



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

Arizona Corporation Commission
DOCKETED

OCT 27 2015

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION OF TIERRA BUENA WATER COMPANY, INC. FOR APPROVAL OF FINANCING.

DOCKET NO. W-02076A-15-0024

IN THE MATTER OF THE APPLICATION OF TIERRA BUENA WATER COMPANY, INC. FOR A RATE INCREASE.

DOCKET NO. W-02076A-15-0135 75292

DECISION NO. _____

OPINION AND ORDER

Open Meeting
October 20 and 21, 2015
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

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

FINDINGS OF FACT

I. Procedural History

1. On January 29, 2015, in Docket No. W-02076A-15-0024 ("Financing Docket"), Tierra Buena Water Company, Inc. ("Tierra Buena" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for approval of financing. The financing for which approval is requested is an \$899,506 loan from the Water Infrastructure Finance Authority of Arizona ("WIFA"), the proceeds of which would be used to: (1) construct a metered interconnection with Valley Utilities Water Company, Inc. ("Valley Utilities") ("Project 1"); (2) rehabilitate Well No. 2 ("Project 2"); and (3) construct an arsenic treatment facility at the Well No. 2 site ("Project 3").

2. On February 17, 2015, in the Financing Docket, the Company filed an affidavit certifying that notice of the financing application was mailed to its customers on February 10, 2015.

1 3. On February 26, 2015, in the Financing Docket, the Company filed an affidavit of
2 publication verifying that notice of the financing application was published in the *West Valley View*
3 and *West Valley Business* on February 17, 2015.

4 4. On March 11, 2015, the Company filed revised balance sheets in the Financing
5 Docket.

6 5. On April 24, 2015, in Docket No. W-02076A-15-0135 ("Rate Docket"), the Company
7 filed an application for a permanent rate increase.

8 6. On May 20, 2015, in the Rate Docket, the Commission's Utilities Division ("Staff")
9 filed a Letter of Deficiency indicating that the rate application did not meet the sufficiency
10 requirements outlined in the Arizona Administrative Code ("A.A.C.") R14-2-103.

11 7. On June 2, 2015, the Company filed a Response to Deficiency Letter in the Rate
12 Docket. In its filing, the Company attached an affidavit certifying that notice of the rate application
13 was mailed to each customer on May 29, 2015.

14 8. On June 19, 2015, Staff filed a Letter of Sufficiency in the Rate Docket, stating that
15 the Company's rate application had met the sufficiency requirements outlined in A.A.C. R14-2-103
16 and classifying Tierra Buena as a Class E utility. Staff further stated that its Staff Report would be
17 filed on or before August 18, 2015.

18 9. On June 22, 2015, Staff filed a Motion to Consolidate and Request for Procedural
19 Order in each of the two dockets, requesting a procedural order to consolidate the Financing Docket
20 and Rate Docket and establish a procedural schedule.

21 10. On July 8, 2015, a Procedural Order was issued consolidating the Financing Docket
22 and Rate Docket, and establishing various filing deadlines.

23 11. On August 18, 2015, Staff filed a Request for an Extension of Time to File Staff
24 Report until August 20, 2015. In its filing, Staff represented that the Company did not object to
25 Staff's request.

26 12. On August 20, 2015, a Procedural Order was issued granting Staff's requested
27 extension of time.

28 13. On August 20, 2015, Staff filed its Staff Report recommending approval of the

1 applications, subject to Staff's recommended terms and conditions.

2 14. On September 1, 2015, the Company filed a Motion for Extension of Time to File
3 Comments until September 4, 2015. In its filing, the Company represented that Staff had no
4 objection to the Company's motion.

5 15. On September 3, 2015, a Procedural Order was issued granting the Company's
6 motion.

7 16. On September 4, 2015, the Company filed its Response to Staff Report.

8 **II. Background**

9 17. Tierra Buena is a Class E Arizona public service corporation providing potable water
10 service to approximately 127 customers in a non-incorporated community, north of the Town of
11 Litchfield Park and west of the City of Glendale, in Maricopa County, Arizona. The Commission
12 approved Tierra Buena's present rates and charges in Decision No. 55423 (February 12, 1987).

13 18. Tierra Buena's active water system consists of one well (Well No. 2), one 100,000
14 gallon steel storage tank, one 5,000 gallon pressure tank, two booster pumps, and a distribution
15 system. Tierra Buena also owns an inactive well (Well No. 1) and associated pressure tank that were
16 disconnected from the water system in 1998. During the test year ending December 31, 2014, the
17 Company reported 37,439,000 gallons pumped and 35,260,000 gallons sold, resulting in a water loss
18 ratio of 5.82 percent.¹

19 19. Based on Staff's engineering analysis, the Company presently does not have adequate
20 production and storage capabilities to support its existing customer base and reasonable growth.

21 20. Tierra Buena is located within an Arizona Department of Water Resources ("ADWR")
22 active management area ("AMA"). In a Compliance Status Report dated March 30, 2015, ADWR
23 determined that Tierra Buena is currently in compliance with departmental requirements governing
24 water providers and/or community water systems.

25 21. According to a Maricopa County Environmental Services Department ("MCESD")
26 Compliance Status Report dated February 4, 2015, Tierra Buena has no major deficiencies and is
27

28 ¹ Staff indicates that a water loss ratio of 10 percent or less is acceptable.

1 currently delivering water that meets the water quality standards required by 40 C.F.R. §§ 141.1, *et*
 2 *seq.* (National Primary Drinking Water Regulations) and A.A.C., Title 18, Chapter 4.

3 22. Staff's Compliance Section database shows no outstanding compliance issues for the
 4 Company.

