

ORIGINAL

NEW APPLICATION



0000166446

1 Steve Wene, No. 019630
2 MOYES SELLERS & HENDRICKS LTD.
3 1850 N. Central Avenue, Suite 1100
4 Phoenix, Arizona 85004
5 (602)-604-2189
6 swene@law-msh.com
7 Attorneys for Truxton Canyon Water
8 Company, Inc.

RECEIVED

2015 OCT 30 P 1: 38

AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

9 SUSAN BITTER SMITH, CHAIRMAN
10 BOB STUMP
11 BOB BURNS
12 TOM FORESE
13 DOUG LITTLE

Arizona Corporation Commission

DOCKETED

OCT 30 2015

DOCKETED BY 

14 IN THE MATTER OF THE APPLICATION
15 OF TRUXTON CANYON WATER
16 COMPANY, INC. FOR AUTHORITY TO
17 INCUR LONG-TERM DEBT.

DOCKET NO. W-02168A-15-0369

FINANCE APPLICATION

18 Pursuant to A.R.S. § 40-301 *et seq.* and A.A.C. R14-3-106(F), Truxton Canyon
19 Water Company, Inc. (“Company”, “Truxton”, or “Applicant”), hereby files its
20 application for authority to incur debt to finance purchase and installation of a building to
21 house arsenic treatment equipment.
22

PRELIMINARY STATEMENT

25 The Company is a public service corporation subject to regulation by the Arizona
26 Corporation Commission (“Commission”) as a water utility. The Company holds a
27 Certificate of Convenience and Necessity (“CC&N”) in Mohave County, Arizona.
28

In Decision No. 74835, the Commission authorized Truxton to borrow \$259,800

1 from WIFA to pay for the cost of acquiring and installing plant to treat and blend water to
2 resolve arsenic compliance issues. On October 1, 2015, in cooperation with Staff and the
3
4 Arizona Department of Environmental Quality, Truxton filed an Application to Amend
5 Decision No. 74835 seeking to modify certain deadlines and approve proposed revisions
6 to the proposed scope of work related to the financing of the project. Primarily, the
7
8 change in scope of work relates to the construction of a stand-alone building to house the
9
10 arsenic treatment plant. The cost for this building construction is estimated to be
11
12 \$100,815.

13 Based upon Staff's recommendation, the Commission approved only part of the
14
15 application to amend. Staff believes the Company needs to file another financing
16
17 application to approve the construction of the building. Obviously, the Company would
18
19 have preferred that the application to amend be approved in its entirety, Truxton is
20
21 complying with Staff's position and is filing this Finance Application accordingly.

22 The Company also has amended its Water Infrastructure Finance Authority
23
24 ("WIFA") loan to add the building construction cost (*see* Exhibit 1) to the amount
25
26 previously approved by the Commission. The Company understands that it is on the
27
28 WIFA Drinking Water Revolving Fund Priority List for a loan in the amount of
29
30 \$348,615.

INFORMATION REQUESTED ON APPLICATION FORM

1. Applicant's Name and Address.

Truxton Canyon Water Company, Inc.
Attn: Rick Neal
3001 Westwood Drive

1 Las Vegas, NV 89109
2 (702) 256-4006 Phone
3 (702)256-2522 Fax

4 **2. Person Authorized to Receive Communications.**

5 Steve Wene, Esq.
6 Moyes Sellers & Hendricks
7 1850 North Central Ave., Suite 1100
8 Phoenix, Arizona 85004
9 Telephone: (602) 604-2189
Facsimile: (602) 274-9135

10 **3. Financing Description.**

11 If the Commission authorizes the proposed debt, the Company will request that
12 WIFA lend the Company an amount not to exceed \$348,615. Although the Company is
13 on the loan priority list, WIFA does not offer finance terms until the Commission
14 authorizes water providers like the Company to incur debt. The Company understands
15 that the Commission and WIFA have a standard working arrangement to accommodate
16 WIFA's loan practices. The Commission Staff understands WIFA's loan requirements,
17 nevertheless, Staff may want to contact the following WIFA staff person:

18 Angie Valenzuela
19 Senior Loan Officer
20 Water Infrastructure Finance Authority
21 1110 W. Washington Street, Suite 290
Phoenix, Arizona 85007

22 **4. Proceeds Statement.**

23 Gross proceeds will be an amount not to exceed \$348,615. WIFA has a combined
24 interest and fee rate structure, so there are no issuance expenses. This means that the
25 Company will net an amount not to exceed \$348,615 from the proposed loan.

26 **5. Plant to be Acquired Using Net Proceeds.**

27 The proceeds will be used to construct a building described in Exhibit 2.

28 **6. Consistency with A.R.S. § 40-301 et seq.**

1 The proposed financing is: (a) within the Company's corporate powers, (b)
2 compatible with the public interest; (c) compatible with sound financial practices; (d)
3 compatible with the proper performance by the applicant of service as a public service
4 corporation; and (e) will not impair the Company's ability to perform that service.

5 **7. Service Fees.**

6 WIFA does not charge service fees. Under WIFA's combined interest and fee rate
7 structure, the Company anticipates paying a fixed interest rate of prime plus 2%
8 multiplied by a subsidy rate index set by WIFA. WIFA may offer the Company an 80%
9 subsidy rate, so the effective interest rate could be Prime + 2% x 80%. This below-
10 market rate loan is reasonable for the Commission to approve.

11 **8. Documents to be Executed in this Matter.**

12 There are no documents to be executed in the matter at this time.

13 **9. Financial Statements**

14 Truxton's 2014 Annual Report is set forth in Exhibit 3.

15 **10. Company Background Information.**

16 On November 14, 2014, the Commission entered Decision No. 74835. *See*
17 Exhibit 4. This decision provides the background information requested by Staff related
18 to debt and customers. As Staff is well aware, the Company has not been able to enter
19 into the Commission-approved WIFA loan yet.

20 **11. Company Projections**

21 The Company anticipates its financial performance and customer base will remain
22 the same over the next five years. The only exception is that the WIFA surcharge
23 necessary to pay the WIFA debt will increase revenues, but those revenues will flow
24 directly to WIFA, so there should be no financial impact.

25 **12. Customer Notice.**

26 The Commission's required notice will be provided to customers pursuant to
27 Commission rules and the Company will file with the Commission a copy of the actual
28 notice sent and an affidavit stating when it was sent to the customers.

1 **REQUEST FOR APPROVAL**

2 As set forth in this Application, the Company requests that the Commission
3 authorize the financing described herein.
4

5 DATED this 30th day of October, 2015.

6 **MOYES SELLERS & HENDRICKS**

7
8 
9 _____
10 Steve Wene

11 Original and 13 copies of the foregoing
12 filed this 30th day of October, 2015, with:

13 Docket Control
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, Arizona 85007

17
18 
19 _____

EXHIBIT 1

LOAN APPLICATION FOR A DRINKING WATER PROJECT

Financial Assistance Project Priority List Application

Project Number: DW-004-2016

1. APPLICANT AND CONTACT INFORMATION

1.1 Utility Information
 Name: Truxton Canyon Water Company
 Address: 7219 W Sahara, Ste 120 City: Las Vegas State: NV Zip: 89117 County: Mohave

1.2 Utility Representative to be Contacted Regarding Application
 First Name: Rick Last Name: Neal
 Title: Manager
 Address: 7313 E. Concho Drive Suite B City, State & Zip: Kingman, NV 86401
 Phone: (702) 256-4006 Fax: (702) 256-2522
 E-Mail: rick@cerbatwater.com

1.3 Median Household Income: \$45,812.00
Median household income was obtained from American Fact Finder (<http://factfinder2.census.gov>) based on US Census Bureau information.

2. SYSTEM INFORMATION

2.1 ADEQ system identification number (PWS #) AZ0408035

2.2 Number of connections to system 1,084 Not Applicable

2.3 Population served by the system 2,202 Not Applicable

2.4 Monthly residential fee (base + use) for 7,500 gallons \$ 27.20 Not Applicable

2.5 Existing debt (principal only) payable by system users \$ 0.00

2.6 System Compliance
 Notice of violations and/or consent orders from regulatory agency (**must mail or upload supporting documents*)
 In compliance

2.7 Is the system ACC regulated? Yes No

2.8 Is the system registered with the E-Verify Program? Yes No
Applicants are required to provide proof of participation prior to the execution of a loan or technical assistance agreement.

3. PROPOSED PROJECT INFORMATION

3.1 Project Name: Arsenic Treatment

3.2 Select county in which project is located: Mohave

3.3 Is this request for a project that received financial or technical assistance from WIFA in a previous funding cycle? Yes No

3.4 Type of loan needed: 3-year design loan only Construction loan (may include design and acquisition)

3.5 Briefly summarize the problem below.
 The problem which is causing non-compliance with ADEQ and concern among our customers is arsenic levels above the maximum contaminant level (MCL)
 Another problem that needs to be addressed is constant leaks and repairs to our 70 year old main

transmission line due to natural deterioration. This is at the point where it makes more sense to replace a large section of pipeline as opposed to the parts and labor costs associated with continually repairing leaks. One of our wells, which is used primarily during the summer months to assure an adequate supply of water to our regular customers and a golf course, has very old motors and runs on natural gas. This is an issue because it is difficult to get parts, which has caused delays in repairing the well at critical times during the hottest part of the summer when customer demand for water is high. Due to the well running on natural gas and the length of large gas lines required to serve this well, there have been issues with locating and repairing gas leaks. Additionally, this type of motor has to be started and stopped manually, which has labor costs associated with it. The current system is inefficient in many ways.

3.6 Briefly summarize the solution below.

The solution to the first problem is to construct an arsenic treatment plant.
 The solution to the second problem is to replace a 1 mile section of our main transmission line. Unfortunately, it is not financially feasible to replace the entire transmission line at once, but starting with the worst area will reduce our maintenance load and give us time to plan for additional line replacements in the future. The cost estimate for the company to replace 1 mile of the transmission line is \$98,556.
 The solution to the third problem is to purchase electric generators to power this well that currently runs on natural gas, and replace the old natural gas motors with new, more efficient electric motors. We expect that this will be less costly to operate, and will eliminate the problem of the well being down due to a delay in getting parts. The estimated cost for this changeover is \$127,000.
 The ACC is requiring that assets are transferred from the Trust to the WC. These assets, 4-5 wells and 13 miles of pipeline, are expected to cost approximately \$1.4M.

3.7 Project Purpose: Assist Non-Compliant Systems to Achieve Compliance

4. EXISTING CONDITIONS AND PROJECT BENEFITS

4.1 Select Expected Project Benefit(s)

- Compliance - Existing Requirements
- Compliance - Future Requirements
- Expanded Service
- Reduce Public Health Risks

4.2 Water System Improvement **must mail or upload supporting documents*

- Proposed project addresses deficiencies identified by EPA, ADEQ or ADEQ-delegated agency.

4.3 Consolidation and Regionalization

- Project physically consolidates two or more public water systems into one public water System
- Project is the extension of service to areas currently not served by a public water system.
- Project consolidates the operations, management and/or ownership of two or more public water systems.

4.4 Water and Energy Efficiency Index

- 50% to 100% of total project costs are for water or energy efficiency components or environmentally innovative approaches.
- 10% to 49% of project costs are for water or energy efficiency components or environmentally innovative approaches.
- less than 10% of the project costs are for any water or energy efficiency components or environmentally innovative approaches.

Use textbox to enter description of the project's green components:

\$0.00

Cost of water or energy efficiency or environmentally innovative approaches that are part of this loan

5. READINESS TO PROCEED INDICATORS

5.1 Debt Authorized? Yes No *(For more information, see WIFA Debt Authorization Guidance Document)*

Enter authorization/expected authorization date: 11/14/2014

Mail or upload copy of official governing body debt authorization resolution, election results or ACC order

5.2 Project Design* *(Select only one)*

- Project is in planning stages
- Engineer has been selected
- Currently under design
- Ready for construction

Enter design completion/anticipated design completion date:

5.3 Applicable Plan and Specification Approvals* *(Select only one)*

- Approval to construct has been obtained
- Plans and specification have been submitted to permitting agency for approval
- Design has not been completed
- Other or not applicable

Enter permit/anticipated permit(s) receipt date: 10/31/2012

If not applicable or if multiple permits are required, please explain:

5.4 Project Bids* *(Select only one)*

- Project is not ready for bid
- Project is currently out for bid
- Bidding is complete

Enter bid/anticipated bid award date: 11/30/2012

5.5 Project Construction

When do you plan to begin project construction? If you need to begin the project before the requested financial assistance is awarded, please provide details.

We plan to begin construction as soon as debt authorization is received and funding is available.

*** Alternative project delivery methods are acceptable for WIFA-funded projects.**

6. REQUESTED AMOUNT AND SUPPORTING DOCUMENTS

6.1 Estimated Date WIFA Funding Required: 06/01/2015

6.2 Estimated Financial Assistance Costs & Funding Source

Funding Source	Project Costs
Amount funded locally:	\$ 0.00
Amount requested from WIFA for this project:	\$ 348,615.00
Other source:	\$ 0.00
Total:	\$ 348,615.00

File Attachments:

Reference Name	Document Name	Date Added	Added By
Arsenic Treatment Totals	rsenic grand total.doc [16 KB]	09/18/2012	Neal, Rick
Treatment Plant Bid	rsenic treatment bid .pdf [10 KB]	09/18/2012	Neal, Rick
Well Rerouting Parts	D Supply bid.pdf [28 KB]	09/18/2012	Neal, Rick
Consent Order (Amendment)	OC071212-07122012140104.pdf [49 KB]	09/21/2012	Neal, Rick

CERTIFICATION AND AUTHORIZATION

I certify that the information contained in this application is, to the best of my knowledge, true, accurate and correct.

I hereby affirm that I, Rick Neal, am the Managing Member and I am authorized by Truxton Canyon Water Company to submit this application on behalf of the organization for which I am acting.

EXHIBIT 2

BLACKHAWK DEVELOPERS LLC

3001 Westwood Drive
Las Vegas, Nevada 89019
Phone (702) 256-4006 Fax (702) 256-2522
NV#0069034

Proposal Submitted To: Truxton Canyon Water Company
Representative: Mike Neal
Project: Building to House Arsenic Treatment Facility
Street: 7313 E. Concho Drive Suite B
City, State, Zip: Kingman, Arizona 86401
Architect: N/A Date of Plans: N/A
Phone: 928-757-2205 Date of Proposal: 9/28/2015

SCOPE OF WORK: Construct new Building to House Arsenic Treatment Facility

Building Cost (24x36) - \$43,500
Slab Cost- \$7800
Power Cost (Mechanical Cost) - \$5000
Permit Cost- \$1500
Subgrade & Pad Prep-\$8200
Electrical-\$4500
Sub-Total -\$70,500

Contingency (20%) - \$14,100
Legal (5%) - \$3525
Structural Engineering (5%) - \$3525
OH&P (10%) - \$9165

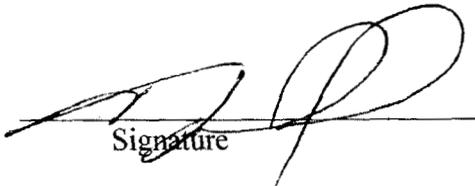
Total Cost - \$100,815

In return for performance of work and furnishing work by contractor, Owner shall pay the aforementioned price in bi-monthly installments based on the amount of work completed. This contract shall not be modified except by a writing signed by both parties. All alterations or deviations from the plans and specifications shall be by written change order only. This contract is not assignable by either party without written consent of the other. We will not be held liable for loss, damage or delays caused by acts of God, strikes, fire, accidents, material shortages or other causes beyond our control. Owner to carry fire, flood and other necessary insurance. Prices quoted in this proposal are based on current prices and on conditions that the proposal will be accepted within thirty days.

BLACKHAWK DEVELOPERS LLC

3001 Westwood Drive
Las Vegas, Nevada 89019
Phone (702) 256-4006 Fax (702) 256-2522
NV#0069034

PROPOSAL BY CONTRACTOR



Signature

Managing Member

Title

9/28/15

Date

ACCEPTANCE BY OWNER

The terms and conditions of this agreement are hereby accepted. Blackhawk Developers, LLC is authorized to proceed with the work as specified in this contract.

Signature

Title

Date

B&H **BLANCHARD**
HOFFMAN
C O N S T R U C T I O N

September 22, 2015

Truxton County Water Company
Kingman, AZ
Att: Rick Neal

Reference: Truxton Canyon Water Company.

Subject: Pre-Engineered Metal Building

SCOPE OF SERVICES:

Provide Pre-Engineered Building supplied and Erected in Kingman AZ

Butler Pre-Engineered Building 24 x 36x 16' Eave Ht \$ 43,500

Quote Includes:

Engineering and design for building only per IBC 2012
Reactions provided for Foundation Engineer
Supply and Erect using Prevailing Wage Labor
R-11 Roof and Wall System, BR-II Corrugated Walls and Roof panels of Butlers Standard Colors.
1 Mandoors and Hardware
1 Overhead Door Framed opening for 12'x14' Overhead Doors by others
Quote valid through October 31, 2015
Building must ship within 90 days to guarantee pricing.
Erection by AZ Licensed Erector
Deposit for Engineering Required

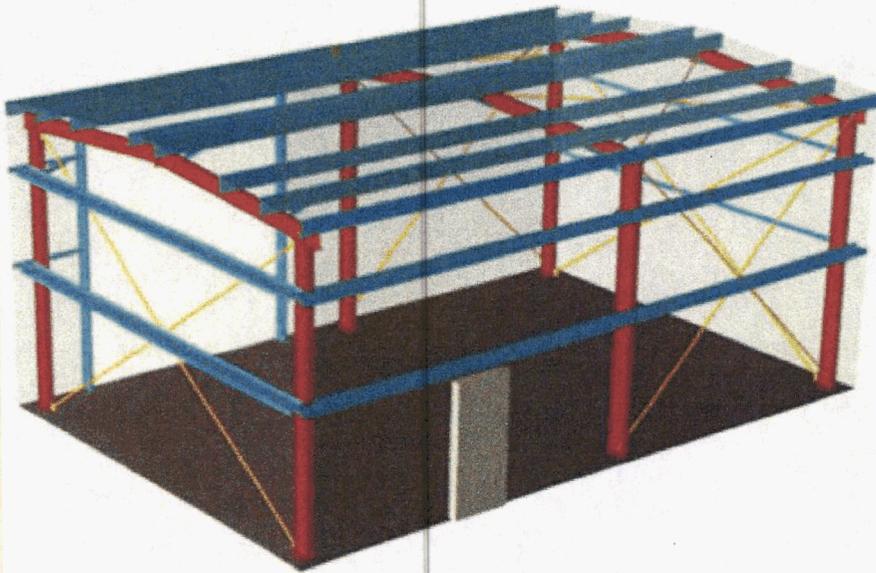
Exclusions:

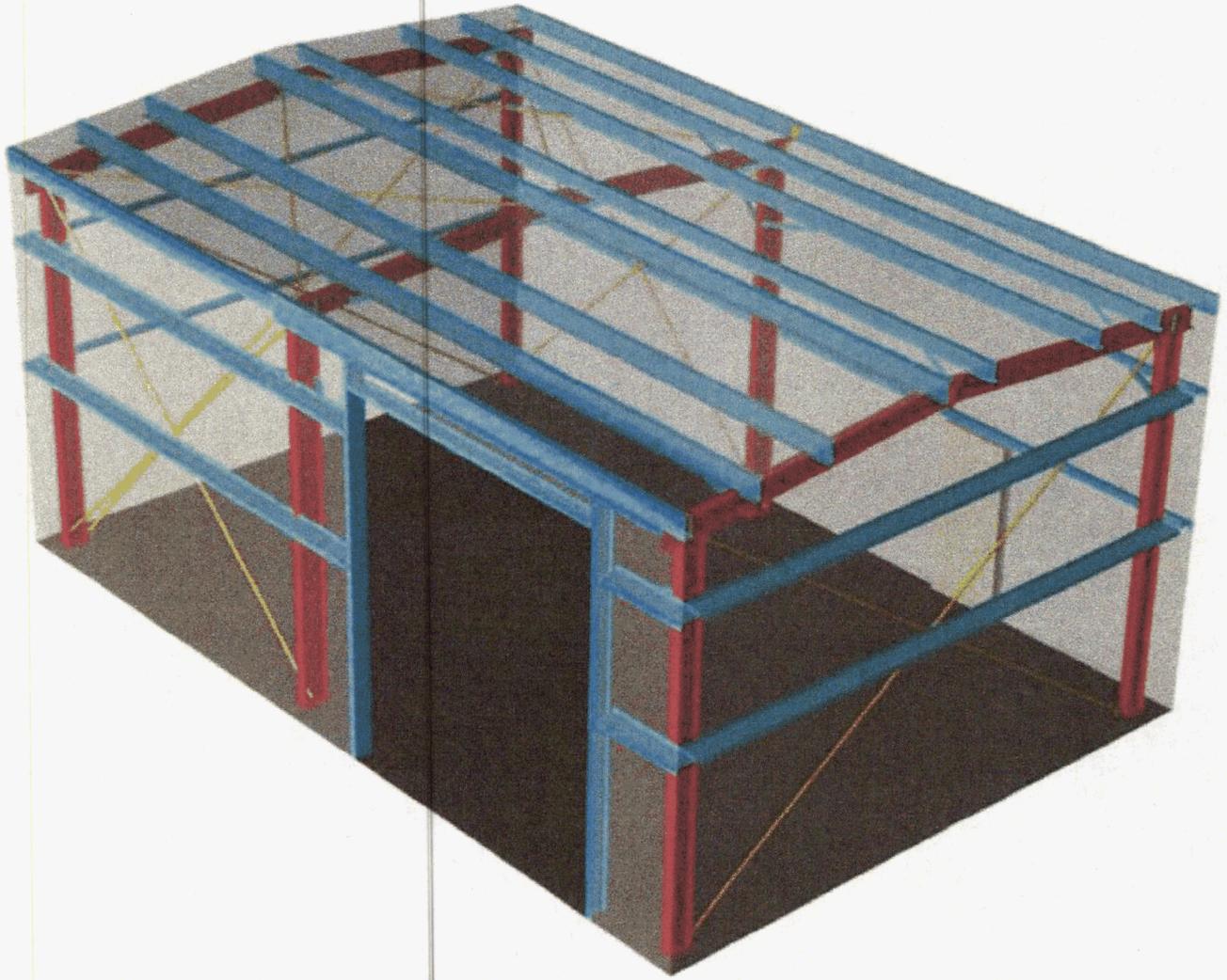
Permits and Fee's Cost
Foundation Engineering
AC/Exhaust Fans

Sincerely,

Ray Hoffman
President
B & H Construction, Inc.

