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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH  
Chairman  
BOB STUMP  
Commissioner  
BOB BURNS  
Commissioner  
DOUG LITTLE  
Commissioner  
TOM FORESE  
Commissioner

Arizona Corporation Commission

DOCKETED

JUL 15 2015

DOCKETED BY

IN THE MATTER OF THE APPLICATION  
OF BOB B. WATKINS DBA EAST SLOPE  
WATER COMPANY TO AMEND DECISION  
NO. 73091 PURSUANT TO A.R.S §40-252.

DOCKET NOS. W-02031A-10-0168  
W-02327A-10-0169  
W-01906A-10-0170  
W-01906A-10-0171  
W-02031A-10-0171  
W-02327A-10-0171  
W-01906A-10-0183  
W-02031A-10-0184  
W-02327A-10-0185

DECISION NO. 75172  
ORDER

Open Meeting  
July 7 and 8, 2015  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

**Introduction and Background**

1. Bob D. Watkins dba East Slope Water Company ("East Slope" or "Company") is certificated to provide water service as a public service corporation in the State of Arizona.

2. On April 4, 2012, the Arizona Corporation Commission ("Commission") issued Decision No. 73091 approving adjusted rates and a water infrastructure surcharge mechanism for East Slope. As part of the Decision, the Commission authorized the Company to obtain a 20-year amortizing loan in an amount not to exceed \$2,748,504 to finance the proposed improvement projects, and at an interest rate not to exceed that which is available from the Water Infrastructure Finance Authority of Arizona ("WIFA").

1           3.       On December 12, 2013, the Commission issued Decision No. 73615 which amended  
2 Decision No. 73091 to authorize the Company to obtain an interest only loan from WIFA, for a term  
3 not to exceed three years and in an amount not to exceed \$282,748, for the purpose of planning and  
4 designing improvements to the Company's water system. The Company shall then roll the  
5 outstanding balance of that loan into a second loan in an amount not to exceed a combined total of  
6 \$2,748,504 for the purpose of constructing improvements to the Company's water system. The length  
7 of the second loan coupled with the actual length of the first loan is equal to 20 years. Decision No.  
8 73615 also approved the infrastructure surcharge mechanism for the Company.

9           4.       The Company's current monthly infrastructure surcharge is \$0.23 for a customer with  
10 a 5/8 x 3/4-inch meter.

11           5.       On March 6, 2015, the Company filed an application to amend Decision No. 73091  
12 pursuant to A.R.S Section 40-252 to modify the scope of the improvement projects (outlined in  
13 Exhibit B of Decision No.73091) and to modify certain dates related to financing and construction of  
14 proposed improvement projects.

15           6.       On March 27, 2015, WIFA submitted a request to amend Decision No. 73091, to get  
16 approval of the revised project list, and to request that the calculation of the water infrastructure  
17 surcharge also include the debt service reserve.

18           7.       Staff reviewed the modified proposed improvement projects outlines in the attached  
19 Exhibit A and determined the projects are appropriate and the cost estimates of \$2,114,063 projected  
20 by the Company are reasonable. Staff made no used and useful determination of the proposed plant  
21 and no particular future treatment should be inferred for rate-making purposes.

22           8.       According to the memorandum, several wells in the West System have a tendency to  
23 dry up in low rainfall periods. The Memorandum concludes that the West System current well  
24 capacity is not sufficient to adequately meet existing demand and redundancy requirements. The  
25 Company proposes to install an emergency interconnect with the adjacent Pueblo Del Sol Water  
26 Company ("PDS"). Staff requested the Company provide the signed Interconnect Agreement  
27 between the Company and PDS. The Company responded that there is no such agreement in place.

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**Calculation of Infrastructure Surcharge**

9. Staff's calculation utilized the Company's customer billing determinants to compute the appropriate infrastructure surcharge based on meter size. Staff's infrastructure surcharge is calculated to be collected as a monthly surcharge in addition to the customary monthly minimum charge and does not include a commodity component.

10. Based on the estimated \$2,114,063 WIFA loan and the 5.25 percent combined interest and fee rate, the Company will be required to pay \$188,253 for Annual Principal and Interest and \$37,651 for Annual Debt Service Reserve. The WIFA loan surcharge also includes a component for the annual income tax. A Gross Revenue Conversion Factor of 1.318505, approved in Decision No. 73091, was used to calculate the annual income tax component of surcharge revenue.

11. Staff has included the debt service reserve fund in the WIFA loan surcharge that customers will pay. The debt service reserve fund is a fund that the Company pays into for five years. After five years, the balance will equal one year of principal and interest payments for the loan.