5 23. Staff's Consumer Services Section database for the period beginning January 1, 2010
 6 to June 29, 2015, shows no complaints and one public comment opposing the rate increase.

7 24. The Company is in good standing with the Commission's Corporations Division.

8 25. Tierra Buena has approved Cross-Connection & Backflow and Curtailment tariffs on
 9 file with the Commission.

10 **III. Rate Application**

11 26. A summary of the parties' proposed revenue requirements and proposed revenue
 12 increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>% Increase</u>
14 Tierra Buena	\$118,823	\$30,093	33.9
15 Staff	\$99,921	\$11,191	12.6

16 **A. Adjustments to Rate Base and Operating Income**

17 27. Tierra Buena proposed an original cost rate base ("OCRB") of negative \$257,187 and
 18 has waived the right to reconstruction cost new rate base.

19 28. Staff determined the Company's OCRB to be negative \$247,244, due to Staff's
 20 recommended allowance of \$9,441 for cash working capital.² Staff also reclassified \$2,106 in
 21 NARUC Account No. 348 (Other Tangible Plant) to NARUC Account No. 304 (Structures and
 22 Improvements);³ however, this adjustment was offsetting and did not result in a net change to the
 23 Company's OCRB. The Company did not object to Staff's adjustments.

24 29. We find that Staff's adjustments to the Company's OCRB are reasonable and
 25 appropriate, and should be adopted. We further find that the Company's fair value rate base

26 ² Staff calculated cash working capital by using the formula method which equals one-eighth of the operating expenses
 27 less depreciation, taxes, purchased power, and purchased water expenses, plus one twenty-fourth of purchased power and
 purchased water expenses.

28 ³ Staff states that the Company paid \$2,106 to increase the wall height at the Well No. 2 site in 2006. According to Staff,
 this plant item should be reclassified to NARUC Account No. 348 (Structures and Improvements).

1 (“FVRB”) is equivalent to its OCRB and is negative \$247,244.

2 30. Staff analyzed the Company’s proposed test year operating revenue of \$88,730 and
3 determined that no adjustments were necessary. We find that the Company’s proposed test year
4 operating revenues are reasonable and appropriate, and should be adopted.

5 31. Staff made several adjustments to the Company’s proposed operating expenses,
6 resulting in an increase of \$1,191, from \$88,803 to \$89,921. The increase to the Company’s test year
7 operating expenses is due to Staff’s adjustments to water testing expense and income tax expense.
8 The Company did not object to Staff’s adjustments. We find that Staff’s adjustments to the
9 Company’s proposed test year operating expenses are reasonable and appropriate, and we adopt
10 Staff’s adjusted operating expense figure of \$89,921.

11 32. Based on Staff’s analysis, the Company’s present rates and charges resulted in test
12 year operating income of \$1,135, for no rate of return on the Company’s FVRB of negative
13 \$247,244.

14 33. The Company’s rate application requested a revenue increase of \$30,093 over its
15 proposed test year revenues, from \$88,730 to \$118,823, or 33.9 percent. Tierra Buena proposes
16 operating expenses of \$95,058, resulting in an operating income of \$23,765 and an operating margin
17 of 20.0 percent.

18 34. Given Tierra Buena’s negative FVRB, Staff was unable to determine a meaningful
19 rate of return for the Company. Instead, Staff adopted a cash flow methodology to calculate adequate
20 revenue to meet the Company’s operating needs. Staff’s recommended rates and charges result in an
21 \$11,191 increase over test year revenues, or 12.6 percent, for total revenues of \$99,921. Using
22 Staff’s adjusted operating expense figure of \$89,921, this would result in operating income of
23 \$10,000 and an operating margin of 10.0 percent.

24 35. Staff states that its recommended increase in revenues will provide the Company with
25 adequate cash flow to meet its normal operating expenses and fund contingencies.

26 **B. Rate Design**

27 36. The rates and charges for the Company at present, as proposed in its rate application,
28 and as recommended by Staff are as follows:

	Present Rates	Proposed Rates		
		Company	Staff	
1				
2	<u>MONTHLY USAGE CHARGE:</u>			
3	5/8" x 3/4" Meter	\$9.00	\$11.50	\$7.60
4	3/4" Meter	10.50	17.25	11.40
5	1" Meter	13.50	28.75	19.00
6	1 1/2" Meter	21.00	57.50	38.00
7	2" Meter	30.50	92.00	60.80
8	3" Meter	N/A	184.00	121.60
9	4" Meter	N/A	287.50	190.00
10	6" Meter	N/A	575.00	380.00
11	<u>COMMODITY CHARGES:</u>			
12	(Per 1,000 Gallons)			
13	<u>5/8" x 3/4" & 3/4" Meter - Residential</u>			
14	Gallons Included in Minimum	1,000	0	0
15	Excess of Minimum – per 1,000 gallons			
16	For All Gallons	\$2.00		
17	From 1 to 3,000 Gallons		\$1.65	\$1.50
18	From 3,001 to 9,000 Gallons		2.15	2.00
19	Over 9,000 Gallons		2.65	2.52
20	<u>5/8" x 3/4" & 3/4" Meter – Non-Residential</u>			
21	Gallons Included in Minimum	1,000	0	0
22	Excess of Minimum – per 1,000 gallons			
23	For All Gallons	\$2.00		
24	From 1 to 9,000 Gallons		2.15	2.00
25	Over 9,000 Gallons		2.65	2.52
26	<u>1" Meter – Residential</u>			
27	Gallons Included in Minimum	1,000	0	0
28	Excess of Minimum – per 1,000 gallons			
29	For All Gallons	\$2.00		
30	From 1 to 9,000 Gallons		1.65	1.50
31	From 9,001 to 22,500 Gallons		2.15	2.00
32	Over 22,500 Gallons		2.65	2.52
33	<u>1" Meter – Non-Residential</u>			
34	Gallons Included in Minimum	1,000	0	0
35	Excess of Minimum – per 1,000 gallons			
36	For All Gallons	\$2.00		
37	From 1 to 22,500 Gallons		2.15	2.00
38	Over 22,500 Gallons		2.65	2.52