Accepted:

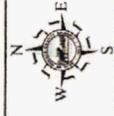






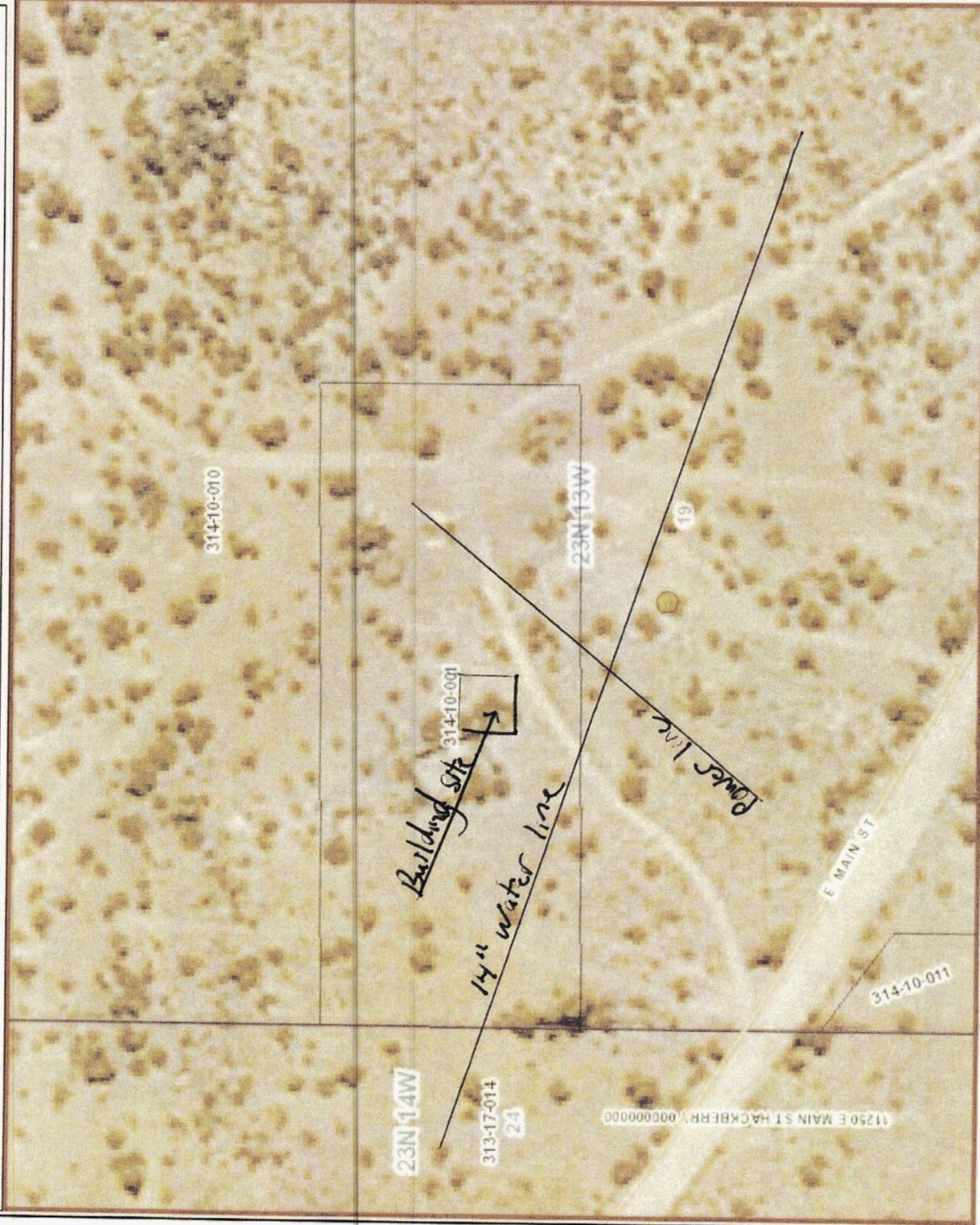
Legend

- Incorporated Cities (greater than Mohave County Boundary)
- Mohave County Boundary
- Surrounding Counties
- ADOT Mileposts
- COUNTY Mileposts
- Highways
- Main Arterials
- Collectors
- Local
- Railroad
- Tax Parcel
- Township/Range
- Section
- Surface Management
 - AZ Game and Fish
 - Bureau of Land Management
 - Bureau of Reclamation
 - City or County Parks
 - US Forest Service
 - Indian Reservation
 - Military Reservation
 - National Parks
 - Other
 - Private
 - State Parks
 - State Trust
 - National Wildlife Refuge



1: 1,669

Notes:



This map is a user generated static output from the Mohave County Interactive Map Viewer and is for general reference only. Data layers that appear on this map may or may not be accurate, current, or otherwise reliable. THIS MAP IS NOT TO BE USED FOR NAVIGATION, AS A LEGAL DOCUMENT, FOR PROPERTY DESCRIPTIONS, OR DETERMINATION OF LEGAL TITLE, AND SHOULD NEVER BE SUBSTITUTED FOR SURVEY OR DEED INFORMATION. The user agrees to comply with the Limitation of Use, and Assumption of Risk as stated in the full disclaimer at <http://gis.mohavecounty.us>

Map Created: 9/22/2015

EXHIBIT 3

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL - MAKE CHANGES AS NECESSARY

TRUKTON CANYON WATER CO. INC
7313 E. CONCHO DRIVE, STE B
KINGMAN, AZ 86401

RECEIVED

MAY 19 2015

AZ CORP COMM
Director - Utilities

W-02168A

Please click here if pre-printed Company name on this form is not your current Company name or dba name is not included.

Please list current Company name including dba here:

TRUKTON CANYON WATER CO. INC.

ANNUAL REPORT

Water

FOR YEAR ENDING

12	31	2014
----	----	------

FOR COMMISSION USE

ANN 04	14
--------	----

5-19-15

COMPANY INFORMATION

Company Name (Business Name) Truxton Canyon Water Co. Inc.

Mailing Address 7313 E. Concho Drive Ste B.
Kingman AZ 86401
(City) (State) (Zip)

Telephone No. (Include Area Code) _____ Fax No. (Include Area Code) _____ Cell No. (Include Area Code) _____

Email Address rick@truxtonwaterco.com

Local Office Mailing Address SMC
(Street)
(City) (State) (Zip)

Local Customer Service Phone No. (Include Area Code) _____ (1-800 or other long distance Customer Service Phone No.) _____

Email Address _____ Website address _____

MANAGEMENT INFORMATION

Regulatory Contact:

Management Contact: Rick Neal Manager
(Name) (Title)

3001 Westwood Drive Las Vegas NV 89109
(Street) (City) (State) (Zip)

702-256-4000 702-256-2522
Telephone No. (Include Area Code) Fax No. (Include Area Code) Cell No. (Include Area Code)

Email Address rick@truxtoncanyonwater.com

On Site Manager: Mike Neal
(Name)

7313 E. Concho Drive Ste B Kingman AZ 86401
(Street) (City) (State) (Zip)

928-757-2205
Telephone No. (Include Area Code) Fax No. (Include Area Code) Cell No. (Include Area Code)

Email Address mike@truxtoncanyonwater.com

Statutory Agent: Mike Neal
 (Name)

Sam
 (Street) (City) (State) (Zip)

Telephone No. (Include Area Code) Fax No. (Include Area Code) Cell No. (Include Area Code)

Attorney: Steve Wene Mapes, Sellars & Hennicks
 (Name)

1850 N. Central Ave. Ste 1100 Phoenix AZ 85004
 (Street) (City) (State) (Zip)

602-604-2141
 Telephone No. (Include Area Code) Fax No. (Include Area Code) Cell No. (Include Area Code)

Email Address swene, D / aw-rmk.cwm

OWNERSHIP INFORMATION

Check the following box that applies to your company:

Sole Proprietor (S) C Corporation (C) (Other than Association/Co-op)

Partnership (P) Subchapter S Corporation (Z)

Bankruptcy (B) Association/Co-op (A)

Receivership (R) Limited Liability Company

Other (Describe) _____

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

APACHE COCHISE COCONINO

GILA GRAHAM GREENLEE

LA PAZ MARICOPA MOHAVE

NAVAJO PIMA PINAL

SANTA CRUZ YAVAPAI YUMA

STATEWIDE

COMPANY NAME

TRUSTON CAMPAON WATER CO. INC.

UTILITY PLANT IN SERVICE

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization			
302	Franchises			
303	Land and Land Rights	20		20
304	Structures and Improvements	159	159	0
307	Wells and Springs	19,791	19,791	0
311	Pumping Equipment	11,462	11,462	0
320	Water Treatment Equipment			
320.1	Water Treatment Plants			
320.2	Solution Chemical Feeders			
330	Distribution Reservoirs and Standpipes			
330.1	Storage Tanks			
330.2	Pressure Tanks			
331	Transmission and Distribution Mains	805,257	367,113	499,144
333	Services	64,236	64,236	0
334	Meters and Meter Installations	206,069	121,040	82,029.
335	Hydrants			
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment	400	400	0
340	Office Furniture and Equipment			
340.1	Computers & Software			
341	Transportation Equipment			
343	Tools, Shop and Garage Equipment			
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	TOTALS	1,167,400	587,209	580,193

This amount goes on the Balance Sheet Acct. No. 108

COMPANY NAME

TRINIDAD CANYON WATER COMPANY

WATER UTILITY CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR

Acct. No.	DESCRIPTION	Original Cost (1)	Depreciation Percentage (2)	Depreciation Expense (1 x 2)
301	Organization			
302	Franchises			
303	Land and Land Rights	20	N/A	-
304	Structures and Improvements	159	3.33%	-
307	Wells and Springs	19,791	3.33%	-
311	Pumping Equipment	11,462	12.50%	-
320	Water Treatment Equipment			
320.1	Water Treatment Plants			
320.2	Solution Chemical Feeders			
330	Distribution Reservoirs and Standpipes			
330.1	Storage Tanks			
330.2	Pressure Tanks			
331	Transmission and Distribution Mains	915,257	2.00%	17,305
333	Services	104,236	3.33%	-
334	Meters and Meter Installations	200,009	8.33%	17,166
335	Hydrants			
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment	400	6.67%	
340	Office Furniture and Equipment			
340.1	Computers & Software			
341	Transportation Equipment			
343	Tools, Shop and Garage Equipment			
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	SUBTOTAL			
	LESS CIAC Amortization			
	TOTALS *	1167,400		34,471

*This amount goes on the Comparative Statement of Income and Expense Acct. No. 403

COMPANY NAME

TRINIDAD CANYON WATER COMPANY

WATER UTILITY BALANCE SHEET

Acct No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	\$ 8,644.51	\$ 793.10
134	Working Funds		
135	Temporary Cash Investments		
141	Customer Accounts Receivable	25,840.24	42,698.21
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies		
162	Prepayments	13,368	753
174	Miscellaneous Current and Accrued Assets		
	TOTAL CURRENT AND ACCRUED ASSETS	\$ 47,852.75	\$ 51,004.31
	FIXED ASSETS		
101	Utility Plant in Service	\$ 1,167,400	\$ 1,167,900
103	Property Held for Future Use		
105	Construction Work in Progress		
108	Accumulated Depreciation - Utility Plant	(587,208)	(580,193)
121	Non-Utility Property		
122	Accumulated Depreciation - Non Utility		
	TOTAL FIXED ASSETS	\$ 580,192	\$ 587,207
	TOTAL ASSETS	\$ 628,044.75	\$ 587,207

NOTE: The Assets on this page should be equal to Total Liabilities and Capital on the following page.

COMPANY NAME TRINITY CANYON WATER COMPANY

WATER UTILITY BALANCE SHEET (CONTINUED)

Acct. No.		BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
LIABILITIES			
CURRENT LIABILITIES			
231	Accounts Payable	\$ 97,189	\$ 30,616
232	Notes Payable (Current Portion)	0	
234	Notes/Accounts Payable to Associated Companies	455,825	455,815
235	Customer Deposits		
236	Accrued Taxes	19,302	19,302
237	Accrued Interest		
241	Miscellaneous Current and Accrued Liabilities		
	TOTAL CURRENT LIABILITIES	\$ 577,399	\$ 534,305
LONG-TERM DEBT (Over 12 Months)			
224	Long-Term Notes and Bonds	\$	\$
DEFERRED CREDITS			
251	Unamortized Premium on Debt	\$	\$
252	Advances in Aid of Construction		
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction	63,429	63,429
272	Less: Amortization of Contributions	(63,429)	(63,429)
281	Accumulated Deferred Income Tax		
	TOTAL DEFERRED CREDITS	\$	\$
	TOTAL LIABILITIES	\$ 955,633	\$
CAPITAL ACCOUNTS			
201	Common Stock Issued	\$ 11,000	\$ 11,000
211	Paid in Capital in Excess of Par Value		
215	Retained Earnings	(823,635)	
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	\$	\$
	TOTAL LIABILITIES AND CAPITAL	\$	\$

COMPANY NAME TRANSON CANYON WATER COMPANY

WATER UTILITY COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR
461	Metered Water Revenue	\$ 531,627	\$ 549,980
460	Unmetered Water Revenue		
474	Other Water Revenues	15,500	0
	TOTAL REVENUES	\$ 547,127	\$ 549,980
	OPERATING EXPENSES		
601	Salaries and Wages	\$ 21,622	\$ 22,742
610	Purchased Water	125,750	133,260
615	Purchased Power	97,315	101,314
618	Chemicals	570	523
620	Repairs and Maintenance	27,800	23,012
621	Office Supplies and Expense	14,359	15,307
630	Outside Services	21,563	22,750
635	Water Testing	2,189	1,080
641	Rents	7,716	5,175
650	Transportation Expenses	31,397	32,584
657	Insurance - General Liability	8,066	8,154
659	Insurance - Health and Life	0	0
666	Regulatory Commission Expense - Rate Case	19,823	4,387
675	Miscellaneous Expense	602	
403	Depreciation Expense	34,971	34,271
408	Taxes Other Than Income	21,765	44,037
408.11	Property Taxes	12,343	28,542
409	Income Tax	0	
	TOTAL OPERATING EXPENSES	\$ 566,872	\$ 689,361
	OPERATING INCOME/(LOSS)	\$ (19,745)	\$ (139,495)
	OTHER INCOME/(EXPENSE)		
419	Interest and Dividend Income	\$	\$
421	Non-Utility Income		
426	Miscellaneous Non-Utility Expenses		
427	Interest Expense		
	TOTAL OTHER INCOME/(EXPENSE)	\$ 0	\$ 0
	NET INCOME/(LOSS)	\$ (19,745)	\$ (139,495)

COMPANY NAME TRUKON CANYON WATER CO. INC.

SUPPLEMENTAL FINANCIAL DATA
Long-Term Debt

	LOAN #1	LOAN #2	LOAN #3	LOAN #4
Date Issued				
Source of Loan				
ACC Decision No.				
Reason for Loan				
Dollar Amount Issued	\$	\$	\$	\$
Amount Outstanding	\$	\$	\$	\$
Date of Maturity				
Interest Rate	%	%	%	%
Current Year Interest	\$	\$	\$	\$
Current Year Principle	\$	\$	\$	\$

Meter Deposit Balance at Test Year End \$ 2,500.⁰⁰

Meter Deposits Refunded During the Test Year \$ 5,855.⁰⁰

COMPANY NAME	TRUCO W CANYON WATER CO. INC
Name of System:	ADEQ Public Water System Number:

WATER UTILITY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-624983	3HP	not in use	300	12	1	1944
55-624989	capped	N/A	240	14	N/A	1944

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
Claude K. Neal Family Trust	5,700	184,073

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
		7	

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
500,000 gallon	1		
22,000 gallon	1		

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	TRINIDAD CANYON WATER COMPANY
Name of System:	ADEQ Public Water System Number:

WATER UTILITY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2		
3		
4	PVC	89,200
5		
6	PVC	57,880
8	PVC	1,660
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	944
3/4	
1	4
1 1/2	
2	2
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	2
Bulk	2

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

STRUCTURES:

OTHER:

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME: <u>TRUKTON CANYON WATER COMPANY</u>	
Name of System:	ADEQ Public Water System Number: <u>08035</u>

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2014

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	938	7,895	N/A	7,895
FEBRUARY	939	8,911		8,911
MARCH	936	11,026		11,026
APRIL	942	20,514		20,514
MAY	944	23,062		23,062
JUNE	941	26,508		26,508
JULY	943	20,042		20,042
AUGUST	945	18,700		18,700
SEPTEMBER	949	18,510		18,510
OCTOBER	951	13,365		13,365
NOVEMBER	952	8,580		8,580
DECEMBER	951	6,960		6,960
TOTALS →		184,073		184,073

What is the level of arsenic for each well on your system? .011 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? ___ GPM for ___ hrs N/A

If system has chlorination treatment, does this treatment system chlorinate continuously?
 Yes () No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
() Yes No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
() Yes No

If yes, provide the GPCPD amount: _____

Note: If you are filing for more than one system, please provide separate data sheets for each system.

COMPANY NAME: <u>TRUKTON CANYON WATER CO. INC</u>
Name of System: _____ ADEQ Public Water System Number: <u>08035</u>

UTILITY SHUTOFFS / DISCONNECTS

MONTH	Termination without Notice R14-2-410.B	Termination with Notice R14-2-410.C	OTHER
JANUARY		6	
FEBRUARY		2	
MARCH		5	
APRIL		6	
MAY		2	
JUNE		4	
JULY		1	
AUGUST		3	
SEPTEMBER		3	
OCTOBER		3	
NOVEMBER		5	
DECEMBER		2	
TOTALS →		42	

OTHER (description):

COMPANY NAME TRUSTON CANYON WATER CO. INC. YEAR ENDING 12/31/2014

PROPERTY TAXES

Amount of actual property taxes paid during Calendar Year 2014 was: \$ 0

Attach to this annual report proof (e.g. property tax bills stamped "paid in full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calendar year.

If no property taxes paid, explain why. No funds were available

RECEIVED

MAY 19 2015

ACC UTILITIES DIRECTOR

VERIFICATION
AND
SWORN STATEMENT
Taxes

VERIFICATION

STATE OF Arizona
I, THE UNDERSIGNED
OF THE

COUNTY OF (COUNTY NAME)	<u>Mohave</u>
NAME (OWNER OR OFFICIAL) TITLE	<u>Secretary</u>
COMPANY NAME	<u>Troxon Canyon Water Co.</u>

DO SAY THAT THIS ANNUAL UTILITY PROPERTY TAX AND SALES TAX REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
<u>12</u>	<u>31</u>	<u>2014</u>

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

I HEREBY ATTEST THAT ALL PROPERTY TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

I HEREBY ATTEST THAT ALL SALES TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

SIGNATURE OF OWNER OR OFFICIAL

928-757-2205

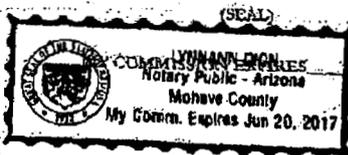
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS 29 DAY OF

COUNTY NAME	<u>Mohave</u>	
MONTH	<u>April</u>	<u>2015</u>



June 20, 2017

SIGNATURE OF NOTARY PUBLIC

RECEIVED

MAY 19 2015

ACC UTILITIES DIRECTOR

VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only

VERIFICATION

STATE OF Arizona

I, THE UNDERSIGNED
OF THE

COUNTY OR COUNTY NAME	<u>Mohave</u>
NAME (OWNER OR OFFICIAL) TITLE	<u>Secretary</u>
COMPANY NAME	<u>Tuckson Canyon Water CO.</u>

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION
FOR THE YEAR ENDING

MONTH	DAY	YEAR
<u>12</u>	<u>31</u>	<u>2014</u>

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2014 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)
<u>\$ 549,836</u>

(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 32,169.00
IN SALES TAXES BILLED, OR COLLECTED)

REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)

M. J. [Signature]
SIGNATURE OF OWNER OR OFFICIAL
928-757-2205
TELEPHONE NUMBER

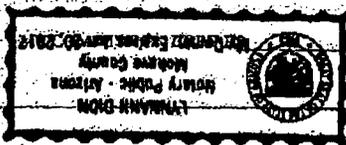
SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS 29 DAY OF

COUNTY NAME	<u>Mohave</u>		
MONTH	<u>Apr: 1</u>	YEAR	<u>2015</u>

(SEAL)



May 20, 2015

[Signature]
SIGNATURE OF NOTARY PUBLIC

RECEIVED

VERIFICATION AND SWORN STATEMENT RESIDENTIAL REVENUE Intrastate Revenues Only

MAY 19 2015

ACC UTILITIES DIRECTOR

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2014

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY, THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-201.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2014 WAS

ARIZONA INTRASTATE GROSS OPERATING REVENUES \$ 530,626.08

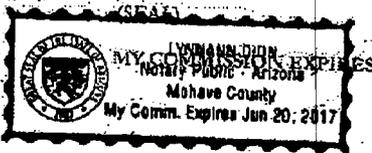
THE AMOUNT IN BOX AT LEFT INCLUDES \$ 28,777.87 IN SALES TAXES BILLED, OR COLLECTED

RESIDENTIAL REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED.

SIGNATURE OF OWNER OR OFFICIAL: Lynn Dion, TELEPHONE NUMBER: 928-757-2205

SUBSCRIBED AND SWORN TO BEFORE ME A NOTARY PUBLIC IN AND FOR THE COUNTY OF MOHAVE THIS 29 DAY OF APRIL

NOTARY PUBLIC NAME: Lynn Dion, COUNTY NAME: Mohave, MONTH: APRIL, YEAR: 2015



June 20, 2017

SIGNATURE OF NOTARY PUBLIC: Lynn Dion

EXHIBIT 4

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BEFORE THE ARIZONA CORPORATION

000010700

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

Arizona Corporation Commission

DOCKETED

NOV 14 2014

DOCKETED BY nr

IN THE MATTER OF THE APPLICATION OF
TRUXTON CANYON WATER COMPANY, INC.
FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02168A-11-0363

IN THE MATTER OF THE APPLICATION OF
TRUXTON CANYON WATER COMPANY, INC.
FOR APPROVAL OF A REVISION OF THE
COMPANY'S EXISTING TERMS AND
CONDITIONS OF WATER SERVICE.

DOCKET NO. W-02168A-13-0309

IN THE MATTER OF THE APPLICATION OF
TRUXTON CANYON WATER COMPANY, INC.
FOR AUTHORITY TO INCUR LONG-TERM
DEBT.

DOCKET NO. W-02168A-13-0332

DECISION NO. 74835

OPINION AND ORDER

DATE OF HEARING:

May 7, 2012 (Public Comment);
September 26, 2012 (Procedural Conference);
January 14, 2014 (Pre-Hearing Conference);
January 21, 2014 (Public Comment);
February 26 and 27, 2014 (Evidentiary Hearing);
March 6, 2014 (Evidentiary Hearing); and
April 11, 2014 (Procedural Conference)

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Yvette B. Kinsey

APPEARANCES:

Commissioner Brenda Burns

Mr. Steve Wene, MOYES SELLERS & HENDRICKS,
LTD., on behalf of Truxton Canyon Water Company,
Inc.;

Mr. Todd Wiley, FENNEMORE CRAIG, P.C., on
behalf of Intervenor Valle Vista Property Owners
Association; and

Ms. Bridget Humphrey and Mr. Charles Hains, Staff
Attorneys, Legal Division, on behalf of the Utilities
Division of the Arizona Corporation Commission.