12. Staff calculated a monthly infrastructure surcharge for a customer with a 5/8 x 3/4-inch meter at \$18.48.

13. An East Slope Water Company residential customer on a 5/8 x 3/4-inch meter using an average of 9,137 gallons would see a monthly increase of \$18.25, or 71.25 percent, from \$25.51 to \$43.76.<sup>1</sup>

14. An Indiada Water Company residential customer on a 5/8 x 3/4-inch meter using an average of 8,731 gallons would see a monthly increase of \$18.25, or 73.51 percent, from \$24.82 to \$43.07.

15. An Antelope Run Water Company residential customer on a 5/8 x 3/4-inch meter using an average of 11,839 gallons would see a monthly increase of \$18.25, or 55.62 percent, from \$32.81 to \$51.06.

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<sup>1</sup>Decision No. 73019 approved the consolidation of Indiada Water Company, Antelope Run Water and East Slope Water Company. East Slope Water Company was the remaining entity. Separate rates were maintained for East Slope, Indiada and Antelope Run customers.

1           16.     When the reserve fund is included in the WIFA surcharge, as Staff has done,  
2 ratepayers will be effectively "prepaying" \$188,253 in funding that will eventually be used to either  
3 make loan payments or to pay for future maintenance, or this balance will be refunded to the  
4 Company. Ratepayers should ultimately be given credit for making these prepayments.

5           17.     Staff recommends modification of the loan authorizations approved in Decision  
6 No.73091 via A.R.S §40-252 to approve the modified proposed improvement projects outlines in the  
7 attached Exhibit A and to authorize the Company to obtain a seventeen-year amortizing consolidated  
8 loan in an amount not to exceed \$2,114,063 for the purpose of constructing system improvements.

9           18.     Staff recommends approval of the infrastructure surcharges presented below:

10                   **MONTHLY INFRASTRUCTURE SURCHARGE**

11                   5/8"x 3/4" Meter	\$ 18.48
12                   3/4" Meter	\$ 27.72
13                   1" Meter	\$ 46.20
14                   1 1/2" Meter	\$ 92.40
15                   2" Meter	\$147.84
16                   3." Meter	\$295.68
17                   4" Meter	\$462.00
18                   6" Meter	\$924.00

19           19.     Staff has also recommended the following:

20                   Staff recommends the new infrastructure surcharge become effective when the  
21 Company closes this portion of the WIFA loan.

22                   Staff recommends the cancellation of the current monthly infrastructure surcharge  
23 when the new infrastructure surcharge becomes effective.

24                   Staff recommends that the Company place the surcharge funds in a separate, interest-  
25 bearing account; and withdrawal access to that account is restricted to only WIFA  
26 except for income tax withdrawals necessary to pay the associated income taxes.

27                   Staff recommends that the Company file with the Commission an infrastructure  
28 surcharge tariff consistent with the rates reflected in schedule PNT-1.

                  Staff recommends that the Company be required to file a follow-up rate case within  
                  five years of the effective date of the surcharge approval. If the Company fails to  
                  timely file the rate case, the WIFA infrastructure surcharge will automatically cease no  
                  later than July 31, 2020.

                  Staff recommends that the Company notify its customers of the infrastructure  
                  surcharge tariff approved in this proceeding within 30 days of the effective date of the  
                  Commission Decision, in a notice acceptable to Staff.

1 Staff recommends that the Company be required to file with Docket Control, as a  
2 compliance item in this docket, documentation which demonstrates the final loan  
3 details and customer count within 30 days of when the new infrastructure surcharge is  
4 first billed.

5 As per Staff Engineer's memo, Staff recommends that the Company be required to file  
6 with Docket Control, as a compliance item in this docket, documentation which  
7 demonstrates that the interconnect with Pueblo Del Sol Water Company will provide  
8 the West System as much water as needed by the Company to serve its customers.  
9 This documentation should be provided prior to the Company closing on any loan for  
10 these improvements or by October 2, 2015, whichever is earlier.

11 Staff recommends that the Company be required to file with Docket Control, as a  
12 compliance item in this docket, by July 1, 2016, copies of the Approvals of  
13 Construction ("AOC") for each of the proposed improvement projects, as delineated  
14 in the Proposed Capital Improvement Projects and Costs Table.

15 20. We find Staff's recommendations to be reasonable and will adopt them with certain  
16 modifications requested by the Company in its July 2, 2015 comments in this docket. We believe it is  
17 reasonable to extend the time for filing AOCs for each of the proposed improvement projects to  
18 March 31, 2017. We also believe the Company has proposed a reasonable process for future potential  
19 revisions of Exhibit A to include the drilling of a well.

#### 20 CONCLUSIONS OF LAW

21 1. Bob D. Watkins dba East Slope Water Company is a public service corporation within  
22 the meaning of Article XV of the Arizona Constitution and A.R.S. § 40-250 and 40-252.