1 1/2" Meter – All Classes

1	Gallons Included in Minimum	1,000	0	0
2	Excess of Minimum – per 1,000 gallons			
	For All Gallons	\$2.00		
3	From 1 to 45,000 Gallons		2.15	2.00
4	Over 45,000 Gallons		2.65	2.52

2" Meter – All Classes

5	Gallons Included in Minimum	1,000	0	0
6	Excess of Minimum – per 1,000 gallons			
	For All Gallons	\$2.00		
7	From 1 to 72,000 Gallons		2.15	2.00
8	Over 72,000 Gallons		2.65	2.52

3" Meter – All Classes

9	Gallons Included in Minimum	1,000	0	0
10	Excess of Minimum – per 1,000 gallons			
	For All Gallons	\$2.00		
11	From 1 to 144,000 Gallons		2.15	2.00
12	Over 144,000 Gallons		2.65	2.52

4" Meter – All Classes

13	Gallons Included in Minimum	1,000	0	0
14	Excess of Minimum – per 1,000 gallons			
	For All Gallons	\$2.00		
15	From 1 to 225,000 Gallons		2.15	2.00
16	Over 225,000 Gallons		2.65	2.52

6" Meter – Residential, Commercial & Industrial

17	Gallons Included in Minimum	1,000	0	0
18	Excess of Minimum – per 1,000 gallons			
	For All Gallons	\$2.00		
19	From 1 to 450,000 Gallons		2.15	2.00
20	Over 450,000 Gallons		2.65	2.52

SERVICE LINE AND METER INSTALLATION CHARGES:

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

	Present Rates	Company Proposed Rates	Staff Recommended Charges			
			Service Line	Meter	Total	
23						
24	5/8" x 3/4" Meter	\$100	\$600	\$445	\$155	\$600
25	3/4" Meter	120	700	445	255	700
	1" Meter	160	810	495	315	810
26	1 1/2" Meter	300	1,075	550	525	1,075
	2" Turbine Meter	400	1,875	830	1,045	1,875
27	2" Compound Meter	N/A	2,720	830	1,890	2,720
28	3" Turbine Meter	N/A	2,715	1,045	1,670	2,715

1	3" Compound Meter	N/A	3,710	1,165	2,545	3,710
	4" Turbine Meter	N/A	4,160	1,490	2,670	4,160
2	4" Compound Meter	N/A	5,315	1,670	3,645	5,315
	6" Turbine Meter	N/A	7,235	2,210	5,025	7,235
3	6" Compound Meter	N/A	9,250	2,330	6,920	9,250
	8" (Turbine)	N/A	At Cost	At Cost	At Cost	At Cost
4	10" (Turbine)	N/A	At Cost	At Cost	At Cost	At Cost
5	12" (Turbine)	N/A	At Cost	At Cost	At Cost	At Cost

		Present	Company Proposed	Staff Recommended
7	Miscellaneous Service Charges	Charges	Charges	Charges
	Establishment	\$30.00	\$40.00	\$40.00
8	Establishment (After Hours)	\$45.00	\$40.00	Eliminate
	Reconnection (Delinquent)	\$25.00	\$40.00	\$30.00
9	Reconnection Delinquent and After Hours	N/A	\$40.00	Deny
10	Meter Test	\$25.00	\$30.00	\$25.00
	Deposit	\$24.00	2x average bill	*
11	Deposit Interest	6.00%	*	*
	Re-Establishment (Within 12 Months)	**	**	**
12	Re-Establishment (Within 12 Months After Hours)	No Tariff	**	Deny
13	NSF Check	\$10.00	\$30.00	\$20.00
	Deferred Payment – Per Month	1.50%	1.50%	1.50%
14	Meter Re-Read (If Correct)	\$15.00	\$30.00	\$25.00
	Late Payment Penalty	No Tariff	\$10.00	\$10.00
15	Moving Customer Meter (Customer Request)	***	***	***
16	After-Hours Service Charge	N/A	\$40.00	35.00

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

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

19 *** Per A.A.C. R14-2-405.

20 37. The rates and revenue requirements proposed by the parties would have the following bill impacts on the typical residential 1-inch meter customer with median usage of 18,322 gallons:

	<u>Typical 1-inch Residential Meter with Median Usage</u>			
	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>% Increase</u>	
21				
22	Tierra Buena	\$48.14	\$72.63	50.8
23	Staff	\$48.14	\$51.14	6.2

24 38. Staff states that it utilized the National Association of Regulatory Utility
 25 Commissioners (“NARUC”) meter multiplier to design rates for the monthly minimum charges for
 26 the various meter sizes. Staff notes that since all customers are on a 1-inch meter, all revenues
 27 generated from the monthly minimum charges come from 1-inch meter customers.
 28

1 39. According to Staff, the Company's current rates generate 23.5 percent of its revenues
2 from the monthly minimum charges. Staff states that its proposed rates would generate
3 approximately 30 percent of the recommended revenues from the monthly minimum charges.
4 According to Staff, its rate design is reasonable because it adopts a more gradual increase in the
5 monthly minimum charges while providing more revenue stability for the Company.