1 **BY THE COMMISSION:**

2 On September 30, 2011, in Docket No. W-02168A-11-0363 Truxton Canyon Water
3 Company, Inc. ("Truxton" or "Company") filed with the Arizona Corporation Commission
4 ("Commission") an application for an increase in its water rates and charges, using a test year ("TY")
5 ending June 30, 2011("Rate Docket"). Truxton's application requested authorization to increase its
6 rates to generate an additional \$312,034 in gross revenues per year, resulting in a 97.24 percent
7 increase over unaudited TY revenues. Truxton's application stated that the additional revenues
8 would be obtained through having the Valle Vista Property Owners Association ("VVPOA") become
9 a customer of Truxton.

10 On October 31, 2011, the Commission's Utilities Division ("Staff") issued in the Rate Docket
11 a Letter of Sufficiency, stating that Truxton's rate application had met the sufficiency requirements as
12 outlined in A.A.C. R14-2-103, and that Truxton had been classified as a Class C utility.

13 On November 4, 2011, a Procedural Order was issued setting a hearing for May 7, 2012, and
14 other procedural deadlines were established.

15 On December 1, 2011, VVPOA filed a Motion to Intervene, stating that as a customer of
16 Truxton, VVPOA had a direct and substantial interest in the rate case proceeding.

17 On December 12, 2011, Truxton filed a Notice of Filing Affidavit of Publication and
18 Affidavit of Mailing, stating that notice of the rate application and hearing date had been published in
19 the *Kingman Daily Miner*, a newspaper of general circulation in Truxton's service area, on November
20 25, 2011. Truxton's filing also included certification that notice of the rate application had been
21 mailed to its customers on December 1, 2011.

22 On January 3, 2012, VVPOA was granted intervention in this matter.

23 On January 31, 2012, Staff filed a Motion to Suspend Timeclock, stating that Staff required
24 additional time to process the rate case application due to Truxton's failure to timely respond to
25 Staff's data requests.

26 On February 13, 2012, by Procedural Order, Staff's Motion to suspend the timeclock in this
27 matter was granted; the hearing scheduled to begin on May 7, 2012, was determined to be for public
28 comments only; and all other procedural deadlines were suspended.

1 On May 7, 2012, a public comment hearing was held before a duly authorized Administrative
2 Law Judge ("ALJ") of the Commission. Staff and VVPOA appeared through counsel. Mr. Rick Neal
3 appeared on behalf of Truxton. No members of the public appeared to give comments on the rate
4 application. An update on the Company's outstanding data requests was given by Mr. Neal.

5 On September 5, 2012, Staff filed a Request for Procedural Order Requiring the Company to
6 Update its Application to Use a June 30, 2012, TY, stating that discovery disputes had delayed Staff's
7 processing of the rate application and that due to a lapse of time, Staff believed that the TY data had
8 become stale and no longer representative of the Company's financial situation.

9 On September 6, 2012, by Procedural Order, a procedural conference was scheduled for
10 September 17, 2012, to discuss Staff's request that Truxton update its rate application using a June
11 30, 2012, TY.

12 On September 13, 2012, Truxton filed a Motion to Reschedule Hearing or Alternatively
13 Permit Telephonic Appearance, stating that the Company's representative was unable for the date of
14 the procedural conference.

15 On September 14, 2012, a Procedural Order was issued rescheduling the procedural
16 conference to September 27, 2012.

17 On September 27, 2012, a procedural conference was held as scheduled. Truxton, VVPOA,
18 and Staff appeared through counsel. During the procedural conference, Staff and the parties reached
19 an agreement whereby Truxton agreed to file updates and supplemental information on its rate case
20 through June 30, 2012. It was also agreed that Staff would annualize revenue based on the updated
21 numbers.

22 On February 15, 2013, Truxton docketed a response to Staff's data request.

23 On February 22, 2013, Truxton docketed Updated Rate Case Supporting Documents.

24 On August 26, 2013, Staff filed a Request to Reinstate Timeclock and Reset Procedural
25 Schedule.

26 On September 4, 2013, a Procedural Order was issued directing Staff, Truxton, and VVPOA
27 to jointly or individually file a proposed schedule for filing testimony and proposed dates for the
28 hearing. Truxton was directed to re-publish notice and to file a proposed form of notice to its

1 customers. The timeclock remained suspended.

2 On September 11, 2013, Truxton filed (in Docket No. W-02168A-13-0309) an application
3 with the Commission for approval of a revision of the Company's existing terms and conditions of
4 water service ("Terms and Conditions Docket").

5 On September 23, 2013, Staff and Truxton jointly filed a Proposed Procedural Schedule and
6 included a proposed form of notice.

7 On September 30, 2013, Truxton filed (in Docket No. W-02168A-13-0332), an application
8 with the Commission requesting authority to incur long-term debt ("Finance Docket").

9 On October 2, 2013, by Procedural Order, the hearing on the rate case application was
10 scheduled to begin on January 22, 2014, and other procedural deadlines were established.

11 On October 10, 2013, Staff filed a Motion to Consolidate, stating that the Rate Docket, Terms
12 and Conditions Docket and Finance Docket were interrelated and that it would be more efficient to
13 consolidate the matters.

14 On October 21, 2013, by Procedural Order, the Rate, Terms and Conditions, and Finance
15 dockets were consolidated for the purpose of hearing and resolving the issues. Further, Truxton was
16 ordered to file, by October 28, 2013, certification of public notice for its financing application.

17 On November 1, 2013, Truxton filed a Request for Extension of Time Regarding Notices.

18 On the same date, Staff filed a Motion to Extend Time to File Testimony, stating that Staff
19 required additional time to file its testimony addressing the issues in the Finance Docket.

20 On November 8, 2013, VVPOA and Staff filed their direct testimony.

21 On the same date, by Procedural Order, Staff's request for additional time to file its direct
22 testimony related to the Company's finance application was granted. Further, Truxton was granted an
23 extension of time to mail and publish notice of the finance application as well as certification of
24 publication and mailing.

25 On November 18, 2013, Truxton filed a Notice of Mailing and Publication of Public Notices,
26 stating that notice of the finance application had been published in the *Kingman Daily Miner*, a
27 newspaper of general circulation in Truxton's service area on October 31, 2013. Truxton's filing also
28 filed certification that notice of the application and hearing date had been mailed to its customers on

1 October 30, 2013.

2 On November 20, 2013, Staff filed a Notice of Errata.

3 On December 6, 2013, Truxton filed a Notice of Filing Rebuttal Testimony.

4 On December 27, 2013, Staff filed Surrebuttal Testimony and VVPOA filed Rebuttal
5 Testimony.

6 On January 10, 2014, Truxton filed Rejoinder Testimony.

7 On January 14, 2014, a pre-hearing conference was held as scheduled. Truxton, VVPOA, and
8 Staff appeared through counsel. During the conference, procedural issues were resolved and Truxton
9 stated that one of its main witnesses would be unavailable for the hearing dates due to a death in the
10 family. After discussion, the parties were informed that the hearing in this matter would be
11 rescheduled and the hearing date of January 21, 2014, would be used for taking public comments
12 only.

13 On January 21, 2014, Truxton filed a Notice of Errata.

14 On January 21, 2014, a public comment hearing was commenced before a duly authorized
15 ALJ of the Commission. Staff, Truxton, and VVPOA appeared through counsel. No members of the
16 public were present to provide public comments on the applications. Discussions were held
17 regarding resetting the evidentiary portion of the hearing.

18 On January 30, 2014, by Procedural Order, the hearing on the consolidated dockets was reset
19 to begin on February 26, 2014 and continuing to February 27, 2014. Further, the timeclock was
20 suspended for an additional 35 days.

21 Also on January 30, 2014, Truxton filed a Notice of Filing.

22 On February 21, 2014, Staff filed a Notice of Filing Witness Summaries.

23 On February 26 and 27, 2014, a full public hearing was held on the above-captioned
24 consolidated dockets. Staff, Truxton, and VVPOA appeared through counsel. No members of the
25 public were present to provide public comments. After two days of hearing, it was determined that an
26 additional day of hearing was necessary. The hearing was scheduled to resume on March 6, 2014.

27 On March 6, 2014, the evidentiary portion of the hearing resumed as scheduled. Truxton,
28 Staff, and VVPOA appeared through counsel. At the conclusion of the hearing, Staff and the parties

1 were directed to file closing briefs in this matter.

2 On March 26, 2014, VVPOA docketed a letter stating that it had obtained information that
3 Truxton and the Claude K. Neal Family Trust ("Trust") had been approached by another company
4 regarding the potential sale of the Hualapai Well that currently serves VVPOA customers. VVPOA's
5 letter expressed concerns that the potential sale could be a violation of Truxton's CC&N and its
6 service obligations to customers; that the Hualapai Well is necessary and useful to Truxton's
7 provision of service; and that Commission approval is necessary for Truxton to sell the well.

8 On April 1, 2014, VVPOA filed a Request for Expedited Procedural Conference stating that
9 due to a lack of response by Truxton to its March 2006, 2014, letter, VVPOA requested an expedited
10 procedural conference be scheduled to discuss the potential sale of the Hualapai Well.

11 On April 4, 2014, Staff filed a Response to Request for Procedural Conference stating that
12 Staff agreed with VVPOA that a procedural conference was warranted given the impact that sale of
13 the Hualapai Well could have on the rate case proceeding, as well as on an Order to Show Cause
14 proceeding filed against Truxton in Docket No. W-02168A-10-0247.

15 On April 7, 2014, by Procedural Order, a Procedural Conference was scheduled for April 11,
16 2014.

17 On April 10, 2014, Truxton filed a Notice of Filing Letter Regarding Alleged Pending Sale of
18 Well.

19 During the Commission's April Open Meeting, discussions were held with the Company on
20 the possible sale of the Hualapai 1 Well. Truxton's representative stated that the Trust would not sell
21 the Well and that Truxton would file a letter from the Trust stating that the Trust would not sell the
22 Hualapai 1 Well or any other assets necessary for the provision of Truxton's water service, without
23 prior Commission approval.

24 On April 11, 2014, a procedural conference was held, as scheduled, to address VVPOA's
25 concerns regarding the potential sale of the Hualapai Well. Truxton, VVPOA, and Staff appeared
26 through counsel.

27 On April 21, 2014, Truxton filed a Notice of Filing Letter from B. Marc Neal Regarding the
28 Sale of the Hualapai 1 Well or any other assets necessary for the provision of Truxton's water

1 service, without prior Commission approval.

2 On April 25, 2014, the parties filed their closing briefs.

3 On May 12, 2014, the parties docketed reply briefs.

4 On June 24, 2014, VVPOA filed a Supplemental Brief and Request for Scheduling
5 Conference.

6 On July 2, 2014, by Procedural Order, Truxton was directed to file a response to VVPOA's
7 Supplemental Brief and Request for Scheduling Conference, updating the Commission on the
8 operational status of the Hualapai 1 Well. Further, Staff was directed to file a response to the
9 VVPOA's Request for a Scheduling Conference, and Staff was instructed that it may file any
10 comments it deemed necessary to address the operational status of the Hualapai 1 Well.

11 On July 11, 2014, Truxton filed a Motion for an Extension of Time to file its response to
12 VVPOA's Supplemental Brief and Request for Scheduling Conference.

13 On July 14, 2014, Truxton filed its response.

14 On July 17, 2014, Staff filed its response.

15 On September 22, 2014, VVPOA filed a Notice of Withdrawal of Request for Procedural
16 Conference.

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. Pursuant to authority granted by the Commission in Decision No. 41781 (December
23 15, 1971), Truxton is a public service corporation engaged in the business of providing water utility
24 service to approximately 924 residential and commercial customers in the vicinity of Kingman,
25 Arizona, in Mohave County.

26 2. Truxton is located approximately nine miles north of Kingman, Arizona, along US
27 Highway 66, in Mohave County. Truxton's CC&N area encompasses approximately five-and-one
28 half square miles.

1 3. Truxton is a C corporation and is wholly owned by the Claude K. Neal Family Trust
2 (“Trust”).

3 4. VVPOA was granted intervention in this proceeding. VVPOA is a non-profit
4 corporation acting as the property owners association for the Valle Vista development located within
5 Truxton’s CC&N. The Valle Vista development is a planned community with approximately 4,300
6 lots, a golf course, park, tennis court, swimming pool, and other recreational amenities.¹ VVPOA is
7 Truxton’s largest customer and is a significant revenue source for the Company.²

8 5. Upon agreement between the parties and Staff, Truxton updated its rate application
9 using the twelve months ending December 31, 2012. In the updated rate case, Truxton seeks an
10 increase of \$300,000 or 53.96 percent over TY revenues of \$555,924, to \$855,924, resulting in an
11 operating income of \$95,000.

12 6. On September 11, 2013, Truxton filed an application requesting approval of a revision
13 of the Company’s terms and conditions of water service.

14 7. On September 30, 2013, Truxton filed an application requesting authority to incur
15 long-term debt in the amount of \$1,819,208 through the Water Infrastructure Financing Authority
16 (“WIFA”).

17 8. On October 21, 2013, the updated rate case, terms and conditions, and financing
18 dockets were consolidated.

19 **II. Water System/Compliance**

20 9. Staff states that Truxton is not in compliance with Decision No. 72386 (May 27,
21 2011), which ordered Truxton to acquire all water system assets necessary to provide service from
22 the Trust by no later than June 30, 2011. Staff states that for its engineering analysis it treated the
23 Company’s rate and finance applications as if the Company owns and operates all water system
24 assets necessary to provide service independent from the Trust.³

27 ¹ Exhibit I-4 at 2.

28 ² Tr. at 536.

³ Exhibit S-1, Engineering Report at 1.

1 10. The water system used to provide service to Truxton's customers includes: six wells
2 the 29 Well; Davis 1 Well; Davis 2 Well; Little Hackberry; Reda; and Hualapai.⁴ The first five wells
3 are located in the Hackberry well field.⁵ There are two operational wells in the Hackberry well field,
4 namely 29 Well and Davis 1 Well.⁶ The Hualapai well is also an active well.⁷ The water system also
5 includes 580,000 gallons of storage capacity and a distribution system.⁸ There is also a 20,000 gallon
6 storage tank that is inactive.⁹

7 11. The Arizona Department of Environmental Quality ("ADEQ") regulates the water
8 system under Public Water System ("PWS") Identification No. 08-035.

9 12. Staff conducted a site inspection of the water system on November 2 and 3, 2011, and
10 again on March 5, 2013.¹⁰

11 13. Staff indicated that the number of customers Truxton serves has increased since 1999
12 from 567 to 924 in 2012. Staff states that given the Company's average growth rate of 16 customers
13 per year, Truxton could serve approximately 1,012 customers by the end of 2017. Staff concludes
14 that the water system has adequate production and storage capacities to serve existing customers and
15 reasonable growth.¹¹

16 14. During the TY, Truxton had an average daily use per connection of 605 gallons, where
17 its high use was 1,091 gallons per day ("GPD") per customer, and its low use was 187 GPD per
18 customer.¹² For total gallons sold during the TY, Truxton had its highest monthly total use in June
19 with 30,441,000 gallons sold, and its lowest usage in March with 5,354,000 gallons sold.¹³

20

21

22 ⁴ Exhibit S-17. This Exhibit, which is a copy of the proposal drafted by Fann Environmental, LLC, incorrectly refers to
the Hualapai well as Walapai.

23 ⁵ *Id.*

24 ⁶ *Id.*

25 ⁷ *Id.*

26 ⁸ Exhibit S-1, Engineering Report at 2.

27 ⁹ *Id.* Truxton stated that it owns no assets needed in the provision of its water services and that everything (including
backhoes, ditch witches, vehicles, trailers, and welders) are owned by the Trust. Tr. at 241. Truxton states that the Trust
assets needed to provide its water service includes six wells, a 500,000 gallon storage tank, 40,000 gallon storage tank,
5,211,760 feet of distribution main, and 15 miles of 14-16-inch transmission lines.

28 ¹⁰ *Id.* at 1.

¹¹ Exhibit S-1, Schedule DMH-1 at 3.

¹² Exhibit S-1, Engineering Report at 4.

¹³ *Id.*

1 15. Generally, Staff recommends that water systems have a non-account water loss of no
2 greater than 10 percent. During the TY, Truxton reported 205,614,000 gallons of water sold and
3 205,614,000 purchased, resulting in a zero percent water loss. Staff states that a zero percent water
4 loss calls into question the validity of the water use reported for the system because all water systems
5 experience water loss due to breaks, flushing of lines, and other non-metered use.¹⁴

6 16. Staff recommends that Truxton immediately begin to monitor the gallons of water
7 pumped and the gallons of water sold on a monthly basis. Staff states the Company should
8 coordinate when it reads the “source” meter each month with when it reads the “customer” meters so
9 that an accurate accounting of the water pumped and the water delivered to customers can be
10 determined. Staff further recommends that the Company file its first water usage report in the
11 Company’s 2014 Annual Report filed with the Commission. If the reported water loss is greater than
12 10 percent, Staff recommends that the Company prepare a report containing a detailed analysis and
13 plan to reduce water loss to 10 percent or less. Further, Staff states that if Truxton believes that it is
14 not cost effective to reduce the water loss to less than 10 percent, it should be required to submit a
15 detailed cost benefit analysis to support its opinion, but that in no case should Truxton’s water loss
16 exceed 15 percent.¹⁵

17 17. Truxton is not in compliance with ADEQ. Based on an ADEQ Compliance Status
18 Report dated March 5, 2014, the water system has major deficiencies for failing to monitor chlorine
19 residuals in the water; exceeding the arsenic standard; and failing to monitor for nitrate levels.¹⁶ Due
20 to the Company’s deficiencies in monitoring and reporting and in operation and maintenance, ADEQ
21 cannot determine if the water system is currently delivering water that meets water quality standards
22 and the A.A.C.¹⁷

23 18. Truxton is currently under a Consent Order with ADEQ for its failure to submit
24 monitoring results for residual chlorine in its distribution system for the years 2004, 2005, 2006, and
25 for the month of January 2007.¹⁸ Further, Truxton failed to submit quarterly monitoring results for

26 ¹⁴ Exhibit S-1, Engineering Report at 5.

27 ¹⁵ *Id.*

28 ¹⁶ Exhibit S-15.

¹⁷ *Id.*

¹⁸ *Id.*

1 arsenic between October 2009 through March 2010 and for July 2010 through September 2010, and
 2 the Company failed to provide notice of its arsenic levels for July 2008 through June 2010.¹⁹

3 19. On May 17, 2011, ADEQ issued a Notice of Violation (“NOV”) to Truxton for its
 4 missed deadlines for arsenic monitoring.²⁰ ADEQ states Truxton failed to complete its arsenic
 5 treatment facility by December 1, 2012; that Truxton has failed to submit an Approval of
 6 Construction (“AOC”) for the facility; but that Truxton is now submitting public notice, arsenic
 7 monitoring reports, and status reports as required by the Consent Order.²¹

8 20. Staff’s witness testified that when comparing the April 17, 2013, ADEQ Compliance
 9 Status Report to the March 5, 2014, ADEQ Compliance Status Report, the arsenic levels in the water
 10 system have increased; that Truxton has failed to comply with disinfecting byproducts; and that
 11 disinfecting byproducts is a health concern because byproducts are cancer causing agents.²²

12 21. Staff recommends that any increase in rates approved by the Commission not become
 13 effective until the Company files documentation from ADEQ demonstrating that it is in compliance
 14 for the monitoring of chlorine residual and nitrates.²³

15 22. Truxton is not located within an Arizona Department of Water Resources (“ADWR”)
 16 Active Management Area (“AMA”). ADWR has determined that Truxton is in compliance with
 17 departmental requirements governing water providers and/or community water systems.²⁴

18 23. Staff recommends that Truxton file with Docket Control, as a compliance item in this
 19 docket, within 45 days of the effective date of this Decision, at least five Best Management Practices
 20 (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff, for the
 21 Commission’s review and consideration.²⁵ Further, Staff recommends that Truxton be permitted to
 22 choose no more than two BMPs from the Public Awareness/Public Relations or Education and
 23

24
 25 ¹⁹ *Id.*

²⁰ Staff Exhibit S-15.

26 ²¹ *Id.* Truxton obtained an Approval to Construct (“ATC”) from ADEQ on March 28, 2013, and has three years from the
 ATC approval to obtain an AOC.

27 ²² Tr. at 451.

²³ Exhibit S-1, Engineering Report at 6.

²⁴ ADWR Compliance Status Report issued March 19, 2013.

28 ²⁵ Exhibit S-1, Engineering Report at 11.

1 Training categories and that the Company be permitted to request recovery of actual costs associated
2 with the implementation of the BMPs in its next general rate application.²⁶

3 24. Truxton does not have an approved Curtailment Tariff on file with the Commission.
4 Staff states that a Curtailment tariff is an effective tool to allow a water company to manage its
5 resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable
6 events.²⁷ Staff recommends that the Company file a curtailment tariff as soon as possible, but no
7 later than 45 days after the effective date of a Decision in this matter. Staff recommends that the tariff
8 be docketed as a compliance item under this docket for the review and certification by Staff.²⁸

9 25. Staff further recommends that the Company's Curtailment tariff generally conform to
10 the same standard non-consecutive water system tariff found on the Commission's website at
11 www.cc.state.az.us.

12 26. Truxton has an approved backflow prevention tariff on file with the Commission.

13 27. Staff recommends that on a going forward basis, Truxton use the depreciation rates
14 developed by the National Association of Regulatory Utility Commissioners ("NARUC"), as
15 delineated in Exhibit S-3, Exhibit DMH-1, Figure 6.

16 28. Although Truxton did not oppose Staff's recommendation for the implementation of a
17 BMP Tariff, we find that it is appropriate not to require Truxton to file BMP Tariffs at this time.

18 29. We find Staff's other recommendations related to the Company's water system
19 compliance reasonable and we will adopt them.

20 **III. Finance Application**

21 30. The Company's finance application seeks approval to obtain a \$1,819,208 Water
22 Infrastructure Finance Authority ("WIFA") loan, to cover costs associated with the installation of an
23 arsenic removal treatment facility ("ATF"), capital improvement projects, and for Truxton to acquire
24 from the Trust, the assets necessary for Truxton to provide its water services. Truxton's finance
25 application requests \$419,208 to construct an ATF and capital improvement projects and
26 authorization to finance \$1.4 million to acquire the Trust assets.

27 ²⁶ *Id.*

27 ²⁷ Exhibit S-1, Engineering Report at 11.