23 2. The Commission has jurisdiction over Bob D. Watkins dba East Slope Water  
24 Company and of the subject matter of the application.

25 3. Pursuant to A.R.S. § 40-252, the Commission, having reviewed the record, concludes  
26 that it is in the public interest to approve the modifications to Decision No. 73091, as discussed  
27 herein.

28 4. The Commission further concludes that approval of an infrastructure surcharge  
recovery mechanism is consistent with the Commission's authority under the Arizona Constitution,  
Arizona ratemaking statutes, and applicable case law.

5. The Commission further concludes that it is in the public interest to approve the  
infrastructure surcharge for Bob D. Watkins dba East Slope Water Company, as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that Decision No. 73091 is amended to adopt modified proposed improvement projects outlined in the attached Exhibit A. East Slope Water Company may revise the scope of projects described in Exhibit A to include the drilling of a well provided it files notice of the proposed revision in this docket and the overall cost of the project does not exceed the loan amount approved in this matter. Staff shall review this filing and file its recommendation within 60 days.

IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company is hereby authorized to obtain a 17-year amortizing loan in an amount not to exceed \$2,114,063 to finance the modified proposed improvement projects, and at an interest rate not to exceed that which is available from WIFA.

IT IS FURTHER ORDERED that the infrastructure surcharge mechanism for Bob D. Watkins dba East Slope Water Company is approved, as discussed herein.

IT IS FURTHER ORDERED that Bob D. Watkins dba East Slope Water Company is hereby authorized and directed to file with the Commission’s Docket Control, as a compliance item in this docket, within 30 days of the effective date of this Decision, a revised tariff setting forth the following infrastructure surcharges:

<u>MONTHLY INFRASTRUCTURE SURCHARGE</u>		
5/8"x 3/4" Meter		\$ 18.48
3/4" Meter		\$ 27.72
1" Meter		\$ 46.20
1 1/2" Meter		\$ 92.40
2" Meter		\$147.84
3." Meter		\$295.68
4" Meter		\$462.00
6" Meter		\$924.00

IT IS FURTHER ORDERED that the new infrastructure surcharge become effective when Bob B. Watkins dba East Slope Water Company closes this portion of the WIFA loan.

IT IS FURTHER ORDERED that the current monthly infrastructure surcharge is cancelled when the new infrastructure surcharge becomes effective.

...

1 IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company shall  
2 place the surcharge funds in a separate, interest-bearing account; and withdrawal access to that  
3 account is restricted to only WIFA except for income tax withdrawals necessary to pay the associated  
4 income taxes.

5 IT IS FURTHER ORDERED that the Bob B. Watkins dba East Slope Water Company file  
6 with Docket Control, as a compliance item in this docket, documentation which demonstrates the  
7 final loan details and customer count within 30 days of when the new infrastructure surcharge is first  
8 billed.

9 IT IS FURTHER ORDERED that the Bob B. Watkins dba East Slope Water Company file  
10 with Docket Control, as a compliance item in this docket documentation which demonstrates that the  
11 interconnect with Pueblo Del Sol Water Company will provide the West System as much water as  
12 needed by Bob B. Watkins dba East Slope Water Company to serve its customers. This  
13 documentation shall be provided by November 2, 2015.

14 IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company notify its  
15 customers of the infrastructure surcharge tariff approved in this proceeding within 30 days of the  
16 effective date of the Commission Decision, in a notice acceptable to Staff.

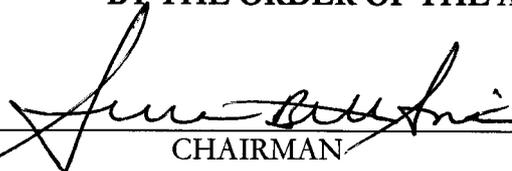
17 IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company file with  
18 Docket Control, as a compliance item in this docket, by March 31, 2017, copies of the Approvals of  
19 Construction (“AOC”) for each of the proposed improvement projects, as delineated in the Proposed  
20 Capital Improvement Projects and Costs Table.

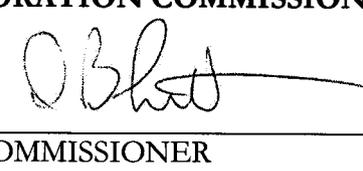
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1 IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company file a rate  
2 case within five years of the effective date of the surcharge approval. If Bob B. Watkins dba East  
3 Slope Water Company fails to timely file the rate case, the WIFA infrastructure surcharge will  
4 automatically cease no later than July 31, 2020.

