 2015.

17 
JODI JERICH
EXECUTIVE DIRECTOR

18 DISSENT _____

19
20 DISSENT _____
21 SP:ru

1 SERVICE LIST FOR: LIBERTY UTILITIES (LITCHFIELD PARK WATER
2 AND SEWER), CORP. AND VALLEY UTILITIES
WATER COMPANY, INC.

3 DOCKET NOS.: W-01427A-14-0134; SW-01428A-14-0180; AND W-
4 01412A-14-0262

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23 1200 West Washington Street
24 Phoenix, AZ 85007

25 Steven M. Olea, Director
26 Utilities Division
27 ARIZONA CORPORATION COMMISSION
28 1200 West Washington Street
Phoenix, AZ 85007

EXHIBIT A

That portion of Section 2, Township 2 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona more particularly described as follows:

The Northeast Quarter of said Section 2;

EXCEPT the south 20.00 feet of said Northeast Quarter;

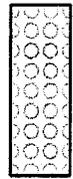
The East $\frac{1}{2}$ of the Northwest Quarter of said Section 2;

EXCEPT the south 20.00 feet of said Northwest Quarter, and;
the west 400.44 feet of the south 1,724.91 feet of said Northwest Quarter;

The Southeast Quarter of said Section 2;

EXCEPT the north 140.00 feet of said Southeast Quarter.

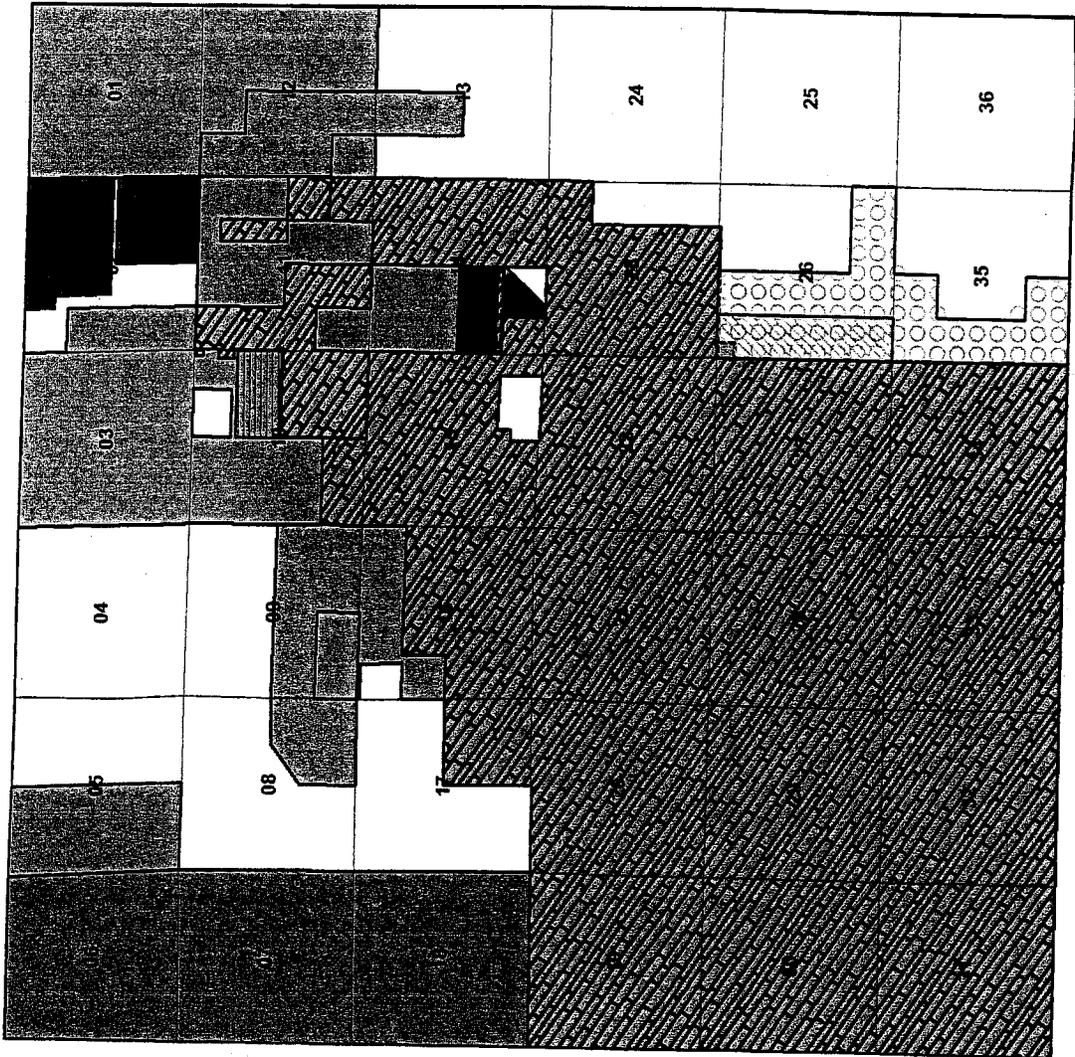


-  W-01997A (2)
Adaman Mutual Water Company
-  W-01427A (4)
Litchfield Park Service Company
-  SW-01428A (4)
Litchfield Park Service Company
-  W-02076A (1)
Tierra Buena Water Company
-  W-01412A (1)
Valley Utilities Water Company, Inc.
-  Sewer (1)
Casitas Bonitas Wastewater Improvement District (Nonjurisdictional)
-  (1)
Adaman Mutual Water Company (Contiguous Area)
-  Sewer (4)
City of Avondale (Nonjurisdictional)
-  (1)
Liberty Utility Corp.
(Litchfield Park Water and Sewer)
Docket No. W-01427A-14-0134
Request for Extension (Water)

TOWNSHIP 2 North

MARICOPA COUNTY

RANGE 1 West



DECISION NO. 74910