6 **C. Accounting Record Keeping**

7 40. In the Company's last rate case, the Commission ordered Tierra Buena to begin
8 keeping its books and records in accordance with the 1984 NARUC Uniform System of Accounts
9 ("USOA") for Class C water utilities.⁴

10 41. Staff reviewed the Company's accounting records and determined Tierra Buena was in
11 substantial compliance with the 1996 publication of the USOA (which superseded the 1984
12 publication). However, Staff expressed concern that the Company is not properly recording plant
13 retirements. Staff notes that the Company only recorded one plant retirement during the period
14 between the Company's last rate case (1987) and the test year in the present rate case (2014).
15 According to Staff, several types of plant assets would have reached the end of their useful lives
16 during this 27 year period, including pumps (useful life of 8 years), meters (useful life of 12 years),
17 and office furniture (useful life of 15 years). Staff states that it did not make any adjustments
18 concerning this issue due to time constraints and because any adjustment would not impact rates due
19 to the Company's large negative rate base. Staff recommends that the Company be put on notice that
20 Staff will recommend sanctions in the next rate case if the Company fails to properly record plant
21 transactions in accordance with NARUC guidelines.

22 **IV. Financing Application**

23 42. In its financing application, the Company requests approval to finance a loan in the
24 amount of \$899,506 from WIFA, the proceeds of which will be used to fund three projects relating to
25 its water system. In its Response to Staff Report, the Company states that its proposed loan amount
26 has increased slightly, from \$899,506 to \$904,573, in order to comply with requirements of the
27

28 ⁴ Decision No. 55423 (Feb. 12, 1987).

1 Davis-Bacon Act and American Steel Act. According to the Company, the purpose of the loan is to
2 address problems of adequate water source capacity and an exceedance of the arsenic Maximum
3 Containment Level ("MCL").

4 **A. Project 1 – Interconnection with Valley Utilities**

5 43. The Company is proposing to install a 6-inch main and meter to interconnect to Valley
6 Utilities' water system. According to the Company, the proposed interconnection will provide a
7 reliable backup source of water for the Company during times when Well No. 2 is not in service. The
8 Company estimated that it would cost approximately \$55,115 to complete Project 1.

9 44. Staff analyzed Valley Utilities' water system and determined that Valley Utilities will
10 be a reliable backup water provider for the Company. Staff notes that although Valley Utilities does
11 not presently have adequate production capacity to serve its customers, Valley Utilities has an
12 agreement with Liberty's Litchfield Park water system to purchase 400 gallons per minute ("GPM")
13 of water in the event of an emergency. Staff further notes that Valley Utilities is intending to upgrade
14 one of its wells to increase production capacity. As a result, Staff concludes that it is reasonable to
15 expect that Valley Utilities will develop adequate production in the future. Due to the fact that
16 Valley Utilities does not presently have adequate production capacity, Staff recommends that the
17 Company plan the construction of Project 2 and Project 3 during the low water usage months for
18 Valley Utilities.

19 45. Staff concludes that the proposed capital improvements associated with Project 1 are
20 appropriate and the cost estimates are reasonable. However, Staff notes that no "used and useful"
21 determination of the proposed project item was made and no particular treatment should be inferred
22 for future ratemaking purposes.

23 **B. Project 2 – Well No. 2 Rehabilitation**

24 46. The Company is also proposing to rehabilitate Well No. 2, which is 17 years old. The
25 Company's proposal includes replacing the well pump and motor, and removing clogged materials
26 and solids in the well casing. The Company estimated that it would cost approximately \$177,479 to
27 complete Project 2.

28 47. According to Staff, completion of Project 2 could increase the production capacity of

1 Well No. 2 and reduce arsenic levels to below the MCL. Staff notes that if the well rehabilitation is
2 successful in reducing arsenic levels below the MCL, the Company would no longer need to build the
3 arsenic treatment facility contemplated in Project 3. Thus, Staff recommends that the Company: (1)
4 test the arsenic level after the well rehabilitation is completed; (2) file the results of the arsenic tests
5 in this docket; and (3) file a letter by December 31, 2016, stating whether it believes an arsenic
6 treatment facility is needed.

7 48. Staff concludes that the proposed capital improvements associated with Project 2 are
8 appropriate and the cost estimates are reasonable. However, Staff notes that no “used and useful”
9 determination of the proposed project item was made and no particular treatment should be inferred
10 for future ratemaking purposes.

11 **C. Project 3 – Arsenic Treatment Plant**

12 49. The Company further proposes to install a 200 GPM Seven Trent arsenic treatment
13 facility, which consists of a two vessel, single lead/lag train system, with a 2,500 gallon backwash
14 holding tank. The Company estimated that it would cost approximately \$666,912 to construct the
15 arsenic treatment facility.

16 50. Staff states that if Project 1 and Project 2 resolve the arsenic problem, then the costs
17 associated with the arsenic treatment plant would be excluded from the recommended financing.⁵

18 51. Staff concludes that the proposed capital improvements associated with Project 3 are
19 appropriate and the cost estimates are reasonable. However, Staff notes that no “used and useful”
20 determination of the proposed project item was made and no particular treatment should be inferred
21 for future ratemaking purposes.

22 **D. Financial Analysis**

23 52. Staff concluded that its recommended base revenues would not provide sufficient cash
24 flow for the Company to meet its proposed long-term debt obligation under the WIFA loan. Staff
25 therefore recommends implementing a loan surcharge mechanism to calculate additional debt service
26 (principal, interest, and reserve fund) on the WIFA loan. Using the surcharge mechanism, Staff
27

28 ⁵ The combined estimated costs of Project 1 and Project 2 are approximately \$232,594.