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

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7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

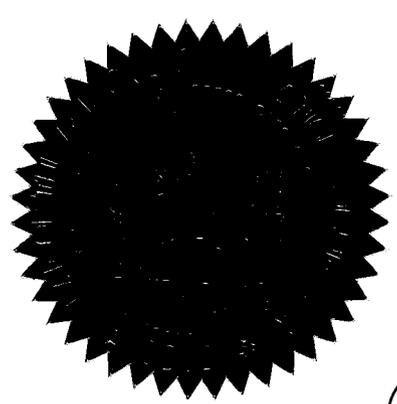
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CHAIRMAN

  
COMMISSIONER

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COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER



14 IN WITNESS WHEREOF, I, JODI JERICH, Executive  
15 Director of the Arizona Corporation Commission, have  
16 hereunto, set my hand and caused the official seal of this  
17 Commission to be affixed at the Capitol, in the City of  
18 Phoenix, this 15th day of July, 2015.

  
JODI JERICH  
EXECUTIVE DIRECTOR

21 DISSENT: \_\_\_\_\_

22 DISSENT: \_\_\_\_\_

23 SMO:PNT:red\RRM

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1 SERVICE LIST FOR: Bob D. Watkins dba East Slop Water Company  
2 DOCKET NO. W-02031A-10-0168 et al.

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19 Mr. Dwight Node  
20 Acting Chief Administrative Law Judge, Hearings Division  
21 Arizona Corporation Commission  
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## EXHIBIT A

Proposed Capital Improvement Projects and Costs Table					
Item No.	Item Description	Quantity	Unit Cost	Amount	Remarks
<b>Main System</b>					
1	Install new 6-inch PVC waterline and all appurtenances between Well No.3 to Camino Principal	7,250 lf	\$65	\$471,250	To improve system's water distribution, pressure and redundancy
2	Install new 6-inch DIP waterline and all appurtenances between Well No.3 to Camino Principal	300 lf	\$85	\$25,500	Ductile Iron Pipe is required at all wash crossings
3	Directional drill under roadways (HDPE)	180 lf	\$250	\$45,500	To comply with Cochise County right-of-way paved roads crossings
4	Install tie-ins (6-inch and 4-inch pipe) to existing system			\$35,000	To tie new 6-inch waterline into water system in several locations, including Well No.2 site
5	Miscellaneous piping tie-over and replacements between Wells No.4 and 1 sites including water main and service connections			\$22,000	To abandon old 2-inch lines and connect to existing 6-inch line
6	<b>Install new?</b> PRV station as part of pipeline project referenced in Item No. 9	1	\$15,000	\$15,000	To regulate pressure in two separate pressure zones
7	Temporary water line for construction			\$23,000	
8	Install new 4-inch PVC waterline in Glenn Road	1,000 lf	\$50	\$50,000	To replace existing 2-inch line
9	Install new 6-inch PVC waterline and all appurtenances, tie-ins, crossings in Ramsey Road east of Well No.3	3,600 lf	\$85	\$306,000	To permanently interconnect main and RSP pressure zones and improve water flow from RSP facilities
10	Directional drill under roadways (HDPE)	200	\$250	\$50,000	To comply with Cochise County right-of-way paved roads crossings
	Subtotal			\$1,042,750	
	Engineering, Permitting, Construction Services and Contingencies		25%	\$260,688	
	<b>Total Project Costs</b>			<b>\$1,303,438</b>	
<b>West System</b>					
1	Install new 100,000 gallon storage tank at Indiada Well No. 2 site	1	\$170,000	\$170,000	To improve system's storage capacity
2	Site work and piping at Indiada Well No. 2 site			\$35,000	As part of projects referenced in Item No. 1 and Item No.3
3	Booster and electrical upgrades at Indiada Well No. 2 site			\$25,000	To improve system pressure
4	Install new 6-inch DIP waterline and all appurtenances	2,100 lf	\$90	\$189,000	To connect new storage tank to the system
5	Install new 6-inch PVC waterline and all appurtenances in East Yaqui Street	1,400 lf	\$75	\$105,000	Interconnect to PDS to provide backup of water supply
6	Install new booster pump at Antelope Run Well No.1 site	1		\$45,000	To improve water distribution and redundancy
7	Install new pressure tank at Antelope Run Well No.1 site	1		\$20,000	To replace failing tank
8	Electrical upgrades at Antelope Run Well No.1 site			\$15,000	As part of projects referenced in Item No. 6
9	Install new 4-inch PVC waterline	300 lf	\$65	\$19,500	To improve system's water distribution, pressure and redundancy
10	Radio control system	1		\$25,000	To improve system operation
	Subtotal			\$648,500	
	Engineering, Permitting, Construction Services and Contingencies		25%	\$162,125	
	<b>Total Project Costs</b>			<b>\$810,625</b>	
	<b>Total for Main and West systems</b>			<b>\$2,114,063</b>	