28 ²⁸ *Id.*

1 **A. Acquisition of Trust Assets**

2 31. In Decision No. 72386, Truxton was ordered to acquire all water system assets
3 required for the provision of water service from the Trust, by June 30, 2011. Truxton is not in
4 compliance with Decision No. 72386.

5 32. Truxton states that the Trust assets needed to provide Truxton's water service
6 includes: six wells, a 500,000 gallon storage tank, 40,000 gallon storage tank, 5,211,760 feet of
7 distribution main, and 15 miles of 14-16-inch transmission lines.²⁹ Truxton states that using a
8 replacement cost study methodology, the market value of the Trust's assets is approximately
9 \$11,532,385.³⁰ Truxton states the Trust is willing to allow Truxton to acquire the assets for \$1.4
10 million.³¹

11 33. The evidence shows that for many years the Trust managed Truxton's day-to-day
12 operations, including compliance with regulatory agencies, under a Management Agreement and that
13 B. Marc Neal served as President of Truxton and as the sole Trustee for the Trust.³² Approximately
14 three years ago, Rick Neal, B. Marc Neal's son, became the manager of Truxton.³³

15 34. According to Rick Neal, the Neal family settled in the Kingman area around 1867,
16 where they acquired water sources and at that time most of the land was owned by the railroad.³⁴ Mr.
17 Neal stated that his family began trading water for land and as a result the family ended up with large
18 land holdings in the Kingman area.³⁵ He stated that somewhere around World War II, the Army Corp
19 of Engineers installed transmission lines to bring water from the Truxton area to where the airport is
20 currently located.³⁶

21 35. It is undisputed in this case that the Trust owns the 15 miles of main transmission line,
22 the wells in the Hackberry and Hualapai Well fields, and the storage tanks (two in the Hualapai Well
23 site, and a half million gallon concrete underground storage tank).³⁷ Truxton's witness stated that

24 ²⁹ Exhibit A-7.

25 ³⁰ Exhibit A-7, Schedule 1.

26 ³¹ Exhibit A-5 at 2.

27 ³² Tr. at 222.

28 ³³ *Id.*

³⁴ Tr. at 228.

³⁵ Tr. at 228-229.

³⁶ Tr. at 229.

³⁷ Tr. at 260.

1 when the Hackberry wells were originally put into service they were paid for by the Neal family, but
2 that he did not know how much they paid for the wells.³⁸ He stated that the main transmission line
3 and the storage tanks have been in the ground for 70 years, and that repairs and replacements have
4 been made over the years, but that the Trust did not maintain records to support the costs or
5 expenses.³⁹

6 36. Mr. Neal testified that when Truxton was granted a CC&N, the Trust entity decided to
7 keep the transmission line, the Hackberry Well field, the Hualapai Well field, and the storage tanks
8 under the ownership of the Trust.⁴⁰ Truxton's witness explained that a Phoenix law firm hired by the
9 Trust "highly recommended" that the assets remain with the Trust because "the Corporation
10 Commission will come in and take over your water company any time they want to take it" and that
11 the decision was made to keep the assets under Trust ownership "to avoid going before the ACC
12 having to deal with all the regulatory issues."⁴¹

13 37. Truxton asserts that Staff and VVPOA's position that the assets should be transferred
14 to Truxton for a net book value of zero is unreasonable. Truxton states that Staff assumes that the
15 Trust assets are fully depreciated and Truxton believes that the Commission should not base its
16 finding on an assumption.⁴² Truxton also contends that because the Commission, an "agency of the
17 state government," is demanding that the Trust transfer its assets to Truxton that under the U.S.
18 Constitution and Supreme Court precedent, the Trust must be compensated for the fair market value
19 of its property. In addition, Truxton argues that Staff and VVPOA's assertion that the Trust is
20 entitled to only the depreciated value for its assets according to NARUC guidelines is "trumped by"
21 the U.S. Constitution and Supreme Court rulings.⁴³

22 38. Truxton also argues that even if the assets have a depreciated value of zero, as asserted
23 by Staff, that does not mean that the assets have no value.⁴⁴

25 ³⁸ Tr. at 272-276.

26 ³⁹ *Id.*

27 ⁴⁰ Tr. at 270.

28 ⁴¹ *Id.*

⁴² Truxton Post Hearing Brief at 5.

⁴³ *Id.*

⁴⁴ Tr. at 202-203.

1 39. Alternatively, Truxton requests that if it is not allowed to borrow \$1.4 million to
2 acquire the Trust assets, the Company should be allowed to continue purchasing water from the Trust
3 as it did for approximately 40 years.⁴⁵ In support of its argument, Truxton contends that historically
4 the Commission has known and condoned the Trust selling water in Truxton's CC&N.⁴⁶

5 40. Staff argues that more than three years have passed since Staff, VVPOA and Truxton
6 entered into a Stipulation Agreement in which Truxton agreed to acquire "all the water system assets
7 necessary to provide service," but that Truxton has still failed to do so and is now asserting that it
8 must purchase the assets from the Trust for \$1.4 million.

9 41. Staff states that there is no dispute that the Trust is the sole shareholder of Truxton and
10 therefore the Trust and Truxton are affiliates.⁴⁷ Staff argues that under NARUC guidelines "affiliate
11 transactions are problematic because they raise concerns of self-dealing where prices are not driven
12 by market forces and where utilities have an incentive to shift costs from non-regulated operations to
13 regulated operations."⁴⁸

14 42. Staff states that under NARUC guidelines, affiliates are defined as "companies that are
15 related to each other due to common ownership or control," and under the guidelines, Truxton and
16 the Trust are affiliates.⁴⁹ Staff argues that under NARUC guidelines, this case involves two types of
17 affiliate transactions: 1) the provision of products, services and assets; and 2) the transfer of assets
18 between affiliates.⁵⁰

19 43. Under NARUC guidelines:

20 Generally, the transfer of assets from an affiliate to the Utility should be at the lower of
21 prevailing market price or net book value, except as otherwise required by law or
22 regulation. To determine prevailing market value, an appraisal should be required at
23

24 ⁴⁵ Truxton Post Hearing Brief at 6. Tr. at 263.

25 ⁴⁶ Truxton Post Hearing Brief at 6. Truxton refers to Decision No. 63713 (June 6, 2001), in which Truxton states that
Staff recommended increasing Truxton's purchased water expense because the rate the Company was paying to the Trust
was unreasonably low.

26 ⁴⁷ Staff's Initial Closing Brief at 4.

27 ⁴⁸ Staff's Initial Closing Brief at 4. See also, Exhibit S-8 NARUC Guidelines for Cost Allocations and Affiliate
Transactions. Staff states that although the Commission has not officially adopted the NARUC guidelines it consistently
follows them. See, Tr. at 548-549, 551.

28 ⁴⁹ Staff's Initial Closing Brief at 4.

⁵⁰ *Id.*

1 certain value thresholds as determined by regulators.⁵¹ Further, the burden of proof for
2 any exception from the general rules rests with the proponent of the exception.⁵²

3 44. Staff states that under the NARUC guidelines, Staff believes the Trust's assets have a
4 net book value of zero.⁵³ Staff defines the net book value as the original cost of the asset, plus any
5 additions, less retirements and the accumulated depreciation on that plant.⁵⁴

6 45. Staff presented evidence showing what Staff believes to be a list of Trust assets that
7 Truxton needs to acquire to provide its water service, the year that the plant assets were placed into
8 service, and the estimated original costs for those assets using Reconstruction Cost New ("RCN")
9 methodology.⁵⁵ Staff's list included the following information:

Well (active)	Year installed	Estimated original cost (by RCN method)
55-624988 (29 Well) – 16" casting, 593' deep	1943	\$7,653
55-624986 (Davis 1 Well) – 16" casting, 1,072' deep	1962	\$35,165
55-624999 (Hualapai 1 Well) – 20" casting, 1,059' deep	1964	\$77,034
Sub-total		\$119,852
Storage Tank		
500,000 gal concrete tank	1944 (est)	\$673,717
Two 40,000 gal steel tanks in Hualapai 1 Well site	1964 (est)	\$8,839
Sub-total		\$682,556
Transmission Lines		
15 miles of 16" casting iron pipes (assumed)	1943 (est)	\$1,384,077
Sub-total		\$1,384,077
Total		\$2,186,485

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20 46. Staff's witness stated that its RCN did not include depreciation. However, Staff
21 asserts that the useful life of a well is 30 years,⁵⁶ 45 years for a storage tank,⁵⁷ and 50 years for
22 transmission and distribution lines.⁵⁸ Staff asserts that the Company's witness confirmed that Staff's
23

24 ⁵¹ Staff quoting the NARUC Guidelines for Cost Allocations and Affiliate Transactions in Exhibit S-8 at D.4.

25 ⁵² *Id.*

26 ⁵³ Staff's Initial Closing Brief at 5.

27 ⁵⁴ *Id.*

28 ⁵⁵ Exhibit S-2 at 4. A.A.C. R14-2-103.A.3.n., defines RCN Rate Base as "an amount consisting of the depreciated reconstruction cost new of the property (exclusive of contributions and/or advances in aid of construction) at the end of the test year.

⁵⁶ Exhibit S-3 at 4.

⁵⁷ NARUC Depreciation Rates.

⁵⁸ Exhibit S-3 at 4.

1 dates for when the plant was placed in service are correct;⁵⁹ that neither the witness nor the Company
 2 has knowledge of the actual costs of the Trust assets;⁶⁰ that Truxton acknowledged that the Trust did
 3 not incur costs to purchase the 15-mile transmission line;⁶¹ and that based on the dates the wells and
 4 storage tanks were put into service, Staff believes they are completely depreciated.⁶²

5 47. Staff contends that the Company's assertion that improvements may have been made
 6 to the plant that would have extended the depreciable life of the plant, should not be considered
 7 because the Company failed to provide any documentation of the occurrence or cost of any system
 8 improvements or upgrades.⁶³

9 48. Staff points to the testimony provided by Truxton's manager when asked if the
 10 Company could document any repair costs or other improvements to help the Commission determine
 11 what improvements had been put into the wells, the witness answered:

12 One of my biggest challenges, and it was what made this first rate case so extremely
 13 difficult when I stepped into this, was the lack of documentation to support money. And I
 14 don't care if it was expenses, income, it was just—and, and I don't know who to blame; I
 15 don't know why. I don't know if they do. I don't know if they did where it would be. I
 just know that every time I have tried to find something, it has been very difficult for me
 to do and once I do, it's piecemeal at best.⁶⁴

16 49. Staff also argues that even if Truxton never acquires the Trust plant assets, Staff's
 17 recommendation that the assets be transferred at zero net book value would be fair because the
 18 Company and ratepayers have paid the Trust for the market value for the water, which includes
 19 operations and maintenance and capital cost, plus a return on the value of the equipment and facilities
 20 necessary to provide service, under a Water Supply Agreement ("WSA").⁶⁵ Staff asserts that the
 21 WSA has been in effect since 1991 and maybe even earlier, and remained in effect until 2010.⁶⁶

22 50. Under the WSA, the rate charged by the Trust to Truxton is defined as:

23 Said price will be based upon the market value of the water considering the
 24 operation, maintenance and capital cost to Trust, plus a return on the value of

25 ⁵⁹ Tr. at 127-128, 272, 274.

⁶⁰ Tr. at 127-128, 272, 274.

⁶¹ Tr. at 272.

⁶² Exhibit S-3 at 4 and NARUC Depreciation Rates.

⁶³ Staff's Initial Closing Brief at 6 and also Exhibit A-5 at 3.

⁶⁴ Tr. at 274.

⁶⁵ Tr. at 336-37.

⁶⁶ Tr. at 336.

1 the equipment and facilities necessary to provide service under this
2 agreement.⁶⁷

3 51. Staff asserts that this provision provides for full recovery of the Trust's costs; allows
4 the Trust a return on investment or a profit from its subsidiary; that it is contrary to NARUC
5 guidelines to allow profit on affiliate transactions; and the Company acknowledged that the
6 Commission generally does not allow profit on affiliate transactions to be passed on to customers.⁶⁸

7 52. Like Staff, VVPOA opposes Truxton's request to finance \$1.4 million to acquire the
8 Trust assets. VVPOA argues that the Commission should reject Truxton's finance request because:
9 1) under NARUC guidelines the proposed acquisition price constitutes an affiliate profit; 2) Truxton
10 provided no documentation of repairs that would extend the depreciable life of the assets; and 3) the
11 only evidence in the case is that the assets have been fully depreciated using accepted depreciation
12 rates, and they have a net book value of zero.⁶⁹ Further, VVPOA argues that Truxton's proposed
13 valuation of the Trust assets, using a replacement cost methodology, is flawed because it does not
14 account for depreciation, which does not comply with NARUC guidelines on Cost Allocations and
15 Affiliate Transactions or the NARUC Uniform System of Accounts.⁷⁰

16 53. VVPOA argues that the sale of the 15-mile transmission line to Truxton would
17 constitute an affiliate profit which violates NARUC guidelines. VVPOA states that between years
18 2002 and 2010, VVPOA paid the Trust over \$2 million for water provided from the Hackberry Well
19 down the transmission line.⁷¹ VVPOA points to testimony by Truxton's witness that the Army
20 Corps of Engineers constructed the transmission line; that it was conveyed to the Trust at no cost; and
21 that the Trust owns the transmission line "free and clear."⁷² VVPOA argues that based on Staff's
22 conclusion that the assets are fully depreciated, the assets are owned "free and clear" by the Trust, the
23 Trust has earned over \$2 million from VVPOA; VVPOA asserts that the \$1.4 million payment for the
24 assets would be equivalent to owner profit.

25
26 ⁶⁷ Exhibit S-6 at 3.

⁶⁸ Tr. at 136.

⁶⁹ VVPOA's Closing Brief at 21-22.

⁷⁰ *Id.* at 2.

⁷¹ Exhibit I-5 at 6-7.

⁷² VVPOA's Closing Brief at 8 and Tr. at 271-272.

1 54. VVPOA supports Staff's testimony that "in the case of a transfer of asset, the service
2 provided by that asset is the same for the customers after the asset has been transferred. There has
3 been no improvement in the service to customers, so the customer should not have to pay an
4 additional cost to receive the same service. So there should be no level of profit included."⁷³
5 VVPOA points to the testimony given by Truxton's witness to illustrate its point. Truxton's witness
6 stated that she has never seen a situation where the sole shareholder of a regulated utility owns wells
7 or pipelines and then sells them to the regulated utility which the shareholder owns.⁷⁴

8 55. VVPOA contends that Truxton's valuation of the Trust assets is flawed because it
9 does not take into consideration the depreciation of the assets as required by the NARUC guidelines.
10 VVPOA states that Truxton's witness did not perform any depreciation analysis related to the Trust
11 assets, could not provide information on when the assets were installed or put into service, and did
12 not know what depreciation rates apply to those assets.⁷⁵ Further, VVPOA asserts that Truxton's
13 witness acknowledged that Truxton's RCN study did not include an analysis of the depreciation of
14 the assets, even though it is required by the NARUC Uniform System of Accounts;⁷⁶ the replacement
15 cost study did not consider the age and/or condition of the Trust assets;⁷⁷ the study did not include a
16 review of any documentation related to repairs or cost of repairs related to the assets; and Truxton did
17 not make any inquiries to the Trust related to the depreciation of the assets.⁷⁸

18 56. VVPOA supports the assertion of Staff's witness that it is unlikely that WIFA would
19 even approve financing for a utility to pay its sole owner and shareholder for aged and deteriorated
20 assets.⁷⁹ VVPOA asserts that it is "double billing" for the Trust to receive millions in revenue from
21 VVPOA and now seek to include the costs of transferring that infrastructure to Truxton in VVPOA's
22 rates.⁸⁰

23 ...

24

25 ⁷³ Tr. at 539.

⁷⁴ Tr. at 68.

26 ⁷⁵ VVPOA's Closing Brief at 23, Tr. at 78.

⁷⁶ *Id.* at 24, Tr. at 166-169.

27 ⁷⁷ Tr. at 119.

⁷⁸ Tr. at 166-169.

28 ⁷⁹ VVPOA's Closing Brief at 23, Tr. at 543.

⁸⁰ *Id.* at 26 and Exhibit I-5 at 6.

1 **B. ATF/Capital Improvements Projects**

2 57. Effective January 2006, the U.S. Environmental Protection Agency (“EPA”) reduced
3 the arsenic maximum contaminant level (“MCL”) in drinking water from 50 parts per billion (“ppb”)
4 to 10 ppb.

5 58. The water system’s wells have arsenic levels that range from 4 to 36 ppb, with the
6 wells located in the Hackberry Well Site having higher concentrations of arsenic (23 ppb) and the
7 Hualapai Well having the lowest (4 ppb).⁸¹

8 59. To reduce the arsenic levels in the wells and to meet the EPA standard, Truxton states
9 it plans to construct an ATF that will blend the water from the high arsenic wells with water from the
10 low arsenic wells.⁸² Truxton states that approximately 75 percent of the year, it provides water to all
11 of its customers using the high arsenic wells, which are shallow, operated by electric motors, elevated
12 1,000 feet above its customer base and gravity fed downhill to customers, and that it is inexpensive
13 for Truxton to provide the water.⁸³

14 60. Truxton states that once its proposed ATF is in place, it will provide half of the water
15 needed to serve customers from the Hualapai 1 Well, located several hundred feet in elevation below
16 its customer base. The Hualapai 1 Well has a depth of 1,000 feet.⁸⁴ The water from the Hualapai 1
17 Well will have to be pumped to the surface, and then pumped uphill to customers using a large diesel
18 engine that has been converted to natural gas. Truxton states it is very expensive to provide water to
19 its customers using this well.⁸⁵ Truxton states that the WIFA loan amount it has requested for the
20 ATF is needed because Truxton customers cannot absorb the cost of the ATF.⁸⁶

21 61. Staff reviewed the ADEQ approved construction plans and used information obtained
22 during Staff’s site inspections to evaluate the Company’s proposed ATF and its cost.⁸⁷

23 62. Staff’s Engineer testified that, based on the plans Truxton submitted to ADEQ on
24 April 19, 2013, Truxton proposes installing a central treatment plant to reduce the arsenic levels in

25 ⁸¹ Exhibit S-17.

26 ⁸² Exhibit S-14, Tr. at 306.

27 ⁸³ Exhibit S-14.

28 ⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ *Id.*

⁸⁷ Exhibit S-1, Engineering Report at 8.

1 the wells, and not a blending plan.⁸⁸ According to Staff's witness, the Company's ATF proposal will
2 treat 250 of the total 500 gallons of water per minute from the 29 Well and the Davis 1 Well for
3 arsenic.⁸⁹ Staff's witness stated that only half of the water will be treated for arsenic and the other
4 half will bypass the ATF.⁹⁰ The remaining 250 gallons of water that will bypass the treatment plant
5 will flow through the transmission line and will be stored in a half million gallon storage tank, where
6 it will then be mixed with the arsenic treated water.⁹¹

7 63. Staff stated that Truxton's proposed ATF plan may be problematic and may be
8 ineffective in reducing the arsenic levels to comply with the EPA standard. Staff's Engineer stated
9 that the Company's proposal to have the Davis 1 Well and the 29 Well flow through the ATF will be
10 ineffective in reducing the Company's high arsenic levels in the Davis 2 Well because the Davis 2
11 Well has arsenic levels somewhere between 30-40 micrograms per liter.⁹² Staff testified that the
12 water from the Davis 2 Well cannot be treated for arsenic using a media absorption system as
13 proposed by the Company.⁹³

14 64. Staff's Engineer also explained that Truxton's proposed ATF cannot be described as a
15 blending plan because the arsenic treated water and the untreated water are not being controlled, but
16 simply mixed together.⁹⁴ Staff stated that in order to blend water to reduce the arsenic levels there
17 needs to be some mechanical way to control the flow of the water, the arsenic load from each source
18 needs to be calculated, and the water then blended in the storage tanks to reduce the MCL below 10
19 ppb.⁹⁵ Staff stated that under the Company's proposed plan, treating the arsenic will be ineffective
20 because there is no way to control the flow of water entering the storage tank from the Hualapai 1
21 Well.⁹⁶

22 65. Staff's Engineer further explained that the Hualapai 1 Well will not be connected to
23 the ATF and that water from the well will flow from the well through the transmission line directly to

24 ⁸⁸ Tr. at 456.

25 ⁸⁹ *Id.*

26 ⁹⁰ Tr. at 457.

27 ⁹¹ Tr. at 457, 510.

28 ⁹² Tr. at 458.

⁹³ Tr. at 505.

⁹⁴ Tr. at 511.

⁹⁵ *Id.*

⁹⁶ *Id.*

1 the half million storage tank.⁹⁷ According to the witness, the Hualapai 1 Well has an arsenic level of
 2 4 ppb.⁹⁸

3 66. Staff submitted evidence showing the proposal submitted by Fann Environmental,
 4 LLC ("FE") for Truxton's proposed ATF design and installation. FE describes the proposed ATF as
 5 a blending plan.⁹⁹ FE states that the ATF will be designed to flow 250 gallons per minute from the
 6 production wells in the Hackberry Well Site, specifically the 29 Well and the Davis 1 Well, through
 7 the ATF.¹⁰⁰ FE's plan states that the ATF will be housed in an existing building located near the
 8 Davis 1 Well, and that the building is currently being used to inject chlorine into the water system for
 9 disinfection.¹⁰¹ The FE plan states that there are two 4-inch lines tapped off the Davis 1 Well line
 10 that enter into the building and that a portion of the Davis 1 Well water is currently being sent to the
 11 building where chlorine is added to the water before it is sent to the transmission line.¹⁰² To direct
 12 the water to the ATF, the valve located on the transmission line between the two connections will be
 13 turned off and all water will be directed through the 4-inch line and into the treatment system.¹⁰³ FE
 14 states that during the summer months, when both wells are running, the Davis 1 Well will be treated
 15 to a MCL of 5 ppb.¹⁰⁴ This water will then be mixed with the 29 Well for a result of 8.5 ppb or
 16 less.¹⁰⁵ The ATF proposed in the design plan has no electronic controls for the treatment system, and
 17 the system will have to be manually operated.¹⁰⁶ Further, the proposed ATF will have a backwash
 18 system that will have to be manually operated to send the treated distribution water to a small storage
 19 tank and booster pump every 45-60 days.¹⁰⁷ FE concluded that the blending plan and the absorbent
 20 based media system is the best technology and most economical way to provide reliable arsenic
 21 treatment for the customers of Truxton; the system will consist of metering vessels to control the flow
 22 of the water to three vessels (containing a total of 114 cubic feet of media) to treat a flow of 250

23 ⁹⁷ *Id.*

24 ⁹⁸ Tr. at 509.

25 ⁹⁹ Exhibit S-17.