1 estimates that the debt service payments on a 20-year amortizing loan, in the amount of \$899,506, at
 2 4.46 percent interest, will be \$5,672.53 per month, or \$68,070.33 annually. Staff estimates that the
 3 loan surcharge will increase the monthly bill for a typical residential 1-inch meter customer by
 4 \$57.70, assuming the full amount of the proposed loan is withdrawn by the Company.⁶

5 53. Staff further recommends that the debt service reserve fund (“DSRF”) associated with
 6 the WIFA loan be treated as a regulatory liability and recognized as a deferred credit. WIFA
 7 contractually requires debtors to submit payment equal to twenty (20) percent of the debt service
 8 (principal and interest) payment for sixty (60) monthly payments beginning with the seventh monthly
 9 payment. WIFA uses the DSRF as security in the event of untimely payments by the borrower. At
 10 the end of the loan term, WIFA applies the funds in the DSRF to pay off the remaining balance on the
 11 loan. According to Staff, ratepayers should be given credit for making payments into the DSRF
 12 through the surcharge mechanism. Staff therefore recommends:

13 (1) That the Company be directed to record the customer-provided WIFA reserve funding
 14 in NARUC Account No. 253, “Other Deferred Credits” as soon as it begins collecting
 15 revenue from the surcharge. The deferred credit should be clearly noted as “Customer
 16 Provided Funding for WIFA Reserve Fund” on the Company’s books and records, and
 17 the net balance in this account continue to be shown as a regulatory liability until the
 18 balance is fully amortized or otherwise credited back to ratepayers;

19 (2) That the deferred credit balance be recognized as a reduction to the Company’s rate
 20 base in future rate case filings, only to the extent that it does not result in a negative
 21 rate base amount; and

22 (3) That the amortization of the deferred credit begins once the plant is placed in service;
 23 that the deferred credit be amortized over five years; and that the amortization expense
 24 would be used to offset depreciation expense.

25 54. Staff’s estimated loan surcharge and recommended revenue requirement would result
 26 in a times-interest-earned ratio (“TIER”) and debt service coverage (“DSC”) ratio of 2.32 and 1.42,

27 ⁶ We note that the loan surcharge will be lower if the arsenic treatment facility is later determined to not be needed.
 28 According to Staff’s analysis, the monthly surcharge for a residential customer on a 1-inch meter would be \$14.32 on a
 \$232,594 loan (the combined estimated costs of Project 1 and Project 2).

1 respectively.⁷ TIER represents the number of times earnings before income tax expense covers
2 interest expense on a debt. A TIER greater than 1.0 means that operating income is greater than
3 interest expense. A TIER less than 1.0 is not sustainable in the long term, but does not necessarily
4 mean that debt obligations cannot be met in the short term. A DSC ratio represents the number of
5 times internally generated cash will cover required principal and interest payments on short-term and
6 long-term debt. A DSC of less than 1.0 means that debt service obligations cannot be met by cash
7 generated from operations and that another source of funds is necessary to preclude default on the
8 debt obligation.

9 55. According to Staff's analysis, its estimated loan surcharge and recommended revenue
10 requirement will provide the Company with sufficient cash flow to pay operating expenses, fund
11 contingencies, principal and interest on its proposed loan, and to meet the minimum 1.2 DSC ratio
12 required by WIFA.

13 56. Staff concludes that the proposed financing is for lawful purposes, within the
14 Company's powers as a corporation, compatible with the public interest, consistent with sound
15 financial practices, and will not impair its ability to provide public service.

16 57. The Company does not oppose the adoption of Staff's recommended loan surcharge
17 mechanism.

18 58. We find that Staff's recommended loan surcharge mechanism is reasonable and
19 appropriate and should be adopted, subject to the following clarifications. First, the loan surcharge
20 calculation should utilize the depreciation expense anticipated on the capital improvements funded by
21 the loan proceeds, rather than the Company's test year depreciation expense. Second, the loan
22 surcharge calculation should be based upon the 19 ½-year amortization period utilized by WIFA,
23 rather than a 20-year amortization period. Once these clarifications are incorporated into Staff's
24 analysis, and after increasing the Company's initial financing request to \$904,573, the estimated loan
25 surcharge per 1-inch meter customer would be \$56.07 per month, assuming the full amount of the
26 proposed loan is withdrawn by the Company.

27
28 _____
⁷ Staff's analysis assumes that the Company will withdraw the entire balance of the proposed loan.

1 59. Assuming the loan surcharge is \$56.07 per customer per month, the typical residential
2 1-inch meter customer with median usage of 18,322 gallons would experience the following bill
3 impact based on the parties' proposed rates and revenue requirements:

4 Typical 1-inch Residential Meter with Median Usage (with loan surcharge)

	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>% Increase</u>
5 Tierra Buena	\$48.14	\$128.70	167.3
6 Staff	\$48.14	\$107.21	122.7

7
8 **V. Staff's Recommendations**

9 60. Staff recommends the following:

- 10 a) That Staff's recommended rates and service charges be approved;
- 11 b) That the Company file with Docket Control, as a compliance item in this docket, a
12 schedule of its approved rates and charges within 30 days of the decision in this
13 matter;
- 14 c) That the Company's application for authorization to issue long-term debt to WIFA
15 in an amount not to exceed \$899,506, subject to the following conditions:
- 16 (i) If the Company concludes that the interconnection and well
17 rehabilitation (Project Nos. 1 and 2) can resolve the arsenic problem,
18 then the \$666,912 cost of the arsenic treatment facility (Project No. 3)
19 would be excluded from this financing recommendation. Staff's
20 recommended loan amount would be \$232,594, which is the total cost
21 of the interconnection and well rehabilitation.
- 22 (ii) However, if the interconnection and well rehabilitation do not resolve
23 the arsenic issue, then the \$666,912 cost of the arsenic treatment
24 facility will be included in this financing application and Staff's
25 recommended loan amount would be \$899,506;
- 26 d) Approval of the surcharge mechanism that may result in a surcharge of up to
27
28

1 \$57.70 per month per customer;⁸

- 2 e) That the actual amount of the loan surcharge be calculated based upon the actual
3 terms of the WIFA loan and actual number of customers at the time of loan
4 closing;
- 5 f) That the Company file with Docket Control, as a compliance item in this docket,
6 within 30 days of the execution of any financing transaction authorized herein, a
7 notice confirming that such execution has occurred and a certification by an
8 authorized Company representative that the terms of the financing fully comply
9 with the authorizations granted herein;
- 10 g) That the Company provide to Staff, upon request, a copy of any loan documents
11 executed pursuant to the authorizations granted herein;
- 12 h) That the Company may file, in this docket, upon filing notice of the loan closing,
13 an application requesting implementation of the associated surcharge;
- 14 i) That Staff shall calculate the appropriate loan surcharge and prepare and file a
15 recommended order for Commission consideration within 30 days of the
16 Company's filing of an application requesting implementation of the surcharge;
- 17 j) That approval of the loan and surcharge be rescinded if the Company has not
18 drawn funds from the loan within one year of the effective date of this Decision;
- 19 k) That the Company open a separate interest-bearing account, upon approval of the
20 loan surcharge, in which all surcharge monies collected from customers will be
21 deposited. The only disbursements of funds from this account shall be to make
22 debt service and reserve payments to WIFA;
- 23 l) That the Company file, by April 15 of each year, as a compliance item in this
24 docket, a report reconciling all surcharge monies billed and collected, along with
25 copies of the prior year's monthly bank statements for the surcharge account, until
26 the Company files its next rate case;

27 _____
28 ⁸ As discussed above, the surcharge amount may be up to \$56.07 per customer per month, based on obtaining the full
WIFA loan amount of \$904,573.

- 1 m) That the Company be ordered to file its next rate application no later than five
2 years from the effective date of this Decision;
- 3 n) That the Company be ordered to use the depreciation rates delineated in Figure 5
4 of the Engineering Report portion of the Staff Report in this matter;
- 5 o) That the Company file with Docket Control, as a compliance item in this docket,
6 within 90 days of the effective date of this Decision, at least three BMPs in the
7 form of tariffs that substantially conform to the templates created by Staff. The
8 templates created by Staff are available on the Commission's website at
9 <http://www.azcc.gov/Divisions/Utilities/forms.asp>. A maximum of two BMPs
10 may come from the "Public Awareness/Public Relations" or "Education and
11 Training" categories. The Company may request cost recovery of the actual costs
12 associated with the BMPs implemented in its next general rate application;
- 13 p) That the Company test the arsenic level after the well rehabilitation of Well No. 2
14 is completed. Staff further recommends that the Company file with Docket
15 Control, as a compliance item in this docket, the arsenic test results from the
16 rehabilitated Well No. 2. Staff further recommends that the Company file with
17 Docket Control, as a compliance item in this docket, by December 31, 2016, a
18 letter stating whether it believes an arsenic treatment facility is needed. Staff
19 further recommends that the Company file with Docket Control, as a compliance
20 item in this docket, by December 31, 2016, a copy of the MCESD Approval of
21 Construction ("AOC") for the capital improvements to be financed as discussed in
22 the Section K of the Engineering Report portion of the Staff Report in this matter;
23 and
- 24 q) That the Company transfer the \$394 listed in water testing costs to NARUC
25 Account No. 320.1 (Water Treatment Plants) if and when the arsenic treatment
26 plant becomes used and useful as discussed in Section I of the Engineering Report
27 portion of the Staff Report in this matter.
- 28 ...

1 **VI. Company's Response to Staff's Recommendations**

2 61. In its Response to the Staff Report, Tierra Buena argues that its revenue requirement
3 and rate design should be adopted because they are consistent with previous Commission decisions.
4 According to the Company, the Commission has previously authorized utilities of comparable size to
5 Tierra Buena approximately \$20,000 in operating income. Further, the Company asserts that the
6 Commission has previously approved rate designs for utilities of comparable size to Tierra Buena
7 that include 50 percent of the revenue requirement in monthly minimum charges.

8 62. Since all of the Company's customers presently utilize a 1-inch meter, the Company
9 expresses concern that its customers may opt to install a smaller meter size in order to reduce its
10 monthly water bill. The Company states that it has received several customer inquiries to install
11 smaller meter sizes and argues that it would face financial disaster if customers reduce their meter
12 size. As a result, the Company requests that the monthly minimum charges be the same for the 1-
13 inch meter, 3/4-inch meter, and the 5/8 x 3/4-inch meter.

14 63. Tierra Buena accepts Staff's recommended Service Line and Meter Installation
15 Charges and Service Charges, with the exception of the after-hours service charge. The Company
16 argues that the recommended after-hours service charge should be increased from \$35.00 to \$40.00,
17 consistent with service charges for other utilities.