26 ¹⁰⁰ *Id.*

27 ¹⁰¹ *Id.*

28 ¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

1 gallons per minute to an arsenic concentration of less than or equal to 5 ppb at the Davis 1 Well; and
 2 that the Davis 1 Well treated water will be blended with the 29 Well to maintain a level of 8.5 ppb or
 3 less to meet the EPA MCL.¹⁰⁸

4 67. Based on the evidence in this matter, Truxton's proposed ATF will be a combination
 5 of a blending plan and an absorption media system.

6 68. Staff and Truxton disagree on the Company's request for authorization to finance
 7 \$419,208 to cover costs associated with the ATF and other capital improvements. Staff recommends
 8 a total cost of \$259,800 for the ATF and recommends disallowing the other capital improvement
 9 projects.

10 69. The proposed costs for the ATF and other capital projects as recommended by Truxton
 11 and by Staff are as follows:

	Plant Item	Company's Estimate	Staff's Recommendation
13	1 Treatment Plant and Rerouting well	\$193,652	
14	ADEQ Permit Fee	N/A	\$2,000
15	Engineering	N/A	20,000 ¹
16	3 Flow meters/Control meters	N/A	4,500
17	Piping	N/A	73,000
18	Media (estimated 76 cubic feet @ \$250/cubic ft) ²	N/A	19,000
19	Vessel (three fiberglass tanks of 4" diameter, 6' in height) ²	N/A	10,000
20	One 6,500 gal HDPE tank for recycling water storage	N/A	3,000
21	One 2,000 gal HDPE tank for backwashing water storage ²	N/A	1,000
22	300' 6" PVC line inflow line from distribution line to the treatment plant (estimate \$40/ft including material, labor, equipment rental and survey) ²	N/A	12,000

28 ¹⁰⁸ Exhibit S-17.

1		300"6" PVC line discharge line from the treatment plant to the distribution system line (estimated \$40/ft including material, labor, equipment rental and survey) ²	N/A	12,000
2		Concrete, fencing, earthwork	N/A	0 ²
3		subtotal	\$193,652	\$156,500
6	2	Electrical Controls and Instrument Changeover	\$127,000	
7		Control Panel Installation	N/A	\$50,000
8		Electric Power Line upgrade (from single phase line to 3 phase line, estimate 1,000' between Davis 1 Well and the treatment plant site)	N/A	10,000
9		subtotal	\$127,000	\$60,000
10				
11				
12	3	Replacing Transmission Line (1 mile)	\$98,556	0 ³
13		subtotal	\$98,556	0
14				
15		Total	\$419,208	\$216,500
16		Administration fee (5%)	0	10,825
17		Contingency (15%)	0	32,475
18		Total	\$419,208	\$259,800

Notes:

1. Item includes design fee, water testing cost and survey cost.
2. Per the ADEQ approved construction plan the treatment plant will be installed inside an existing warehouse, therefore, no concrete pad, fencing, etc. will be necessary.
3. No explanation was provided by the Company as to why this transmission line was needed.

70. Truxton's finance application seeks financing for its proposed ATF in the amount of \$193,652; installing electrical controls for a single phase electrical line to convert the Hualapai 1 Well from natural gas pumps to electric pumps in the amount of \$127,000; and replacing one mile of transmission line in the amount of \$98,556, for a total cost of \$419,208.

71. Truxton's witness testified that it is the Company's intention to replace the last three miles of the transmission line where the majority of the leaks occur during the summer months and that the Company has been putting \$300 clamps on the line as the leaks occur.¹⁰⁹ The witness stated that replacing at least one mile of the three mile line will solve "a whole bunch of problems," and that

¹⁰⁹ Tr. at 257.

1 the Company can reuse the thousands of dollars' worth of clamps on that line to fix other leaks on the
2 system.¹¹⁰ The witness suggested that in two years' time, the Company would file another financing
3 application requesting to replace another mile of the transmission line.¹¹¹

4 72. Staff recommends that the Commission approve \$259,800 to fund the installation of a
5 250 GPM arsenic treatment plant, based on Staff's listed system improvements and at the cost
6 recommended by Staff, as described above.

7 73. Staff also recommends approval of \$43,300 to cover administrative costs and
8 contingencies associated with proposed ATF. Staff argues that its recommendation of \$259,800, to
9 cover the cost of the ATF is actually more than the Company's allotted request for the ATF of
10 \$193,652.¹¹²

11 74. Staff states that no "used and useful" determination of the proposed plan was made
12 and that no conclusions should be inferred for future rate making or rate base purposes.

13 75. Staff also recommends that the Company file, by December 31, 2015, with Docket
14 Control, as a compliance time in this docket, a copy of the Certificate of Approval of Construction for
15 the installation of the 250 GPM arsenic treatment plant.

16 76. Staff recommends disallowing the Company's proposal to install an electrical line (to
17 convert the Hualapai Well 1 from natural gas pumps to electric pumps) because Truxton's WIFA
18 loan application only requests financing for the installation of the electric line, but did not include a
19 cost to replace the pumps.¹¹³ Staff states that because the Company's WIFA loan application did not
20 include the actual conversion or installation of the electric motors to drive the well, Staff viewed the
21 electric line as a line to nowhere and believes the line would not become "used and useful."¹¹⁴

22 77. Although Staff does not recommend approval of the electric line to convert the
23 Hualapai 1 Well from natural gas to electric, Staff recommends approval of \$60,000 to upgrade the
24
25

26 ¹¹⁰ Tr. at 258.

27 ¹¹¹ *Id.*

28 ¹¹² Staff's Initial Closing Brief at 25.

¹¹³ Tr. at 460.

¹¹⁴ Tr. at 461.

1 electricity needed for the building that will house the ATF.¹¹⁵ Staff states that during its site
 2 inspection, Staff noted that the water system's well and well fields only had single phase electric
 3 service.¹¹⁶ Staff states that based on FE's proposed plan to keep the ATF operating at all times (so
 4 that there is a constant flow of water through the media to keep it from cracking) Truxton will need to
 5 upgrade the electric service to the building where the ATF will be housed from a single phase
 6 electrical line to a three phase electrical line.¹¹⁷

7 78. Staff also recommends that because the details of WIFA loan are not known at this
 8 time, that the Commission approve an arsenic surcharge mechanism to recover the costs associated
 9 with the WIFA loan for the ATF.¹¹⁸ Based on the preliminary loan details and customer counts, Staff
 10 believes the estimated arsenic surcharge will be approximately \$2.15 per month for ¾-inch meter
 11 customers.¹¹⁹

12 79. Staff also recommends that the Commission:

- 13 a. Approve the Company's request for authorization to finance up to \$259,800
- 14 b. Approve an arsenic surcharge mechanism to recover costs associated with
- 15 c. Require the Company to file with the Commission a an arsenic surcharge
- 16 d. Require the Company follow the same methodology, as shown in Exhibit S-4,
- 17 e. Require the Company make a WIFA loan surcharge filing within 15 days of
- 18 f. Require the Company to place the WIFA loan surcharge proceeds in a

24 ¹¹⁵ Tr. at 461-462. Staff also notes that the Company's witness testified that the building to be used for the ATP already
 25 has power and therefore Staff's recommendation to bring electric service to the building is apparently either wholly, or in
 26 part, unnecessary.

¹¹⁶ Tr. at 462.

¹¹⁷ Tr. at 462.

¹¹⁸ Exhibit S-3 at 26.

¹¹⁹ Exhibit S-4 Surrebuttal CSB-24.

28 ¹²⁰ Although Staff's recommendation states that the Company's filing should include a calculation of its debt reserve,
 Staff's schedule did not show a methodology for calculating a debt reserve.

- 1 g. Require the Company file a rate case no later than May 31, 2018, using a
December, 31, 2017, TY.
- 2 h. Rescind approval of the loan and the surcharge if the Company has not drawn
3 funds from the loan within one year of the effective date of a Decision in this
4 proceeding.
- 5 i. Require the Company to notify its customers of the WIFA loan surcharge by
6 means of a bill insert in its next regularly scheduled billing after the
7 Commission's Decision in this proceeding.¹²¹

8 80. Staff recommends disallowing Truxton's request to replace one mile of the
9 transmission line because the Company's finance application did not identify which portion of the
10 transmission line the Company intends to replace or what type of pipe it will be replaced with.¹²²
11 Staff further explained that portions of the transmission line run along Historic Highway 66 which
12 may require additional permits; the Hualapai Well runs adjacent to an Indian Reservation; and that
13 portions of the transmission line are located in a tributary flood plan.¹²³ For those reasons, Staff
14 states it recommends disallowing the replacement of the one mile of transmission line and because
15 Truxton did not provide enough specifics in its application.¹²⁴

16 81. Regarding upgrading the Hualapai 1 Well, Staff states that it agrees there may be some
17 efficiencies gained from upgrading the Hualapai 1 Well, but that Staff did not have enough
18 information to assess the project and review the proposed costs.¹²⁵

19 82. VVPOA does not oppose Truxton's request for authorization to obtain financing to
20 construct an ATF.¹²⁶ However, VVPOA argues that its rates for irrigation water should not include
21 any costs associated with construction of the ATF or an arsenic surcharge.¹²⁷ VVPOA acknowledges
22 that its potable water rates may include charges for the ATF, but that its irrigation rates should not.

23 83. VVPOA supports the Company's request to convert the natural gas pumps to electric
24 pumps for the Hualapai 1 Well, so long as the changeover costs are reasonable and VVPOA can
25 afford them.¹²⁸

26 ¹²¹ Exhibit S-3, at 26-27.

27 ¹²² Tr. at 463.

28 ¹²³ Tr. at 463.

¹²⁴ Tr. at 249-250, 258.

¹²⁵ Exhibit S-1, Engineering Report at 8.

¹²⁶ VVPOA Closing Brief at 3.

¹²⁷ *Id.*

¹²⁸ Tr. at 403.

1 84. VVPOA asserts that the Commission should not deny Truxton's request for
 2 authorization to finance the conversion of the Hualapai 1 Well, but that Truxton should be required to
 3 make a compliance filing (in this docket) that includes a more detailed plan to convert the Hualapai 1
 4 Well to electric service, that will be subject to Staff's review and the Commission's approval.¹²⁹
 5 Further, VVPOA states that upgrading the Hualapai 1 Well is important to maintaining the
 6 operational status of the Well; it is in the public interest to residential property owners, VVPOA, and
 7 Truxton to upgrade the Well; and it would be more efficient to require Truxton to make the additional
 8 filings regarding its request for authorization than to require the Company to file a new finance
 9 application.¹³⁰

10 85. The Hualapai 1 Well is used as a secondary well source when the wells in the
 11 Hackberry well field cannot provide enough water for all of Truxton's customers.¹³¹ The Hualapai 1
 12 Well is mainly used during the summer months when the golf course's demand for water is high.¹³²

13 86. The record shows that the Hualapai 1 Well has failed numerous times. VVPOA's
 14 witness testified that during 2011, the golf course went without water for 73 days.¹³³ On June 24,
 15 2014, VVPOA filed a Supplemental Brief in this docket stating that the Hualapai 1 Well had failed
 16 on June 13, 2014, and that the Well had not been fully operational for ten consecutive days. VVPOA
 17 also states that during 2012 it was without irrigation service for 23 days and a total of 23 days in
 18 2013, due to the Hualapai 1 Well's failure.¹³⁴

19 87. In its Supplemental Brief, VVPOA states that neither Truxton nor the Trust, made any
 20 efforts to prevent the Hualapai 1 Well from failing this summer, "despite VVPOA's willingness to
 21 assist with and potentially pay for the necessary repairs and replacement parts."¹³⁵ VVPOA requests
 22 that the Commission order Truxton and its owner to stock the necessary replacement parts for the
 23 Well; that the Commission give VVPOA a credit against future water bills in the amount that
 24 VVPOA will now have to incur to reseed the golf course turf areas; that the Commission adopt

25 ¹²⁹ VVPOA Reply Brief at 9.

26 ¹³⁰ VVPOA Reply Brief at 9-10.

27 ¹³¹ Exhibit A-6 at 3.

28 ¹³² *Id.*

¹³³ Tr. at 426, 428-429.

¹³⁴ VVPOA's Supplemental Brief at 4.

¹³⁵ *Id.*

1 Staff's recommended rates of \$1.20 per 1,000 gallons for VVPOA given that Truxton has failed to
2 provide adequate water service to VVPOA in each of the last four years, resulting in substantial
3 damages to VVPOA and its property owners.¹³⁶

4 88. In response to VVPOA's assertion that it was without water for ten days this summer,
5 Truxton states that the Hualapai 1 Well was fully operational by July 3, 2014; that it was operational
6 June 18 and June 20; at no time did VVPOA go without water; and that at all times Truxton provided
7 at least 300,000 – 400,000 (approximately half of the 800,000 gallons of water required by the golf
8 course).

9 **C. Analysis/Resolution**

10 89. Although the Commission issued Decision No. 72386 in 2011, and that Decision
11 remains in full force and effect, Truxton has failed to comply with its agreement to acquire the assets
12 it needs to provide water service in its CC&N area from the Trust. Truxton's failure to acquire the
13 assets has been the underlying source for most of the disputes/issues raised in this case. Staff, for its
14 analysis of the rate application, simply treated the assets as if they have been transferred.

15 90. Truxton's proposal to finance \$1.4 million to acquire the Trust assets is unreasonable.

16 91. Truxton's replacement cost study failed to provide a clear and complete picture of the
17 assets' value. The evidence shows that the replacement cost study does not take into consideration
18 the age or condition of the assets, that it does not account for depreciation, and that the Trust did not
19 provide any documentation related to repairs of the assets that would extend their depreciable life.

20 92. Truxton provided no documentation in regards to original cost of the assets, or repairs
21 or maintenance on the assets, that would support its \$1.4 million request. Testimony from Truxton's
22 witness states that the \$1.4 million amount was derived "out of sky" and that the amount was arrived
23 at by him and with his attorney in this case.¹³⁷ Although no evidence was presented contradicting that
24 the Trust owns the 15-mile transmission line "free and clear" and that the wells were purchased by
25 the Trust, no documentation was provided as to the original cost of the wells, or repairs, or
26 maintenance on the wells, or transmission line that would extend their depreciable life, and without

27 _____
¹³⁶ *Id.* 4-5.

28 ¹³⁷ Tr. at 289.

1 sales receipts, bill of sales, contracts, or other documentation, actual ownership has not been
2 established. The evidence also shows that under accepted depreciation rates, the life of a
3 transmission line is 50 years, the life of a storage tank is 45 years, and life of the wells is 30 years.
4 Given no documentation to support repairs and maintenance on the line, the depreciable life for the
5 transmission line would have been complete in 1993; the newest of the three active wells in 1994;
6 and the life of the newest storage tank would not extend beyond 2009.

7 93. Truxton has asserted numerous times throughout the proceeding that Staff assumed
8 that the assets have no value and that the Commission should not make a decision on an assumption.
9 Truxton has the burden of proof to demonstrate the assets' value. The evidence shows that Truxton
10 failed to respond to Staff's data request requesting clarification on how the \$1.4 million for the assets
11 was derived. Staff conducted a reconstruction cost new study, while Truxton derived its \$1.4 million
12 request from the "sky."

13 94. Truxton did not provide evidence that the WSA executed between the Trust and the
14 Company for more than several decades did not include a return on the value of the equipment and
15 facilities necessary to provide service under the WSA. If the WSA did include a return on the value
16 of the equipment and facilities it would not be just or reasonable to further burden rate payers by
17 requiring them to pay the owner for the assets again.

18 95. Truxton's argument that the transfer of assets is a "taking" is not persuasive. In the
19 OSC docket, Truxton signed a Stipulated Agreement whereby it agreed to acquire the assets from the
20 Trust.¹³⁸ Now Truxton asserts that the Commission is forcing the Trust to transfer the assets.
21 Further, Truxton's argument that the Commission is now "taking" the Trust assets has no merit
22 because even after the assets are transferred, the assets will be under the control of the same ultimate
23 ownership and the assets will be used for the same purpose of providing water service. Additionally,
24 the Trust has never sought intervention in this docket or in the OSC docket to oppose the transfer of
25 the assets to Truxton.¹³⁹ In fact, Truxton's witness stated that the sole shareholder of the Trust was
26

27 ¹³⁸ The Stipulated Agreement was signed by Mr. Rick Neal on behalf of Truxton after consulting with B. Marc Neal, the
Trustee for the Trust and sole shareholder of Truxton. Tr. at 288.

28 ¹³⁹ Tr. at 288.

1 consulted before the Stipulated Agreement was signed and the Trust and/or Truxton agreed that the
2 assets should be transferred.¹⁴⁰

3 96. Decision No. 72386 arose out of an OSC filed by Staff against Truxton in which Staff
4 raised concerns that there was no independent management protecting Truxton's rights and that the
5 Trust was selling water within Truxton's CC&N. In the OSC docket, Staff alleged that a conflict
6 existed because Mr. B. Marc Neal was acting on behalf of the Trust and Truxton.¹⁴¹ Since that time,
7 Mr. Rick Neal, son of B. Marc Neal, has taken over the management of Truxton, continuing the
8 familial relationship between Truxton and the Trust. Staff asserts in this docket that Truxton is an
9 alter-ego of the Trust.¹⁴² The record shows that throughout this proceeding, Mr. Rick Neal testified
10 on behalf of both the Trust and/or Truxton.¹⁴³

11 97. Truxton should not obtain WIFA loan financing, if the associated assets to which the
12 newly acquired facilities are attached and are integral to the proper function of the water system, are
13 not owned by the water company. During the hearing, Staff raised concerns that Truxton's WIFA
14 loan application did not specify that the Hualapai 1 Well and the transmission line did not belong to
15 the Company.¹⁴⁴ Staff also questioned whether Truxton had alerted WIFA to the fact that the \$1.4
16 million it was requesting was to finance the sale of the owner's assets to itself.¹⁴⁵ If Truxton does not
17 acquire the assets, the WIFA loan financing for the ATF and the capital improvement projects should
18 not be approved. Staff has stated that it has never seen a situation where WIFA has approved
19 financing for capital projects where the assets were not owned by the regulated utility. Staff also
20 testified and the Company's witness concurred that they were unaware of WIFA providing funding
21 for an owner to sell assets to himself.

22 98. Therefore, based on the age of the assets, the dates that they were placed in service,
23 and Truxton's failure to provide any evidence to support a different conclusion, we find that the Trust
24
25

26 ¹⁴⁰ Tr. at 330.

27 ¹⁴¹ Decision No. 72386 at 13.

28 ¹⁴² Staff's Reply Brief at 7.

¹⁴³ Tr. at 313, 315, 330.

¹⁴⁴ Exhibit S-13 and Tr. at 303-304.

¹⁴⁵ Tr. at 304.

1 assets are fully depreciated. Accordingly, we will deny Truxton's request for authorization to finance
2 \$1.4 million to acquire the Trust assets.

3 99. Our Decision in this matter is consistent with our ruling in Decision No. 72739 (Cerbat
4 rate case proceeding).¹⁴⁶ Cerbat is also owned by the Trust and is an affiliate of Truxton. In the
5 Cerbat case, the assets were transferred from the Trust to Cerbat. Truxton testified that Cerbat is
6 now in the position where there is redundancy for the system, complaints are rare, and the water
7 system is working as it should work.¹⁴⁷ We believe that requiring Truxton to acquire the assets from
8 the Trust is consistent with our previous decision and that our decision in this matter will have the
9 same positive effect on Truxton that it has had on Cerbat.

10 100. Further, we do not believe it is in the public interest to grant Truxton's request to
11 allow Truxton to resume purchasing water from the Trust.¹⁴⁸ Staff has stated that counsel for the
12 Company has advised Staff that the Trust will automatically terminate upon the death of B. Marc
13 Neil's mother. Staff has expressed concerns that service to Truxton's customers may be affected if
14 the Trust is terminated. For the above reasons, we do not believe it is in the public interest or
15 reasonable to allow Truxton to resume purchasing water from the Trust and using Trust assets to
16 provide its service.

17 101. In order for Truxton to seek the necessary WIFA financing to construct its proposed
18 ATF, the assets *must first* be transferred from the Trust to the Company. Without the assets first
19 being transferred, it would be unclear who would own the ATF after it is installed and ratepayers
20 should not be required to pay the cost for capital improvements not owned by the Company.¹⁴⁹
21 Further, absent transfer of the assets, Truxton's ability to maintain the ATF as a useful and integral
22 component of the water system may be unnecessarily jeopardized. Therefore, it is in the public
23 interest to require Truxton to demonstrate, as described above, that the assets have been transferred to
24 the water company before Truxton is authorized to seek WIFA financing for its proposed ATF and
25 capital projects.

26 ¹⁴⁶ In the Cerbat Decision, Cerbat was required to acquire from the Trust the assets necessary for the provision of water
27 service.

¹⁴⁷ Tr. at 237.

¹⁴⁸ Truxton Post Hearing Brief at 6. Tr. at 263.

28 ¹⁴⁹ Tr. at 307.

1 102. Regarding the Company's proposed cost for the ATF, we find that Staff's
2 recommendations regarding the design and cost for the ATF are reasonable and we will adopt them
3 upon compliance by Truxton to transfer the assets from the Trust.

4 103. Once Truxton has complied with transferring the assets, we find Staff's
5 recommendation for the implementation of an arsenic surcharge mechanism is reasonable. Further,
6 we find it appropriate to require Truxton to track and separately record as a regulatory liability the
7 surcharge proceeds associated with its debt service reserve fund and to require Truxton to maintain an
8 accurate balance of the regulatory liability until its obligation to ratepayers is completely satisfied.

9 104. Regarding Truxton's capital improvement projects, we agree that efficiencies could be
10 gained by upgrading the Hualapai 1 Well and replacing one mile of the 15-mile transmission line.
11 Therefore, we will require the Company to file additional documentation to provide a more detailed
12 plan to upgrade the Hualapai 1 Well and to replace the one mile of transmission line, within 60 days
13 of the effective date of this Decision. The additional documentation shall be filed in this docket as a
14 compliance item, for Staff's review and approval. The additional documentation shall include, but is
15 not limited to, the exact one-mile portion of the transmission line Truxton intends to replace; the type
16 of replacement pipe it will use; whether the improvement will require additional permits; whether the
17 improvements infringe on the Indian Reservation; and whether the improvement will interfere with
18 the Tributary Flood Plan.

19 105. After completing its review, Staff shall file a Supplemental Staff Report and any
20 additional recommendations regarding the proposed financing for the capital projects. Because the
21 upgrades for the Hualapai 1 Well will mainly benefit VVPOA's golf course, as it acts as a secondary
22 water supply during summer months, Staff's analysis for the financing should consider the
23 appropriate cost allocations related to upgrading the Hualapai 1 Well.