18 64. Tierra Buena requests that Staff's recommended deadline to file the annual surcharge
19 report be extended, from April 15 to April 30, to allow the Company sufficient time to prepare its
20 taxes and the annual surcharge report. Tierra Buena further requests that Staff's recommended
21 deadline to file the AOC be extended, from December 31, 2016 to June 30, 2017, to allow the
22 Company sufficient time to complete the project.

23 65. Tierra Buena opposes Staff's recommendation to implement BMPs and file the
24 associated tariffs. According to Tierra Buena, the Company is already within the Phoenix AMA and
25 subject to ADWR's water conservation plan. Tierra Buena asserts that subjecting the Company to
26 BMPs is unnecessary and would result in duplicative regulatory requirements.

27 66. Tierra Buena further opposes Staff's recommendation that the Company be put on
28 notice that Staff will recommend sanctions if the Company fails to follow NARUC accounting

1 practices. According to the Company, Staff is being overly aggressive and threatening without cause.
 2 The Company states that the issue of recording plant retirements is irrelevant due to the Company's
 3 large negative rate base.

4 **VII. Resolution**

5 67. Staff's recommended rate design allocates approximately 30 percent of the revenue
 6 requirement in the monthly minimum charges. Although the Company requests an allocation of 40
 7 percent in the monthly minimum charges, the Company fails to acknowledge that the loan surcharge
 8 mechanism authorized herein, once calculated by Staff and adopted by the Commission, will result in
 9 a monthly minimum charge to customers that far exceeds 40 percent of the overall increase in
 10 revenues. The Company asserts that the Commission has approved rate designs and revenue
 11 requirements in the past that are similar to the requests of the Company in this case; however, we
 12 note that each Commission decision depends upon the unique circumstances of each individual case.
 13 Under the circumstances of this case, we find it reasonable and appropriate to adopt Staff's
 14 recommended revenues, rates, and charges, with the following modifications: (1) the minimum
 15 monthly usage charges for the 5/8 x 3/4-inch meter and 3/4-inch meter are the same as the 1-inch
 16 meter minimum monthly usage charge; and (2) the after-hours service charge recommended by Staff
 17 should be increased from \$35.00 to \$40.00. Based on the foregoing, we find the following rates and
 18 charges to be just and reasonable:

19 **MONTHLY USAGE CHARGE:**

20 5/8" x 3/4" Meter	\$19.00
21 3/4" Meter	19.00
22 1" Meter	19.00
23 1 1/2" Meter	38.00
24 2" Meter	60.80
25 3" Meter	121.60
26 4" Meter	190.00
27 6" Meter	380.00

28 **COMMODITY CHARGES:**
 (Per 1,000 Gallons)

1	<u>5/8" x 3/4" & 3/4" Meter – Residential</u>	
	1 to 3,000 Gallons	\$1.50
2	3,001 to 9,000 Gallons	2.00
	Over 9,000 Gallons	2.52
3		
4	<u>5/8" x 3/4" & 3/4" Meter – Non-Residential</u>	
	1 to 9,000 Gallons	2.00
5	Over 9,000 Gallons	2.52
6		
	<u>1" Meter Residential</u>	
	1 to 9,000 Gallons	1.50
7	9,001 to 22,500 Gallons	2.00
	Over 22,500 Gallons	2.52
8		
9	<u>1" Meter Non-Residential</u>	
	1 to 22,500 Gallons	2.00
10	Over 22,500 Gallons	2.52
11		
	<u>1 1/2" Meter – All Classes</u>	
	1 to 45,000 Gallons	2.00
12	Over 45,000 Gallons	2.52
13		
	<u>2" Meter – All Classes</u>	
14	1 to 72,000 Gallons	2.00
	Over 72,000 Gallons	2.52
15		
16	<u>3" Meter – All Classes</u>	
	1 to 144,000 Gallons	2.00
17	Over 144,000 Gallons	2.52
18		
	<u>4" Meter – All Classes</u>	
	1 to 225,000 Gallons	2.00
19	Over 225,000 Gallons	2.52
20		
	<u>6" Meter Residential, Commercial & Industrial</u>	
21	1 to 450,000 Gallons	2.00
	Over 450,000 Gallons	2.52
22		

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	Service		
	<u>Line</u>	<u>Meter</u>	<u>Total</u>
26	5/8" x 3/4" Meter	\$445	\$155
	3/4" Meter	445	255
27	1" Meter	495	315
28	1 1/2" Meter	550	525
			1,075

1	2" Turbine Meter	830	1,045	1,875
	2" Compound Meter	830	1,890	2,720
2	3" Turbine Meter	1,045	1,670	2,715
	3" Compound Meter	1,165	2,545	3,710
3	4" Turbine Meter	1,490	2,670	4,160
	4" Compound Meter	1,670	3,645	5,315
4	6" Turbine Meter	2,210	5,025	7,235
	6" Compound Meter	2,330	6,920	9,250
5	8" (Turbine)	At Cost	At Cost	At Cost
6	10" (Turbine)	At Cost	At Cost	At Cost
	12" (Turbine)	At Cost	At Cost	At Cost

SERVICE CHARGES:

9	Establishment	\$40.00
	Reconnection (Delinquent)	\$30.00
10	Meter Test	\$25.00
	Deposit	*
11	Deposit Interest	*
	Re-Establishment (Within 12 Months)	**
12	NSF Check	\$20.00
13	Deferred Payment – Per Month	1.50%
	Meter Re-Read (If Correct)	\$25.00
14	Late Payment Penalty	\$10.00
	Moving Customers Meter (Customer Request)	***
15	After-Hours Service Charge	40.00

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

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

18 *** Per Commission Rule A.A.C. R14-2-405.