24 106. VVPOA requests that the Commission order Truxton and its owner to stock the
25 necessary replacement parts for the Hualapai 1 Well and that the Commission give VVPOA a credit
26 against future water bills in the amount that VVPOA will now have to incur to reseed the golf course
27 turf areas. VVPOA asserted its claim in its Supplemental Closing Brief and presented no evidence
28 during the hearing on these issues. Therefore, we decline to address these issues in this Decision.

1 107. The testimony showed that the building that will be used to house the ATF is owned
2 by the Trust, as well as the land upon which the building sits. The building is currently being used for
3 storage and includes Truxton's chlorination plant.¹⁵⁰ Staff raised concerns that if the proposed ATF
4 is constructed within the Trust owned building, on Trust land, the ATF could become a fixture on the
5 land.¹⁵¹ Truxton asserts that a long-term capital lease should be executed between the Trust and
6 Truxton to lease the building that will house the proposed ATF.¹⁵² We believe it is not in the public
7 interest for ratepayers to subsidize costs for the ATF which may not ultimately be owned by the water
8 company. Therefore, because the building has been used in the provision of Truxton's water
9 services, the building should also be transferred from the Trust to Truxton.

10 108. We also find Staff's recommendation for implementation of an arsenic surcharge
11 mechanism as modified herein, is reasonable and we will adopt it.

12 **III. Rate Application**

13 109. Truxton is currently operating under rates and charges established in Decision No.
14 63713 (June 6, 2001).

15 110. In Decision No. 72724 (January 6, 2012), the Commission implemented interim rates
16 which included Monthly Minimum Charges and a Commodity Rate of \$1.45 per 1,000 gallons for
17 VVPOA. The Decision also required VVPOA to pay a \$20,000 deposit on January 1, 2012, and
18 stated that the deposit was to be refunded with interest by Truxton, on VVPOA's August 2012 bill, if
19 VVPOA remained current on its bills. Further, the Decision required that all monies collected
20 through the interim tariff were to be subject to a true up in this proceeding. The parties did not
21 provide evidence calculating deposit refund amounts or true up amounts based on the proposed rates.
22 In compliance with Decision No. 72724, Truxton should be required to prepare, as a compliance item
23 in this docket, a report detailing the amount of the refund, with interest, that is to be credited to
24 VVPOA's August 2012 bill, as well as a calculation of all monies subject to true up based on this
25 Decision. Truxton shall file its report within 14 days of the effective date of this Decision, and
26 VVPOA shall file its response 14 days after Truxton's filing. Staff shall be required to review the

27 ¹⁵⁰ Tr. at 309.

28 ¹⁵¹ Tr. at 307.

¹⁵² *Id.*

1 filings and make its recommendations set forth in a Proposed Form of Order for the Commission's
2 consideration.

3 111. Truxton's current water rates and charges, as proposed in its updated rate application,
4 and as recommended by Staff are as follows:

MONTHLY USAGE CHARGE:	Present	Proposed Rates	
		Company	Staff
Meter Size (All Classes):¹⁵³			
5/8 x 3/4" Meter	\$ 19.50	\$ 29.50	\$ 14.00
3/4" Meter	19.50	29.50	14.00
1" Meter	32.50	73.75	28.28
1-1/2" Meter	65.00	147.50	56.55
2" Meter	104.00	236.00	90.48
3" Meter	195.00	472.00	194.88
4" Meter	325.00	737.50	304.50
6" Meter	650.00	1,475.00	565.50
Gallons Included in Monthly Minimum	0	0	0
<u>COMMODITY RATES (Per 1,000 gallons):</u>			
<u>All Meter Sizes</u>			
First 5,000 gallons	\$1.4500	N/A	N/A
5,001 to 20,000 gallons	1.9000	N/A	N/A
Over 20,000 gallons	2.5000	N/A	N/A
<u>5/8 x 3/4" and 3/4" Meter</u>			
First 3,000 gallons	N/A	\$2.5000	\$1.2000
3,001 to 10,000 gallons	N/A	4.5000	2.4000
Over 10,000 gallons	N/A	6.3500	3.8070
<u>1" Meter</u>			
First 5,000 gallons	\$1.2000	N/A	N/A
5,001 to 10,000 gallons	1.4000	N/A	N/A
Over 10,000 gallons	1.6000		
First 25,000 gallons	N/A	\$4.5000	N/A
Over 25,000 gallons	N/A	6.3500	N/A
First 16,000 gallons	N/A	N/A	\$2.4000
Over 16,000 gallons	N/A	N/A	3.8070
<u>1 1/2" Meter</u>			
First 5,000 gallons	\$1.2000	N/A	N/A
5,001 to 10,000 gallons	1.4000	N/A	N/A
Over 10,000 gallons	1.6000		

26 ¹⁵³ In its updated rate case schedules, Truxton proposed different monthly minimum charges for VVPOA; however, the
27 Company did not offer an explanation as to why VVPOA's monthly minimum charges should differ from other
28 customers. Likewise, Staff's schedules do not show different monthly minimum charges for VVPOA. Therefore, we will
apply monthly minimums based solely on meter size and not customer type.

1	First 50,000 gallons	N/A	\$4.5000	N/A
2	Over 50,000 gallons	N/A	6.3500	N/A
3	First 30,000 gallons	N/A	N/A	\$2.4000
	Over 30,000 gallons	N/A	N/A	3.8070
4	<u>2" Meter</u>			
5	First 5,000 gallons	\$1.2000	N/A	N/A
	5,001 to 10,000 gallons	1.4000	N/A	N/A
6	Over 10,000 gallons	1.6000		
7	First 80,000 gallons	N/A	\$4.5000	N/A
	Over 80,000 gallons	N/A	6.3500	NA
8	First 48,000 gallons	N/A	N/A	\$2.4000
9	Over 48,000 gallons	N/A	N/A	3.8070
10	<u>3" Meter</u>			
	First 5,000 gallons	\$1.2000	N/A	N/A
11	5,001 to 10,000 gallons	1.4000	N/A	N/A
	Over 10,000 gallons	1.6000		
12	First 160,000 gallons	N/A	\$4.5000	N/A
13	Over 160,000 gallons	N/A	6.3500	N/A
14	First 58,000 gallons	N/A	N/A	\$2.4000
	Over 58,000 gallons	N/A	N/A	3.8070
15	<u>4" Meter</u>			
16	First 5,000 gallons	\$1.2000	N/A	N/A
	5,001 to 10,000 gallons	1.4000	N/A	N/A
17	Over 10,000 gallons	1.6000		
18	First 250,000 gallons	N/A	\$4.5000	N/A
	Over 250,000 gallons	N/A	6.3500	N/A
19	First 95,000 gallons	N/A	N/A	\$2.4000
20	Over 95,000 gallons	N/A	N/A	3.8070
21	<u>6" Meter</u>			
	First 5,000 gallons	\$1.2000	N/A	N/A
22	5,001 to 10,000 gallons	1.4000	N/A	N/A
	Over 10,000 gallons	1.6000		
23	First 500,000 gallons	N/A	\$2.5800	N/A
24	Over 500,000 gallons	N/A	3.2000	N/A
25	First 278,000 gallons	N/A	N/A	\$2.4000
	Over 278,000 gallons	N/A	N/A	3.8070
26	<u>Bulk Water</u>			
27	Per 1,000 gallons	\$2.5000	\$6.3500	\$3.8070
28				

1	<u>Valley Vista Property Owners Association</u>			
2	Per 1,000 gallons	\$1.4500	N/A	\$1.2000
3	First 15,000,000 gallons	N/A	\$1.7000	N/A
3	Over 15,000,000 gallons	N/A	1.9000	N/A
4			<u>Proposed Rates</u>	
5		<u>Present</u>	<u>Company</u>	<u>Staff</u>
5	<u>SERVICE CHARGES:</u>			
6	Establishment	\$45.00	\$50.00	\$45.00
6	Establishment (After Hours)	55.00	Eliminate	Eliminate
7	Reconnection (Delinquent)	65.00	\$70.00	\$45.00
7	Reconnection (Delinquent/After Hours)	75.00	Eliminate	Eliminate
8	Meter Test (If Correct)	35.00	\$40.00	\$25.00
8	Deposit	*	*	*
9	Deposit Interest	*	*	*
9	Re-Establishment (Within 12 Months)	**	**	**
10	Re-Establishment(Delinquent/After Hours)	**+\$10.00	Eliminate	Eliminate
10	NSF Check	\$15.00	\$25.00	\$25.00
11	Deferred Payment	1.5% per month	1.5% per month	1.5% per month
12	Meter Re-Read (If Correct)	\$15.00	\$25.00	\$20.00
12	Late Fee	5.00	5.00	5.00
13	Call Out (At Customer's Request)	25.00	35.00	Eliminate
13	After Hours Charge	No Tariff	25.00	\$30.00
14	Monthly Fire Sprinkler Charge	***	Eliminate	****

15 * Per Commission Rule A.A.C. R14-2-403(B)
 16 ** Number of months off system times monthly minimum per A.A.C. R-14-2-403(D)
 16 *** 1% of monthly minimum for a comparable sized meter connection, but not less than \$5.00 per
 17 month. The service charge for fire sprinklers is only applicable for service lines separate and distinct
 17 from the primary water service line.
 18 **** 2% of monthly minimum for a comparable sized meter connection, but not less than \$10.00 per
 18 month. The service charge for fire sprinklers is only applicable for service lines separate and distinct
 19 from the primary water service line.

20 In addition to the collection of regular rates, the utility will collect from its customers a proportionate
 share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409(D)(5).

21
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SERVICE LINE AND METER INSTALLATION CHARGES:

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

	<u>Company Charges</u>			<u>Staff Recommended Charges</u>			
	<u>Current</u>	<u>Proposed Service Line Charge</u>	<u>Proposed Meter Installation Charge</u>	<u>Total Proposed Charge</u>	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
5/8" x 3/4" Meter	\$450	\$445	\$155	\$600	\$445	\$155	\$600
3/4" Meter	500	445	255	700	445	255	700
1" Meter	550	495	315	810	495	315	810
1 1/2" Meter	775	550	525	1,075	550	525	1,075
2" Meter	1,305	830	1,045	1,875	830	1,045	1,875
2" Compound Meter	1,900	830	1,890	2,720	830	1,890	2,720
3" Meter	1,815	1,045	1,670	2,715	1,045	1,670	2,715
3" Compound	2,490	1,165	2,545	3,710	1,165	2,545	3,710
4" Meter	2,860	1,490	2,670	4,160	1,490	2,670	4,160
4" Compound Meter	3,615	1,670	3,645	5,315	1,670	3,645	5,315
6" Meter	5,275	2,210	5,025	7,235	2,210	5,025	7,235
6" Compound Meter	6,810	2,330	6,920	9,250	2,330	6,920	9,250

A. Rate Base

112. Truxton proposed an original cost rate base ("OCRB") of negative \$185,698, and requested rates be set using an operating margin of 11.10 percent.

113. Truxton did not propose a fair value rate base ("FVRB") that differs from its OCRB of negative \$185,698.

114. Staff made net adjustments totaling \$62,572 that decreased the Company's proposed OCRB from negative \$185,698 to a negative \$249,270.¹⁵⁴ Staff recommends rate base adjustments to advances in aid of construction ("AIAC"), adjustments to contributions in aid of construction ("CIAC"), customer deposits, and cash working capital allowance.

1. Adjustment to AIAC

115. The Company's application stated that it had \$865,257 in plant additions in account No. 331 (Transmission and Distribution Main).¹⁵⁵

116. Staff initially disallowed the Company's reported \$865,257 in plant additions because Truxton did not provide invoices to support the additions.¹⁵⁶ Truxton stated that it believed the additions were related to line extension agreements because the timing and amounts were similar

¹⁵⁴ Exhibit S-3 at Schedule CSB-3.¹⁵⁵ Exhibit A-1 at Schedule E-5.¹⁵⁶ Exhibit S-3 at 11.

1 to the Company's reported AIAC. Based on the Company's testimony, Staff identified \$815,260 in
 2 AIAC that was recorded on the Company's books. The Company was able to provide line extension
 3 agreements totaling \$314,160 of the \$815,260, leaving \$501,100 unsupported.¹⁵⁷

4 117. Staff asserts that in Decision No. 72386 (May 27, 2011), Truxton was ordered to file
 5 its line extension agreements for approval by the Commission, but that the Company has still not
 6 done so.¹⁵⁸ Staff argues that the line extension agreements that the Company provided had not been
 7 approved by the Commission and therefore Truxton is in violation of A.A.C. R14-2-406.M.¹⁵⁹

8 118. Staff states that because Truxton did not provide documentation showing that
 9 \$314,160 in plant financed by AIAC was actually approved by the Commission; because the
 10 Company did not provide any documentation to support the remaining \$501,100 in AIAC; and
 11 because Truxton is in violation of Decision No. 72386 (which required Truxton to file all line
 12 extension agreements), Staff recommends that all \$815,260 of the proposed AIAC be treated as
 13 CIAC.

14 119. Truxton did not provide evidence to refute Staff's recommendation to treat all
 15 \$815,260 of the proposed AIAC as CIAC; nor did the Company provide any documentation
 16 demonstrating that it has complied with Decision No. 72386 with regards to line extension
 17 agreements. Therefore, we find Staff's recommendation to treat all \$815,260 of AIAC as CIAC is
 18 just and reasonable, and we will adopt Staff's recommendation.

19 **2. Adjustment to CIAC**

20 120. Truxton proposed \$63,429 in CIAC. Staff recommends an increase of \$815,260 in
 21 CIAC to reflect Staff's recommendation that all unsupported or unapproved AIAC be treated as
 22 CIAC.¹⁶⁰

23
 24
 25 ¹⁵⁷ *Id.*

¹⁵⁸ Exhibit S-3 at 12.

¹⁵⁹ A.A.C. R14-2-406.M states that:

26 All agreements under this rule shall be filed with and approved by the Utilities Division of the Commission. No
 27 agreement shall be approved unless accompanied by the Certificate of Approval to Construct as issued by the Arizona
 28 Department of Health Services. Where agreements for main extensions are not filed and approved by the Utilities
 Division, the refundable advance shall be immediately due and payable to the person making the advance.

¹⁶⁰ Exhibit S-3 at 12.

1 121. Because we have adopted Staff's recommendation to treat all unsupported or
2 unapproved AIAC as CIAC, we also find that Staff's upward adjustment of \$815,260 to CIAC, and
3 Staff's recommended increase of \$13,533 to reflect the amortization of CIAC, is just and reasonable
4 and we will adopt it.¹⁶¹

5 **3. Adjustment to Customer Deposits**

6 122. Staff states that Truxton did not include customer deposits in its rate base calculation
7 and customer deposits are treated as a reduction to rate base in order to recognize non-investor
8 provided capital.¹⁶²

9 123. Staff recommends decreasing rate base by \$5,618 to reflect the Company's customer
10 deposits.

11 124. Truxton did not provide testimony or evidence refuting Staff's recommendation
12 regarding customer deposits.

13 125. We find Staff's recommendation regarding customer deposits is just and reasonable
14 and we will adopt it.

15 **4. Adjustment to Cash Working Capital Allowance ("CWCA")**¹⁶³

16 126. Truxton proposed a CWCA in the amount of \$71,487.¹⁶⁴

17 127. Staff testified that in some instances CWCA can be a negative amount when it is
18 larger than the sum of the average investment made in materials and supplies and prepayments.¹⁶⁵
19 Staff states that it believes that the Company's proposal to only include prepayments in its CWCA
20 represents an inequitable adjustment to rate base, and that if the Company had conducted a lead-lag¹⁶⁶
21 study it could have included any customer provided capital as part of its CWCA.¹⁶⁷

22
23
24 ¹⁶¹ Exhibit S-4, Schedules CSB-4 and CSB-7.

25 ¹⁶² Exhibit S-3 at 13.

26 ¹⁶³ CWCA refers to the amount of investor supplied funds needed to finance operations. See, Deloitte, Regulated Utilities Manual at 12.

27 ¹⁶⁴ Exhibit S-3 at 14.

28 ¹⁶⁵ *Id.* at 14.

¹⁶⁶ Lead-lag studies "essentially determine the net difference, in terms of days, between the point at which service is rendered and revenues are collected from customers, and the point at which costs are incurred until they are paid." See, Deloitte, Regulated Utilities Manual at 12-13.

¹⁶⁷ Exhibit S-3 at 14.

1 128. Staff asserts that by failing to conduct a lead-lag study Truxton failed to reflect any
2 customer provided capital as part of its working capital requirement; that this approach guarantees a
3 positive CWCA; and that if the Company had conducted a lead-lag study it might have shown that
4 the Company's total net CWCA was actually negative and would have resulted in a reduction to rate
5 base.¹⁶⁸

6 129. Staff also argues that in Decision No. 72429 (June 24, 2011), the Commission adopted
7 Staff's recommendation to remove a CWCA from Southland Utilities Company's rate base because it
8 had not performed a lead-lag study.¹⁶⁹

9 130. In Decision No. 72429, the Commission indicated that:

10 Working Capital is composed of materials and supplies' prepayments and cash
11 working capital. Cash working capital is the cash needed by a utility to cover its day-
12 to-day operations. It may either increase or decrease rate base. If the Company's cash
13 expenditures, on an aggregate basis, precede the cash recovery of expenses, investors
14 must provide cash working capital. In that situation, a positive cash working capital
15 requirement exists. On the other hand, if revenues are typically received prior to when
16 expenditures are made, on average, then rate payers provide the cash working capital
17 to the utility, and the negative cash working capital allowance is reflected as a
18 reduction to rate base.¹⁷⁰

19 131. In this case, Staff recommends the disallowance of Truxton's proposed CWCA of
20 \$71,487.

21 132. Truxton did not provide testimony or evidence to refute Staff's recommendation.

22 133. Generally, the Commission requires Class A, B, and C utilities to perform a lead-lag
23 study in order to claim a CWCA,¹⁷¹ while Class D and E utilities are allowed to calculate a CWCA
24 using the formula method. A.A.C. R14-2-103(A)(3)(h) states that an original cost rate base
25 calculation should include a *proper* allowance for working capital [emphasis added]. Here, Truxton
26 is a Class C utility and Class C utilities are generally required to perform a lead-lag study to claim a
27 CWCA. Truxton calculated its proposed CWCA using the formula method, which Staff testified
28

¹⁶⁸ *Id.* at 14.

¹⁶⁹ In that case, Southland Utilities Company, like Truxton, was classified as a Class C utility.

¹⁷⁰ Decision No. 72429 at 5-6.

¹⁷¹ In Decision No. 72001 (December 10, 2010), *In the Matter of the Application of Mt. Tipton Water Company, Inc., for an Increase in its Water Rates*, the Commission adopted a CWCA for Mt. Tipton using the formula method. Mt. Tipton like Truxton is a Class C utility, but Mt. Tipton is a not-for-profit utility. Truxton and Southland are both for-profit utilities.

1 always results in a positive CWCA. Truxton did not provide testimony or evidence to refute Staff's
 2 recommendation and it is unclear whether its owners or ratepayers should be compensated for cash
 3 working capital. We find that Staff's recommendation is just and reasonable and we will adopt it.

4 134. Staff's adjustments to OCRB are just and reasonable and we find that Truxton's
 5 OCRB is negative \$249,270. Truxton did not request a Reconstruction Cost New Rate Base, and
 6 therefore, Truxton's FVRB is equivalent to its OCRB, or negative \$249,270.

7 **5. Operating Expenses and Revenues**

8 135. Truxton proposed total operating revenues of \$855,924, an increase of \$300,000 or
 9 53.96 percent over TY revenues of \$555,924, resulting in an operating income of \$95,000, and an
 10 11.10 percent operating margin.

11 136. Staff recommends total operating revenues of \$489,106, a decrease of \$66,818 from
 12 TY revenues of \$555,924, to provide a cash flow of \$59,579, operating income of \$50,000, and an
 13 operating margin of 10.22 percent.¹⁷²

14 137. Truxton proposed operating expenses of \$803,125 and an operating loss of \$247,201
 15 for the TY.

16 138. Staff made adjustments in the amount of \$338,302 to the Company's proposed TY
 17 expenses and recommends TY operating expenses of \$465,160 resulting in a TY operating income of
 18 \$90,764.¹⁷³ Staff's adjustments to operating expenses include:

- 19 a. Decreasing Purchased Water by \$147,409, to reflect the intent of Decision No.
 20 72386, which ordered the Company to "acquire all water system assets
 21 necessary to provide service from the Trust no later than June 30, 2011."
 22 b. Decreasing Repairs and Maintenance by \$1,608, to remove costs either not
 23 supported by invoices, or expenses that were not incurred during the TY, or
 24 that were not needed for the provision of service.
 25 c. Decreasing Outside Services by \$202,891, to remove management and
 26 operations fees for the Trust. Staff's *pro forma* adjustment is consistent with
 27 the *pro forma* adjustment made by the Company in its original application to
 28 cancel the management and operations contract with the Trust.
 d. Increasing Water Testing by \$369 to \$5,215, to reflect Staff's recommended
 annual water testing costs.

¹⁷² Exhibit S-3 at Schedule Surrebuttal CSB-10.

¹⁷³ *Id.* at Schedule Surrebuttal CSB-11.

- 1 e. Decreasing Rents by \$1,650, to reflect the proper allocation of rents expense
charged to Truxton by its affiliate.
- 2 f. Decreasing Transportation by \$2,700 to remove profit from rental fees paid to
an affiliate.
- 3 f. Decreasing Depreciation by \$24,892 to reflect Staff's calculation of
depreciation expense using Staff's recommended depreciation rates and Staff's
4 recommended plant and CIAC balances.
- 5 g. Increasing Property Tax by \$2,563, to reflect Staff's calculation of the
Company's property tax expense.
- 6 h. Increasing Income Tax by \$39,915, to reflect the income tax obligation on
Staff's adjusted TY taxable income.
- 7 i. Increasing Interest on Customer Security Deposits by \$337, to reflect Staff's
8 recommendation to include customer deposits in rate base.

9 139. Truxton's rebuttal testimony only addressed two of Staff's recommended adjustments
10 to operating expenses, in the areas of Purchased Water and Outside Services.

11 140. Truxton's updated rate case documentation proposed a Purchased Water expense of
12 \$147,409 and an expense of \$266,283 for Outside Services.¹⁷⁴ Truxton's witness testified that "all of
13 the expenses reflected in the application were incurred to provide water to its [Truxton's] customers,
14 regardless of whether they were paid by the Trust or the Company."¹⁷⁵ The witness also stated that
15 Staff's removal of the Purchased Water and Outside Services expenses (for a total adjustment of
16 \$350,300) "denies the very limited funding Truxton and/or the Trust currently needs to continue to
17 provide water."¹⁷⁶ Further, Truxton's witness asserted that because "Staff's recommendations are so
18 far out of the realm of reasonableness, the Company has elected not to alter its position."¹⁷⁷

19 141. Truxton also asserts that historically the Commission has allowed the Trust to manage
20 the water company and receive payment for such service. Truxton contends that in Decision No.
21 63713 (June 6, 2001), the Commission allowed an Outside Services expense of \$15 per connection,
22 per month. Truxton asserts that in this case, based on the Company's invoices from the Trust, the
23 Company is seeking \$13.18 per connection per month.¹⁷⁸

24 142. Staff asserts that Truxton was ordered in Decision No. 72386 to acquire from the Trust
25 the assets necessary for the provision of water service; the Decision found that a transfer of the assets

26 ¹⁷⁴ Exhibit A-2 at 19. Truxton did not refute Staff's other recommended adjustments to operating expenses.

27 ¹⁷⁵ Exhibit A-5 at 2.

27 ¹⁷⁶ *Id.* at 3.

27 ¹⁷⁷ *Id.* at 2.

28 ¹⁷⁸ Exhibit A-3.

1 was in the public interest; and that the transfer of assets would benefit ratepayers by eliminating the
2 need for Truxton to pay for the cost of purchased water.¹⁷⁹ Staff also contends that if Truxton owned
3 the Trust's wells and other plant assets, Truxton would recover its cost of service and earn a return on
4 its rate base.¹⁸⁰

5 143. Staff argues that even if Truxton never acquires the plant assets, Staff's recommended
6 adjustment to the Purchased Water expense is fair to ratepayers because Truxton has paid the Trust
7 for the market value of the water, which includes operations and maintenance and capital costs, plus a
8 return on the value of the equipment and facilities necessary to provide service, under a WSA.¹⁸¹

9 144. Under the WSA, the rate charged by the Trust to Truxton states:

10 Said price will be based upon the market value of the water considering the
11 operation, maintenance and capital cost to Trust, plus a return on the value of
12 the equipment and facilities necessary to provide service under this
13 agreement.¹⁸²

14 145. Staff further argues that affiliated transactions, like the WSA, to provide services,
15 products and assets are subject to the NARUC Guidelines, which state:

16 Generally, the price for services, products and the use of assets provided by a
17 non-regulated affiliate to a regulated affiliate should be at the lower of the fully
18 allocated cost or prevailing market prices.

19 146. Staff contends that the Purchased Water expense should be disallowed because the
20 WSA provides for full recovery of the Trust's costs; the WSA allows the Trust a return on
21 investment, or a profit from its affiliate; that profits on affiliate transactions are contrary to the
22 NARUC Guidelines; and that the Company acknowledged that generally the Commission does not
23 allow transactions between a regulated utility and its affiliates to include affiliate profit that is passed
24 on to customers.¹⁸³

25 147. Staff also asserts that the Company submitted invoices that purportedly support its
26 Purchased Water expenses for 2012, but that the amounts for the invoices are inconsistent with the

27 ¹⁷⁹ Exhibit S-3 at 7-8.

28 ¹⁸⁰ Staff's Initial Closing Brief at 10. See also Exhibit S-1, Engineering Report at 3.

¹⁸¹ Tr. at 336-37.

¹⁸² Exhibit S-6 at 3.

¹⁸³ Tr. at 136.

1 numbers provided in the Company's schedules.¹⁸⁴ Staff stated that Truxton provided invoices
 2 totaling more than \$200,000 for Purchased Water expenses, but that its schedules state that it had
 3 \$147,000 in expenses.¹⁸⁵

4 148. Staff's adjustment to Outside Services removes \$202,891,¹⁸⁶ resulting in an Outside
 5 Services expense of \$63,392.¹⁸⁷ Staff stated it recommends removal of the \$202,891 amount based
 6 on the Company's representation that it has cancelled the management agreement with the Trust.¹⁸⁸
 7 To analyze the Company's Outside Services expenses, Staff stated it looked at the invoices provided
 8 by the Trust and the Company's general ledger in an attempt to reconcile the expenses; however, the
 9 amounts totaled \$17,775.32 less than the \$266,283 sought by the Company. Therefore, Staff stated
 10 that the correct amount of expenses for Outside Services could not be reconciled due to
 11 inconsistencies between the Company's general ledger and the invoices provided by the Trust.¹⁸⁹
 12 Staff points out the following inconsistencies in the Company's reported amounts for Outside
 13 Services as stated in the Company's general ledger:

14	Account No. 630	\$209,778.00 ¹⁹⁰
15	Account No. 631	\$ 31,325.56
16	Account No. 635	\$ 4,846.00
16	<u>Account No. 636</u>	<u>\$ 2,558.12</u>
17	Total	\$248,507.68

18 149. Further, Staff states that there are inconsistencies between the numbers reported in the
 19 Company's general ledger for Purchased Water and Outside Services (Management Agreement).
 20 Staff states that the Company's general ledger shows Management Agreement fees for 2012 of
 21 \$146,205.74 and total Purchased Water of \$210,349.67. However, the Company's Updated Rate

22 ¹⁸⁴ Tr. at 595.

23 ¹⁸⁵ Staff's Initial Closing Brief at 12.

24 ¹⁸⁶ Staff states that it calculated the total amounts of payments to the Trust at \$202,891; however, a clerical error was made in the calculation and the actual amount was \$203,891.

25 ¹⁸⁷ Exhibit S-3 at 18-20.

26 ¹⁸⁸ Exhibit A-1 at 3. Further, Staff states that in Decision No. 72386, Truxton was required to acquire all water system assets from the Trust for the provision of water service. Therefore, Staff states that if Truxton was in compliance with that Decision, the expense for a management contract should not be necessary.

27 ¹⁸⁹ Staff's Initial Closing Brief at 14.

28 ¹⁹⁰ Staff reports that during testimony, its witness erroneously stated that this amount includes only bills for Outside Services from the Trust to Truxton, but that this amount also reflects payments to other payees. Staff states that the Company's reported amounts for either Purchased Water or Management Agreement fees cannot be reconciled with Staff's calculation. Staff's Initial Closing Brief at 14.

1 Case Data shows Outside Services expenses (Management fees) of \$266,283 and Purchased Water
2 expenses of \$147,409.

3 150. Staff also argues that its efforts to accurately evaluate Truxton's operating expenses
4 for the TY were hampered by the Company's "dearth of documentation."¹⁹¹ Staff points out that the
5 Company's witness testified that when she prepared the TY rate case schedules she did not review
6 any underlying documents regarding the numbers used in the schedules, and that she prepared the
7 schedules for the rate case using spreadsheets that were prepared by "Rick Neal's wife and some
8 woman named Tammy."¹⁹² Staff contends that the Company's witness assumed all of the expenses
9 that were provided to her were for Truxton, but that the witness had no way of discerning if the
10 expenses were actually incurred by the Trust or Truxton.¹⁹³ Likewise, Staff points out that during
11 testimony, Mr. Neal conceded that the Trust provided Truxton with no documentation as to the cost
12 of providing water service.¹⁹⁴ Staff states that the Company's testimony brings into question the
13 expenses relied upon to create Truxton's schedules in this case.

14 151. An underlying theme throughout this proceeding has been the lack of evidence to
15 support Truxton's claimed costs and expenses to provide service. Truxton has failed to provide
16 sufficient evidence to show its actual expenses are as stated in its rate case documentation. Truxton
17 has failed to provide supporting documentation to justify the expenses listed in its schedules and
18 inconsistencies exist between its schedules and the Company's general ledger.

19 152. Regarding the Company's purchased water expense, we have stated herein that
20 Truxton is not in compliance with Decision No. 72386 because the Company has not acquired the
21 assets from the Trust. We believe it is in the public interest to have the Company own the assets
22 necessary to provide its services. We find that Staff's disallowance of the Purchased Water expense
23 aligns with our decision as stated herein. Therefore, we will adopt Staff's recommended Purchased
24 Water expense of \$0.

25
26
27 ¹⁹¹ *Id.* at 9.

¹⁹² Tr. at 59-65.

¹⁹³ Staff's Initial Closing Brief at 9.

¹⁹⁴ Tr. at 278-79.

1 153. The inconsistencies in testimony as to whether the management agreement remains in
2 effect or not is problematic. Truxton removed \$147,000 in management fees in its original rate
3 schedules. Truxton's witness testified in this proceeding that the management agreement had been
4 cancelled, contrary to the testimony given by Truxton's manager. Further complicating the
5 management agreement expenses are the inconsistencies between the Company's ledger and the
6 invoices submitted in support of the expense. The invoices lacked sufficient detail as to what
7 services were being provided, but simply stated "Management Agreement."¹⁹⁵

8 154. Under these circumstances, we find Staff's adjustments to operating expenses are just
9 and reasonable and we will adopt them.

10 **C. Revenue Requirement**

11 155. Truxton seeks a revenue requirement of \$855,924, for an increase of \$300,000 over
12 the Company's adjusted TY revenues of \$555,924, an operating margin of 53.96 percent, resulting in
13 a \$300,000 operating income.¹⁹⁶

14 156. Truxton asserts that its proposed revenue requirement is reasonable given that it serves
15 approximately 924 customers, a large golf course, a park and other recreational amenities.

16 157. Staff recommends a revenue requirement of \$489,106,¹⁹⁷ a decrease of \$66,818, or
17 12.02 percent below the Company's adjusted TY revenues of \$555,924, for an operating margin of
18 10.22 percent, and a cash flow of \$50,000.¹⁹⁸

19 158. Staff states that its recommendation is based on Staff's recommended OCRB of a
20 negative \$249,270, and that Staff believes its recommended revenue requirement will provide the
21 Company with sufficient revenues to cover its supported expenses.¹⁹⁹

22 159. In light of our discussion related to Truxton's operating expenses, we find that Staff's
23 recommendation for a revenue requirement of \$489,106 is just and reasonable and we will adopt it.
24 Therefore, Truxton has a revenue requirement of \$489,106.

25 ¹⁹⁵ Exhibit A-3, Attachment 1.

26 ¹⁹⁶ Exhibit S-3, Schedule CSB-1.

27 ¹⁹⁷ Exhibit S-3 at 2. Staff also increased its recommended revenue by \$5,932 to include Repair and Maintenance
expenses provided by the Company after Staff filed its direct testimony. Staff's increase also included the adjustments for
associated taxes.

28 ¹⁹⁸ Exhibit S-3, Schedule CSB-1.

¹⁹⁹ Exhibit S-3 at 28.

1 Call Out charge from \$25 to \$35; and the addition of an After Hours Service Charge of \$25; and
2 elimination of its fire sprinkler service charges.

3 168. Staff does not agree with all of the Company's proposed Service Charges. Staff
4 recommends eliminating the Call Out Service Charge and implementing the Company's proposed
5 After Hours Service Charge to avoid the possibility of duplicate charges. Staff also recommends an
6 After Hours Service Charge of \$30 instead of the Company's \$25; Meter Test (if Correct) charge of
7 \$25; Meter Re-read (if Correct) of \$20; Establishment charge of \$45; Reconnection (Delinquent) of
8 \$45; and that the NSF Check charge increase to \$25. Staff further recommends that the Company
9 have fire sprinkler rates that are two percent of the monthly minimum for comparable sized meters,
10 but not less than \$10 per month.

11 169. Staff agrees with the Company's proposed elimination of the Establishment (After
12 Hours; Reconnection (Delinquent/After Hours); and the Re-establishment (Delinquent/After Hour)
13 charges.

14 170. Truxton did not oppose Staff's recommended Service Charges. We find that Staff's
15 recommended Service Charges are just and reasonable, and we will adopt them. We also find that
16 Staff's recommended monthly minimum charges, commodity charges, rate design, and its proposed
17 Service Line and Meter Installation charges are just and reasonable and we will adopt them. Staff
18 recommends that any increase in rates approved by the Commission not become effective until the
19 Company files documentation from ADEQ demonstrating that it is in compliance for monitoring of
20 chlorine residuals and nitrates. However, because we have adopted Staff's recommended reduction
21 in rates, we will require that the rates and charges set forth herein go into effect on December 1,
22 2014. We will also find Staff's proposed flat rate design for VVPO is just and reasonable and we
23 will adopt it.

24 **1. Allocation of ATF Cost/Arsenic Surcharge**

25 171. VVPOA argues that its irrigation water rates should not include costs associated with
26 construction of Truxton's proposed ATF or Staff's recommended arsenic surcharge.²⁰⁴ VVPOA
27

28 ²⁰⁴ VVPOA Closing Brief at 3.

1 acknowledges that its potable water rates may include charges for the ATF, but states that its
2 irrigation rates should not.²⁰⁵

3 172. Staff has recommended that VVPOA bear some cost associated with the construction
4 of the ATF because 1) not all water received by VVPOA is for irrigation purposes and 2) a large
5 portion of the water used for irrigation will be treated for arsenic because some of the wells used to
6 supply irrigation water are also used as a backup source for drinking water and will be treated for
7 arsenic.

8 173. Staff asserts that customers should pay for costs that are required for the utility to be
9 able to provide service to them.²⁰⁶ Staff states that rates that are set so as to allocate the reasonable
10 cost of service to cost causers is generally a goal that should be aspired to in appropriate rate design
11 methodology.²⁰⁷

12 174. Staff's recommended arsenic surcharge allocates costs associated with the ATF using
13 customer equivalents, which results in VVPOA's golf course being responsible for approximately 6.2
14 percent of Staff's recommended ATF cost of \$259,800 or \$16,107.²⁰⁸ Staff's recommended cost
15 includes \$19,000 to cover the initial media to operate the ATF.²⁰⁹

16 2. Resolution

17 175. We agree with Staff that VVPOA should bear some of the cost for the ATF, but we
18 are concerned that Staff's proposed surcharge does not allocate enough of the surcharge to the larger
19 meters used to supply water to VVPOA's golf course.

20 176. Staff's recommended ATF cost only includes media for the initial construction of the
21 ATF. The media will need to be replaced many times during the life of the ATF. Media is exhausted
22 quicker the more water that flows through it.²¹⁰ The design for the ATF shows that there will need to
23 be a continuous flow of water to keep the media from cracking and to maintain its effectiveness.

24
25 ²⁰⁵ *Id.* at 28.

²⁰⁶ Staff's Initial Closing Brief at 27.

²⁰⁷ Staff's Initial Closing Brief at 27.

²⁰⁸ Per Staff's calculation, VVPOA has 1,100 equivalents/18,030 total equivalents = 6.2 %. See, also Exhibit S-4, Surrebuttal Schedule CSB-24.

²⁰⁹ For purposes of this discussion, we assume that the initial media will have an approximate 2-year life span.

²¹⁰ See Decision No. 73270 (July 30, 2012). In Decision No. 73270, a Class C utility received a Notice of Violation issued by ADEQ when its arsenic levels exceeded the MCL. The witness testified that although the ATF design stated that the

1 177. VVPOA obtains irrigation water using one ¾-inch meter, two 2-inch meters, one 4-
2 inch meter and one 6-inch meter.²¹¹

3 178. Here, Truxton's proposed ATF will have to be sized to accommodate all of
4 Truxton's customers, including VVPOA, whose golf course is the Company's largest water user.²¹²
5 VVPOA's golf course constitutes approximately 67.6 percent of total water sales for Truxton.²¹³ The
6 evidence shows that due to the design of Truxton's water system, irrigation water received by
7 VVPOA will not be segregated from the treated arsenic water. While Staff solely relied on customer
8 equivalents to allocate the fixed costs for the ATF, we believe that it is appropriate to allocate a
9 greater percentage of the surcharge to the larger 4-inch and 6-inch meter sizes.

10 179. Using Staff's allocated 6.2 percent surcharge for the fixed ATF plant for VVPOA,
11 plus taking into consideration the 67.6 percent volumetric percentage of water used by VVPOA
12 $[(6.2\% + 67.6\%)/2]$, we find that it is appropriate to allocate 36.9 percent for the cost of the ATF to
13 customers using 4-inch and 6-inch meters on Truxton's water system. The allocation will be in the
14 form of an arsenic surcharge.

15 180. Because an allowance for the property tax expense of Truxton is included in the
16 Company's rates and will be collected from its customers, the Commission seeks assurances from the
17 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing
18 authority. It has come to the Commission's attention that a number of water companies have been
19 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,
20 some for as many as twenty years. It is reasonable, therefore, that as a preventive measure, Truxton
21 should annually file, as part of its annual report, an affidavit with the Utilities Division attesting that
22 the Company is current in paying its property taxes in Arizona.

23 ...

24 ...

25
26 expected life of the media was 17 months, the Company had exhausted its media within 12 months due to the large
quantities of water flowing through the media.

27 ²¹¹ VVPOA Closing Brief at 7. Although Staff's Surrebuttal Schedule CSB-24 shows that Truxton has no 4-inch meter
customers, this information is inconsistent with VVPOA's information.

28 ²¹² Exhibit I-4, Attachment B.

²¹³ *Id.*

1 **III. Revision of Terms and Conditions**

2 181. Truxton filed an amended application requesting that the Commission approve a
3 revision to its existing Terms and Conditions.²¹⁴ Staff noted that the Company referred to an incorrect
4 rule in its proposed revisions. Staff recommends that the Company change the incorrect rule cited in
5 its Cross-Connection Control Section C.3, from A.A.C. R15-2-410.B.1.a., to A.A.C. R14-2-
6 410.B.1.a.

7 182. Staff also recommends that the Company, in its Terms and Conditions of Service
8 Tariff, under Section III, insert a new subsection B to include the following language to explain how
9 its After Hours Service Charge will be implemented. Staff recommends the following language:

10 After Hours Service Charge:

11 The After-Hours Service Charge fee is for the service provided after normal business
12 hours and appropriate when such service is at the customer's request or for the
13 customer's convenience. Such a tariff compensates the utility for additional expenses
14 incurred from providing after-hours service. For example, a customer would be
15 subject to an Establishment fee if work is done during normal business hours, but
16 would pay an additional After-Hours Service Charge if the customer requested the
17 establishment be done after normal business hours.

18 183. We find Staff's recommendations reasonable and we will approve the revision of the
19 Company's Terms and Conditions of Service of water service as stated above.

20 **IV. Other Issues**

21 **A. Interim Manager**

22 184. In Decision No. 72386, the Commission authorized Staff to:

23 Appoint an Interim Manager for Truxton, without further action by the
24 Commission, if Truxton is not fully in compliance with all Commission and
25 ADEQ rules and regulations by September 30, 2011, or the compliance
26 deadlines established in the ADEQ Consent, whichever comes first.

27 185. Staff recommends that the Commission maintain Staff's authorization to pursue an
28 interim manager for Truxton, in the event circumstances warrant the appointment of one.

186. Staff states that despite the Commission's orders in Decision No. 72386, the record in
this case shows that Truxton has failed to comply with ADEQ, Commission rules, and the Decision

²¹⁴ The amended application was not submitted as an Exhibit during the hearing; however, official notice is taken of the amended application and it will be used to address the issues raised herein.

1 itself, by failing to acquire the assets for the Trust.²¹⁵ Staff points to Truxton's failure to maintain a
 2 safe water system for its customers by failing to monitor chlorine, arsenic, and nitrates in its water
 3 system. Staff also asserts that Truxton's continuing ADEQ issues and its failure to comply with
 4 Decision No. 72386 to acquire the assets from the Trust, is particularly troubling.

5 187. Staff states that counsel for Truxton has advised Staff that the Trust will terminate
 6 upon the death of Mr. B. Marc Neal's mother. Staff is concerned that Truxton's customers may be at
 7 risk of service interruptions if the Trust is terminated. Staff notes that the Company's stability is
 8 especially troubling in light of the Trust's recent offer to sell the Hualapai 1 Well; its failure to
 9 maintain proper records; and a continuing commingling of funds between the Trust and Truxton.

10 188. For the above stated reasons, Staff recommends that the Commission maintain Staff's
 11 authorization to pursue an interim manager for Truxton without further Commission approval, should
 12 it be needed.

13 189. Truxton argues that the Commission does not have the authority to assume managerial
 14 control over Truxton and to remove its manager from managing the Company over the manager's
 15 objections.²¹⁶ Truxton contends that if the Commission does take control of Truxton from its owners,
 16 it would constitute a "taking" under the Constitution and that Truxton must be compensated for its
 17 property.²¹⁷ Truxton argues that the Commission cannot order the Company to give up its
 18 constitutional right to protect its property against an interim manager.

19 190. Truxton states that VVPOA agrees with its argument.²¹⁸

20 ...

21 ...

22

23 ²¹⁵ Staff's Initial Closing Brief at 29.

24 ²¹⁶ Truxton Reply Brief at 7.

25 ²¹⁷ *Id.* at 7-8.

26 ²¹⁸ Truxton contends that in another case before the Commission, counsel for VVPOA asserted that in interim
 27 management issues, "if the Commission orders such involuntary transfer, it would result in a regulatory taking of the
 28 [water company's] property, in turn exposing the Commission . . . to payment of just compensation for such taking."
 Here, counsel for Truxton concludes that VVPOA (as a legal entity and party to this proceeding) agrees with Truxton's
 position. We disagree and find that Truxton's statement is misleading. Further, a review of the docket referred to by
 counsel for Truxton shows that the topic was whether the Commission could transfer a CC&N from one regulated utility
 to another regulated utility and did not address the implementation of an interim manager as stated in Truxton's closing
 reply brief. See, *In the Matter of the Rate Application of Montezuma Rimrock Water Company, LLC*, Docket No. W-
 04254A-11-0323, et. al., Montezuma Closing Brief at 62.

1 **1. Resolution**

2 191. Under Article XV, Section 3 of the Arizona Constitution, the Commission has
3 authority to “make and enforce reasonable rules, regulations, and orders for the convenience,
4 comfort, and safety, and the preservation of health, of the employees and patrons of such
5 corporations.”

6 192. Further, A.R.S. § 40-321 authorizes that:

7 When the Commission finds that the equipment, appliances, facilities or service of any
8 public service corporation, or the methods of manufacture, distribution, transmission,
9 storage or supply employed by it, are unjust, unreasonable, unsafe, improper,
10 inadequate or insufficient, the Commission shall determine what is just, reasonable,
safe, proper, adequate or insufficient, and shall enforce its determination by order or
regulation.

11 193. We find that under the above authority granted to the Commission, the Commission
12 may appoint an interim operator for a water system when it is in the public interest.

13 194. We also find unpersuasive Truxton’s argument that the appointment of an interim
14 manager amounts to a “taking” under the U.S. Constitution. As we have stated in previous
15 Decisions, the implementation of an interim manager does not alter the ownership of a utility, but
16 rather puts in place managers that possess the requisite skill to competently operate the utility.²¹⁹ The
17 goal of the appointment of an interim manager is to return the operations of the Company to its owner
18 once the utility has achieved the requisite skill to operate the utility. Therefore, no “taking” occurs
19 with the appointment of an interim manager. We have also stated that appointment of an interim
20 operator is necessary where there is a need to ensure the continued water service to the public.²²⁰

21 195. Under the circumstances of this case, we find that Staff’s recommendation for
22 continuing authorization to appoint an interim manager for Truxton, without further action by the
23 Commission, is just and reasonable. We continue to have concerns that Truxton is not in compliance
24 with ADEQ, Commission Rules, and Commission Decisions and that Truxton’s operations may be
25

26 _____
27 ²¹⁹ See, Decision No. 73931(June 27, 2013), *In the Matter of Commission Utilities Division Staff’s Request for*
Authorization to Implement Interim Manager for Green Acres Water Company.