19 68. We find that it is reasonable, consistent with sound financial practices, and in the
20 public interest to grant Tierra Buena the authority to issue up to \$904,573 in long-term debt for the
21 purposes stated in its financing application.

22 69. We further find that it is reasonable and appropriate to modify Staff's recommended
23 compliance deadlines, as requested by the Company, such that the loan surcharge report shall be filed
24 no later than April 30 of each year and the AOC shall be filed no later than June 30, 2017.
25 Additionally, in light of the Company's objection, we decline to adopt Staff's recommendation
26 regarding BMPs at this time. Further, we agree with Staff that the Company should follow NARUC
27 accounting guidelines and we order the Company to comply fully with those accounting guidelines,
28 including the proper recording of all plant retirements and accumulated depreciation.

1 be rescinded without further order of the Commission if the Company has not drawn funds from the
2 loan within one year from the effective date of this Decision.

3 IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. is hereby authorized to
4 pledge, mortgage, lien, and/or otherwise encumber its assets in the State of Arizona pursuant to
5 A.R.S. § 40-285 and A.A.C. R18-15-104, in connection with the indebtedness authorized herein.

6 IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. Company is hereby
7 authorized to engage in any transaction and to execute any documents necessary to effectuate the
8 authorizations granted herein.

9 IT IS FURTHER ORDERED that such financing authority is expressly contingent upon
10 Tierra Buena Water Company, Inc.'s use of the proceeds for the purposes set forth in its financing
11 application, as discussed herein.

12 IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. shall file with Docket
13 Control, as a compliance item in this docket, within 30 days of the execution of any financing
14 transaction authorized herein, a notice confirming that such execution has occurred and a certification
15 by an authorized Company representative that the terms of the financing fully comply with the
16 authorizations granted herein.

17 IT IS FURTHER ORDERED that upon filing notice confirming the loan's execution, Tierra
18 Buena Water Company, Inc. may file with Docket Control, in this docket, an application requesting
19 implementation of the loan surcharge, as discussed herein.

20 IT IS FURTHER ORDERED that Staff shall calculate the appropriate loan surcharge amount
21 and prepare and file a recommended order for Commission consideration, within thirty (30) days of
22 the filing of Tierra Buena Water Company, Inc.'s application requesting implementation of the loan
23 surcharge.

24 IT IS FURTHER ORDERED that upon approval of the loan surcharge, Tierra Buena Water
25 Company, Inc. shall open a separate interest-bearing account in which all loan surcharge monies
26 collected from customers will be deposited. Tierra Buena Water Company, Inc. shall only disburse
27 funds from this account for debt service and reserve payments to the Water Infrastructure Finance
28 Authority of Arizona, and the payment of taxes related to recovery of the principle payments, as

1 discussed herein.

2 IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. shall file with Docket
3 Control, as a compliance item in this docket, by April 30 of each year, a report reconciling all loan
4 surcharge monies billed and collected, along with copies of the prior year's monthly bank statements
5 for the loan surcharge account until Tierra Buena Water Company, Inc. files its next rate application.

6 IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. shall provide to the
7 Commission's Utilities Division, upon request, a copy of any loan documents executed pursuant to
8 the authorizations granted herein.

9 IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. shall test the arsenic
10 level after the rehabilitation of Well No. 2 is completed, and file with Docket Control, as a
11 compliance item in this docket, the arsenic test results.

12 IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. shall file with Docket
13 Control, as a compliance item in this docket, no later than December 31, 2016, a letter stating
14 whether the Company believes construction of the arsenic treatment facility discussed in the
15 financing application is necessary.

16 IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. shall file with Docket
17 Control, as a compliance item in this docket, by June 30, 2017, a copy of the Approval of
18 Construction from the Maricopa County Environmental Services Department for the capital
19 improvements, as discussed herein.

20 IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. shall transfer \$394
21 listed in water testing costs as NARUC Account No. 320.1 (Water Treatment Plants) if and when the
22 arsenic treatment plant becomes used as useful, as discussed herein.

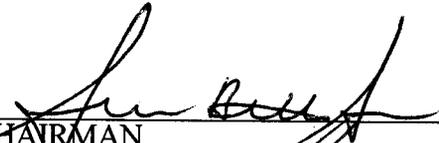
23 IT IS FURTHER ORDERED that, to the extent feasible, Tierra Buena Water Company, Inc.
24 shall plan the construction of Project 2 (well rehabilitation) and Project 3 (arsenic treatment plant) to
25 coincide with low water usage months for Valley Utilities Water Company, Inc.

26 IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. shall maintain its books
27 and records in accordance with the 1996 NARUC Uniform System of Accounts for Class C water
28 utilities.

1 IT IS FURTHER ORDERED that, in addition to the collection of its regular rates and
2 charges, Tierra Buena Water Company, Inc. shall collect from its customers a proportionate share of
3 any privilege, sales or use tax per A.A.C. R14-2-409(D).

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
7
8  CHAIRMAN  COMMISSIONER
9
10  COMMISSIONER  COMMISSIONER  COMMISSIONER

11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this 27th day of October 2015.

17 
18 JODI JERICH
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____
SMH:ru

1 SERVICE LIST FOR: TIERRA BUENA WATER COMPANY, INC.

2 DOCKET NOS: W-02076A-15-0024 AND W-02076A-15-0135

3 Steve Wene
4 MOYES SELLERS & HENDRICKS LTD.
5 1850 N. Central Avenue, Suite 1100
6 Phoenix, AZ 85004
7 Attorneys for Tierra Buena Water Company, Inc.

8 Janice Alward, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, AZ 85007

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

18
19
20
21
22
23
24
25
26
27
28