28 ²²⁰ See, Decision No. 72683 (November 17, 2011), *In the Matter of Staff’s Request for Commission Relief to Order*
Payson Water Company and Steve Prahin to Ensure Continued Water Service to Customers.

1 hampered by its relationship with the Trust. Therefore, we find it appropriate to require Truxton to
2 be in full compliance with Commission Decisions and ADEQ by December 31, 2014.

3 **B. Trust as Public Service Corporation**

4 196. The parties and Staff were asked to brief whether the Trust is acting as a public service
5 corporation ("PSC") within Truxton's CC&N.

6 197. Staff states that determining whether an entity is a PSC requires a two-step process
7 that: 1) requires a determination whether the entity meets the literal and textual definition of a PSC
8 pursuant to Article 15, Section 2, of the Arizona Constitution; and 2) whether the entity's business
9 and activities are such as to make it rates, charges and methods of operation a matter of public
10 concern by considering the factors presented in the Arizona Supreme Court case *Natural Gas Serv.*
11 *Co. v. Serv-Yu Co-Op.*²²¹

12 198. Staff asserts that the Trust meets the plain language definition for a PSC under the
13 Arizona Constitution. The Arizona Constitution defines a PSC as:

14 [A]ll corporations other than municipal engaged in furnishing gas, oil, or electricity
15 for light, fuel, or power; or in furnishing water for irrigation, fire protection, or other
16 public purposes; or in furnishing, for profit, hot or cold air or steam for heating or
17 cooling purposes; or engaged in collecting, transporting, treating, purifying and
18 disposing of sewage through a system for profit; or in transmitting messages or
19 furnishing public telegraph or telephone services, and all corporations other than
20 municipal, operating as common carriers, shall be deemed public service
21 corporations.²²²

22 199. Staff argues that "by owning and operating wells, pumps and other plant assets
23 necessary to providing water service and by selling the water to its wholly-owned subsidiary for sale
24 to the public and to VVPOA until recently, the Trust meets the definition of a PSC under the Arizona
25 Constitution."²²³

26 ...
27 ...
28 ...

27 ²²¹ 70 Ariz. 235, 219 P.2d 324 (1950).

28 ²²² Ariz. Const. Art. XV § 2.

²²³ Staff Initial Closing Brief at 32.

1 200. Staff contends that historically the Trust has furnished water for public purposes by
2 selling water to the military, the railroads, to Truxton and VVPOA, and that Arizona law supports the
3 determination that an entity can be a PSC even if it is not selling water directly to end users.²²⁴

4 201. Using the *Serv-Yu* factors, Staff analyzed whether the Trust is a PSC. Staff states
5 that the factors outlined in *Serv-Yu* are guidelines for determining if an entity is a PSC, but that the
6 factors are not a rigid test or checklist and not all factors need be met for an entity to be determined a
7 PSC. The *Serv-Yu* factors include:

- 8 a. What a corporation actually does;
9 b. A dedication to public use;
10 c. Articles of Incorporation, authorization, and purposes;
11 d. Dealing with the service of a commodity in which the public has been
12 generally held to have an interest;
13 e. Monopolizing or intending to monopolize the territory with a public service
14 commodity;
15 f. Acceptance of substantially all requests for service;
16 g. Service under contracts and reserving the right to discriminate is not always
17 controlling;
18 h. Actual or potential competition with other corporations whose business is
19 clothed with the public interest.

20 202. Staff states that using the *Serv-Yu* factors it is possible to reach a conclusion that the
21 Trust is a PSC. Staff notes that because the Trust is not a party to this proceeding, Staff is not
22 recommending that the Commission determine that the Trust is a PSC at this time.

23 203. However, Staff recommends that Truxton provide a definitive statement as to whether
24 the relevant assets will be transferred to Truxton, as ordered in Decision No. 72386, and that absent
25 such clarification, Staff believes an order to show cause may be appropriate to clarify the Trust's
26 status as a PSC.

27 204. VVPOA asserts that there is not enough evidence in the record to determine if the
28 Trust is acting as a PSC within Truxton's CC&N area because the Trust was not a party to this
proceeding.²²⁵

²²⁴ *Id.* at 32, referencing *Southwest Transmission Cooperative v. Ariz. Corp. Comm'n.*, 213 Ariz. At 432, 142 P.3d at 1244.

²²⁵ VVPOA Closing Brief at 29.

1 205. VVPOA contends that aside from whether the Trust is a PSC, there is evidence to
2 conclude that the Trust and Truxton may be alter egos.²²⁶ VVPOA states that under Arizona case
3 law, a two pronged test is used to determine whether a party falls under an alter ego theory. To
4 determine if a corporation has an alter ego status it must be proven that there is “unity of control and
5 that observance of the corporate form would sanction fraud and promote injustice.”²²⁷

6 206. VVPOA alleges that there is evidence in this case that shows there is unity of control
7 between the Trust and Truxton. As evidence that there is unity of control, VVPOA points to the
8 payment of expenses of Truxton by the Trust, commingling of funds, use of the same water facilities
9 and assets, and that when Truxton was formed the Trust opted to retain ownership of the water
10 facilities. VVPOA states that based on the above factors, the Commission may be inclined to treat
11 the Trust and Truxton as the same entity.

12 207. VVPOA also argues that the evidence in this case supports a legal conclusion that the
13 Trust retained ownership of the Trust assets in constructive trust for Truxton in providing water
14 service to customers. VVPOA asserts that “a court may impose a constructive trust whenever title to
15 property has been obtained through actual fraud, misrepresentation, concealment, undue influence,
16 duress or through any means which render it unconscionable for the holder of legal title to continue to
17 retain and enjoy its beneficial interest.”²²⁸

18 208. VVPOA asserts that the Trust opted to retain the assets necessary for Truxton to
19 provide water service “to avoid going before the ACC and having to deal with regulatory issues.”
20 VVPO states that the Trust has created the legal problems associated with the Trust assets by trying
21 to avoid Commission regulation, and if the Trust continues to refuse to transfer the Trust assets to
22 Truxton the imposition of a constructive trust may remedy the issues surrounding the Trust assets.²²⁹

23 209. VVPOA disagrees with Truxton’s position that the Trust’s property is not dedicated to
24 public use. VVPOA states that Truxton’s position is contrary to evidence in this case that shows that
25 1) ownership of the assets necessary for Truxton to provide service have been retained by the Trust;

26 _____
27 ²²⁶ *Id.*

²²⁷ *Id.* referencing *Gatecliff v. Great Re. Life Ins. Co.*, 170 Ariz. 34, 38, 821 P.2d 725,729 (1991).

²²⁸ *Id.* at 30, referencing *Turley v. Ethington*, 213 Ariz. 640, 643, 146 P.3d 1282,1285 (App.2006).

28 ²²⁹ VVPOA Closing Brief at 30.

1 2) that the evidence shows that the only use for the Hackberry transmission line is for service to
2 Truxton's customers;²³⁰ and 3) the letter docketed on behalf of Truxton and the Trust stating that the
3 Hualapai 1 Well is plant necessary for the provision of Truxton's water service and will not be sold
4 without prior Commission approval. VVPOA asserts that the letter demonstrates that the Trust assets
5 are dedicated to public use.²³¹

6 210. Truxton asserts that an analysis under *Serv-Yu* shows that the Trust is not a PSC and
7 that the Trust assets have not been dedicated to public use.

8 211. Truxton asserts that the Trust's main purpose is to pass on intergenerational assets
9 without incurring excessive taxes; that its primary assets are cattle and real property; its main
10 property is not dedicated to public use; it does not serve end users and is not a regulated provider of
11 the water; it does not monopolize a territory or accept substantially all requests for service; that
12 providing its service via a contract and its right to discriminate supports a finding that it is not a PSC;
13 and that it does not compete with any other PSC.²³²

14 212. Truxton requests that the Commission find that the Trust is not a PSC or that the issue
15 is beyond the scope of this proceeding.

16 213. Truxton's relationship with the Trust has hampered its ability to present a clear and
17 concise case in this proceeding. Truxton's reliance on the Trust to support its expenses during the
18 test year caused the lack of documentation needed to support its rate case. Truxton's reliance on the
19 Trust to transfer the assets necessary for Truxton to provide its services was hampered by the lack of
20 documentation to support the value of the Trust assets. Truxton's reliance on the Trust complicated
21 the financing Truxton sought herein because the assets are not owned by Truxton. Truxton's reliance
22 on the Trust creates a lack of stability for the Company and its ratepayers. Although we do not reach
23 a conclusion at this time, the inseparable relationship between the Trust and Truxton, could support a
24 conclusion that the Trust is acting as a PSC, or that Truxton is its alter ego.

25 214. Truxton has not complied with the Stipulated Agreement we approved in Decision No.
26 72386 that required Truxton to acquire the assets needed to provide water service. Staff is authorized

27 ²³⁰ Tr. at 291-292.

28 ²³¹ VVPOA Reply Brief at 12.

²³² Truxton's Closing Brief at 8-11.

1 to pursue enforcement of that Decision, and to bring an action to determine whether the Trust is a
2 public service corporation.

3 **CONCLUSIONS OF LAW**

4 1. Truxton is a public service corporation within the meaning of Article XV of the
5 Arizona Constitution and A.R.S. §§ 40-250 and 40-251, 40-301, and 40-303.

6 2. The Commission has jurisdiction over Truxton and the subject matter of the
7 applications.

8 3. Notice of the rate, financing, and revision of the Company's Terms and Conditions
9 applications were given in accordance with Arizona law.

10 4. The rates and charges proposed by Staff and authorized hereinafter are just and
11 reasonable and should be approved.

12 5. The financing approved conditionally herein is for lawful purposes, within Truxton's
13 corporate powers, is compatible with the public interest, with sound financial practices, and with the
14 proper performance by Truxton as a public service corporation, will not impair Truxton's ability to
15 perform its service.

16 6. The financing approved conditionally herein is for the purposes stated in the
17 application and is reasonably necessary for those purposes, and such purposes are not, wholly or in
18 part, reasonably chargeable to operating expenses or to income.

19 7. Conditional approval of the proposed financing is not intended to, and should not be
20 interpreted to, guarantee or imply any specific treatment of any capital additions for rate base or
21 ratemaking purposes.

22 8. Staff's recommendations, as described and modified herein, are just and reasonable
23 and should be adopted.

24 **ORDER**

25 IT IS THEREFORE ORDERED that Truxton Canyon Water Company is hereby directed to
26 file by December 1, 2014, with Docket Control, as a compliance item in this docket, revised rate
27 schedules as set forth below:

28 ...

1 **MONTHLY USAGE CHARGE:**

2	<u>Meter Size (All Classes):</u>	
2	5/8 x 3/4" Meter	\$ 14.00
3	3/4" Meter	14.00
3	1" Meter	28.28
4	1-1/2" Meter	56.55
4	2" Meter	90.48
5	3" Meter	194.88
5	4" Meter	304.50
6	6" Meter	565.50

6 **COMMODITY RATES (Per 1,000 gallons):**

7	<u>5/8 x 3/4" 3/4" Meter Sizes</u>	
8	0-3,000 gallons	\$1.2000
9	3,001 to 10,000 gallons	2.4000
9	Over 10,000 gallons	3.8070
10	<u>1" Meter</u>	
11	0- 16,000 gallons	\$2.4000
11	Over 16,000 gallons	3.8070
12	<u>1 1/2" Meter</u>	
13	0- 30,000 gallons	\$2.4000
13	Over 30,000 gallons	3.8070
14	<u>2" Meter</u>	
15	0- 48,000 gallons	\$2.4000
15	Over 48,000 gallons	3.8070
16	<u>3" Meter</u>	
17	0- 58,000 gallons	\$2.4000
17	Over 58,000 gallons	3.8070
18	<u>4" Meter</u>	
19	0- 95,000 gallons	\$2.4000
19	Over 95,000 gallons	3.8070
20	<u>6" Meter</u>	
21	0- 278,000 gallons	\$2.4000
21	Over 278,000 gallons	3.8070
22	<u>Bulk Water</u>	
23	Per 1,000 gallons	\$3.8070
24	<u>Valley Vista Property Owners Association</u>	
24	Per 1,000 gallons	\$1.2000

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SERVICE LINE AND METER INSTALLATION CHARGES:

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

	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
1			
2	5/8" x 3/4" Meter	\$445	\$155
3	3/4" Meter	445	255
4	1" Meter	495	315
5	1 1/2" Meter	550	525
6	2" Meter	830	1,045
7	2" Compound Meter	830	1,890
8	3" Meter	1,045	1,670
9	3" Compound	1,165	2,545
10	4" Meter	1,490	2,670
11	4" Compound Meter	1,670	3,645
12	6" Meter	2,210	5,025
13	6" Compound Meter	2,330	6,920

SERVICE CHARGES:

14	Establishment	\$45.00
15	Reconnection (Delinquent)	\$45.00
16	Meter Test (If Correct)	\$25.00
17	Deposit	*
18	Deposit Interest	*
19	Re-Establishment (Within 12 Months)	**
20	NSF Check	\$25.00
21	Deferred Payment	1.5% per month
22	Meter Re-Read (If Correct)	\$20.00
23	Late Fee	5.00
24	After Hours Charge	\$30.00
25	Monthly Fire Sprinkler Charge	****

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

** Number of months off system times monthly minimum per A.A.C. R-14-2-403(D)

*** 1% of monthly minimum for a comparable sized meter connection, but not less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**** 2% of monthly minimum for a comparable sized meter connection, but not less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that in addition to the collection of regular rates, Truxton Canyon Water Company is conditionally approved to collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that in compliance with Decision No. 72724 (January 6, 2012) Truxton Canyon Water Company shall file, as a compliance item in this Docket, within 14 days of the effective date of this Decision, a report detailing the calculation of the amount of the refund, with interest, that is to be credited to Valle Vista Property Owners Association's August 2012 bill, as well

1 as a calculation of all monies subject to true up based on Decision No. 72724 and rates set forth
2 herein for Valle Vista Property Owners Association, for the Commission's Utilities Division review.

3 IT IS FURTHER ORDERED that Valle Vista Property Owners Association shall file a
4 response to Truxton Canyon Water Company report related to deposit refund amounts and amounts
5 subject to true up, within 14 days of Truxton Canyon Water Company's filing.

6 IT IS FURTHER ORDERED that the Commission's Utilities Division Staff shall review the
7 filings made by Truxton Canyon Water Company's and Valle Vista Property Owners Association and
8 make any recommendations Staff deems necessary set forth in a Proposed Form of Order for the
9 Commission's consideration.

10 IT IS FURTHER ORDERED that the above rates and charges set forth herein shall go into
11 effect December 1, 2014, for all of Truxton Canyon Water Company's water utility services.

12 IT IS FURTHER ORDERED that the Commission's Utilities Division Staff is authorized to
13 appoint an interim manager for Truxton Canyon's Water System, without further action by the
14 Commission, and if Truxton Canyon Water Company is not in full compliance with Commission
15 Decisions and the Arizona Department of Environmental Quality by December 31, 2014, Staff shall
16 take appropriate action.

17 IT IS FURTHER ORDERED that Truxton Canyon Water Company's request for
18 authorization to obtain financing in the amount of \$1.4 million to fund the acquisition of the wells
19 and pipeline currently owned by the Claude K. Neal Family Trust, is hereby denied.

20 IT IS FURTHER ORDERED that once Truxton Canyon Water Company has filed
21 documentation, confirmed by Staff, that it has acquired from the Claude K. Neal Family Trust, and
22 any other entities, all water system assets, and that Truxton Canyon Water Company has full
23 ownership and control of all water system assets used in the provision of its water service, Truxton
24 Canyon Water Company is authorized to obtain financing through the Water Infrastructure Financing
25 Authority to borrow up to \$259,800 as an amortizing loan for 18 to 22 years, for the purpose of
26 financing the construction of the arsenic treatment plant as described herein by Staff.

27 IT IS FURTHER ORDERED that once Staff has confirmed that Truxton Canyon Water
28 Company has full ownership and control of the water system assets, Truxton Canyon Water

1 Company is authorized to pledge, mortgage, lien and/or encumber its assets in the State of Arizona
2 pursuant to A.R.S. §40-285 in connection with the authorized Water Infrastructure Financing
3 Authority loan.

4 IT IS FURTHER ORDERED that Truxton Canyon Water Company is authorized to engage in
5 any transactions and to execute any documents necessary to effectuate the authorization granted
6 herein.

7 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall file with the
8 Commission, within 15 days of the Water Infrastructure Financing Authority loan closing, a
9 proposed arsenic surcharge mechanism tariff that would enable Truxton Canyon Water Company to
10 meet its principal, interest, and tax obligations on the loan, in a form acceptable to Staff.

11 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall follow the
12 methodology set forth Exhibit S-4 Surrebuttal Schedule CSB-24, to calculate the additional revenue
13 needed to meet its principal, interest, debt reserve, and tax obligations on the Water Infrastructure
14 Financing Authority loan using the actual loan amount, interest rate and customer counts.

15 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall track and separately
16 record as a regulatory liability the surcharge proceeds associated with debt service reserve fund.
17 Truxton Canyon Water Company should maintain an accurate balance of the regulatory liability until
18 its obligation to ratepayers is completely satisfied.

19 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall set up a separate
20 interest bearing bank account the same month the arsenic surcharge mechanism takes effect, and
21 starting the first month that the arsenic surcharge is collected from Truxton Canyon Water
22 Company's customers, the Company shall deposit all revenues collected from the arsenic surcharge
23 mechanism in that separate interest bearing account, to be used only for making payments on the
24 Water Infrastructure Financing Authority loan and the annual income taxes related to the loan for the
25 arsenic treatment plant as shown in Exhibit S-4 Surrebuttal Schedule CSB-24.

26 IT IS FURTHER ORDERED that the arsenic surcharge mechanism shall allocate 36.9 percent
27 of the cost of for the arsenic treatment facility to Truxton Canyon Water Company's customers using
28 4-inch and 6-inch meters.

1 IT IS FURTHER ORDERED that this docket shall remain open to allow implementation of
2 the arsenic surcharge mechanism related to the Water Infrastructure Financing Authority loan for the
3 arsenic treatment plant.

4 IT IS FURTHER ORDERED that the financing and the surcharge approved herein shall be
5 rescinded if Truxton Canyon Water Company has not drawn funds from the loan within one year of
6 the effective date of this Decision.

7 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall file, with Docket
8 Control, as a compliance item in this docket, by December 31, 2015, a copy of the Certificate of
9 Approval of Construction issued by Arizona Department of Environmental Quality for installation of
10 the 250 GPM arsenic treatment plant described herein.

11 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall file its next general
12 rate case no later than May 31, 2018, with a test year ending December 31, 2017.

13 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall file, as a
14 compliance item in this docket, within 60 days of the effective date of this Decision, additional
15 information (as described herein in Finding of Fact No. 104) related to its request for authorization to
16 finance upgrades to the Hualapai 1 Well and the replacement of one mile of its transmission line.

17 IT IS FURTHER ORDERED that upon review of Truxton Canyon Water Company's
18 additional documentation related to the upgrades to the Hualapai 1 Well and the replacement of one
19 mile of its transmission line, Staff shall file, as soon as practicable, a Supplemental Staff Report
20 regarding the Company's request to finance the above capital projects.

21 IT IS FURTHER ORDERED that Staff's review of the upgrades related to the Hualapai 1
22 Well shall include consideration of the appropriate cost allocation for the capital project.

23 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall on a going-forward
24 basis, use the depreciation rates by individual National Association of Regulatory Commissioners
25 category, as delineated in Exhibit S-3, Exhibit DMH-1, Figure 6.

26 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall immediately begin
27 to monitor the gallons of water pumped and the gallons of water sold on a monthly basis. The
28 Company shall coordinate when it reads the "source" meters each month with when it reads the

1 "customer" meters so that an accurate accounting of the water pumped and the water delivered to
2 customers can be determined. The Company shall file its first water usage report in the Company's
3 2014 Annual Report filed with the Commission. If the Company's reported water loss is greater than
4 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce
5 water loss to 10 percent or less.

6 IT IS FURTHER ORDERED that if Truxton Canyon Water Company believes it is not cost
7 effective to reduce the water loss to less than 10 percent, it shall submit a detailed cost benefit
8 analysis to support its position, but in no case should the Company's water loss be greater than 15
9 percent.

10 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall file a Curtailment
11 Tariff, with Docket Control, as a compliance item in this docket, for Staff's review and certification,
12 within 45 days of the effective date of this Decision. The Company's Curtailment Tariff shall
13 generally conform to the sample standard non-consecutive water system tariff located on the
14 Commission's website at ww.cc.state.az.us.

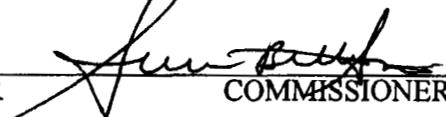
15 IT IS FURTHER ORDERED that in addition to the authority to appoint an interim manager,
16 the Commission's Utilities Division Staff is authorized to bring an Order to Show Cause as to why
17 Truxton Canyon Water Company is not in compliance with Commission Decisions, and an action to
18 determine whether the Trust is a public service corporation.

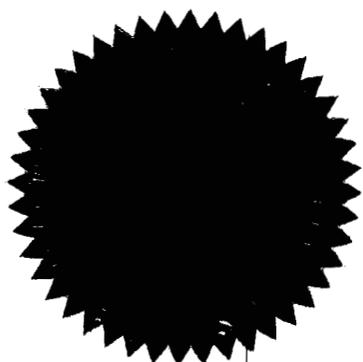
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1 IT IS FURTHER ORDERED that Truxton Canyon Water Company shall annually file, an
2 affidavit with the Utilities Division attesting that the Company is current in paying its property taxes
3 in Arizona.

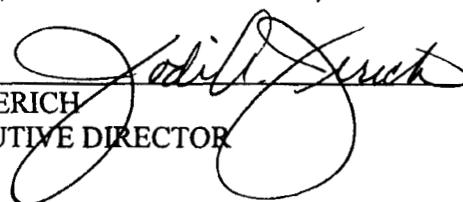
4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

6
7
8  CHAIRMAN  COMMISSIONER
9  COMMISSIONER  COMMISSIONER  COMMISSIONER
10



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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 14th day of November 2014.

17 
18 JODI JERICH
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____
22 YK:ru

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1 SERVICE LIST FOR:

TRUXTON CANYON WATER COMPANY, INC.

2 DOCKET NOS.:

W-02168A-11-0363; W-02168A-13-0309; and W-
02168A-13-0332

3
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14 Steven M. Olea, Director
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