

OPEN MEETING ITEM

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



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ARIZONA CORPORATION COMMISSION RECEIVED

2015 NOV 20 P 3: 23

DATE: NOVEMBER 20, 2015
AZ CORP COMMISSION DOCKET CONTROL

DOCKET NO.: WS-20878A-13-0065

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Yvette B. Kinsey. The recommendation has been filed in the form of an Opinion and Order on:

SOUTHWEST ENVIRONMENTAL UTILITIES, L.L.C.
(CC&N)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

NOVEMBER 30, 2015

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

DECEMBER 8, 2015 AND DECEMBER 9, 2015

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

NOV 20 2015

DOCKETED BY

JODI JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION
OF SOUTHWEST ENVIRONMENTAL
UTILITIES, L.L.C. FOR APPROVAL OF A
CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE WATER AND
WASTEWATER SERVICES IN PINAL
COUNTY, ARIZONA.

DOCKET NO. WS-20878A-13-0065

DECISION NO. _____

OPINION AND ORDER

DATE OF HEARING: March 30, 2015 (Public Comments); May 11, 2015 (Evidentiary Hearing); October 30, 2015 (Procedural Conference)

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Yvette B. Kinsey

APPEARANCES: Mr. Jeffrey Crockett, CROCKETT LAW GROUP, PLLC, on behalf of Southwest Environmental Utilities L.L.C.; and

Mr. Brian E. Smith, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On March 21, 2013, Southwest Environmental Utilities, L.L.C. (“SEU” or “Company”) filed with the Arizona Corporation Commission (“Commission”) an application requesting approval of a Certificate of Convenience and Necessity (“CC&N”) to provide water and wastewater services to several developments known as Florence Majestic Ranch, Johnson Ranch Estates, Florence Crossing, Sunaire Ranch, and Majestic Ranch, all located in the Town of Florence, in Pinal County, Arizona. SEU’s application states the proposed CC&N area will encompass approximately 1,912 acres.¹

On April 22, 2013, the Commission’s Utilities Division (“Staff”) filed a Letter of

¹ The Company’s original application was later amended to request that 1,532 acres be included in the proposed CC&N area.

1 Insufficiency requesting that the Company file additional information regarding its application.

2 On August 22, 2013, SEU filed responses to Staff's Data Request.

3 On August 28, 2013, SEU filed an amendment to its application, requesting to include the
4 development areas known as Redstone Ranch and Florence 157.

5 On September 11, 2013, SEU filed corrected attachments to its amended application.

6 On September 19, 2013, SEU filed supplements to its application, including, among other
7 things, requests for service for the Redstone Ranch and Florence 157 developments.

8 On September 23 and 26, 2013, SEU filed additional responses to Staff's Data Requests.

9 On September 27, 2013, Staff filed its second Letter of Insufficiency requesting additional
10 information regarding SEU's application.

11 On December 6, 2013, March 4, 2014, and September 17, 2014, SEU filed additional
12 responses to Staff's Data Requests.

13 On November 10, 2014, Staff filed its third Letter of Insufficiency requesting that SEU file
14 additional information regarding its amended application.

15 On November 21, 2014, SEU filed responses to Staff's Data Request.

16 On December 4, 2014, SEU filed a second amendment to its application deleting the Florence
17 157 development area.

18 On December 26 and 29, 2014, SEU filed additional information related to its amended
19 application.

20 On January 14, 2015, Staff filed a Letter of Sufficiency stating that the Company's
21 application had met the sufficiency requirements of the Arizona Administrative Code ("A.A.C.").

22 On January 16, 2015, a Procedural Order was issued scheduling an evidentiary hearing to
23 commence on March 30, 2015; the filing of the Staff Report and objections to the Staff Report by
24 February 20, 2015 and March 6, 2015, respectively; and other procedural deadlines were established.

25 On February 11, 2015, SEU filed an amendment to its application and requested deletion of
26 the Florence Crossing development from the proposed CC&N area. SEU's amendment stated that the
27 properties in the requested CC&N area include: Johnson Ranch Estates; Florence Majestic Ranch;
28 Majestic Ranch; Sunaire Ranch; and Redstone Ranch.

1 On February 13, 2015, SEU filed an Affidavit of Publication showing that the prescribed
2 customer notice had been published in the *Florence Reminder* and *Blade-Tribune*, a newspaper of
3 general circulation, on February 4, 2015, as well as an Affidavit of Mailing stating that the prescribed
4 customer notice had been mailed on January 28, 2015.

5 On February 19, 2015, the parties filed a Joint Request for Modification of Procedural
6 Schedule stating that during the course of Staff's review of the Company's amended application,
7 Staff determined that it needed additional time, until March 20, 2015, to file its Staff Report. The
8 request also stated that the Company would require additional time, until April 3, 2015, to file its
9 objections to the Staff Report. The parties requested that the hearing be rescheduled for the week of
10 April 27, 2015, and that the hearing set for March 30, 2015, be held for the taking of public
11 comments only.

12 On February 24, 2015, a Procedural Order was issued granting the Joint Request for
13 Modification of Procedural Schedule, which set the March 30, 2015, hearing date for taking public
14 comment only and rescheduled the evidentiary portion of the hearing to commence on April 29,
15 2015. The timeclock in this matter was also suspended.

16 On March 18, 2015, the parties filed a Second Joint Request for Modification of Procedural
17 Schedule, stating that Staff needed additional time, until April 20, 2015, to file its Staff Report. Staff
18 stated that the Company would also need additional time, until May 4, 2015, to file objections to the
19 Staff Report. In the filing, the parties agreed that the March 30, 2015, hearing date should remain in
20 place for taking public comments on the application.

21 On April 7, 2015, by Procedural Order, the hearing in this matter was rescheduled and
22 procedural deadlines were modified. Further, the timeclock remained suspended.

23 On April 7 and 13, 2015, SEU filed additional amendments to its application.

24 On April 17, 2015, the parties filed a Third Joint Request for Modification of Procedural
25 Schedule indicating that Staff needed an extension of time to file its Staff Report until April 24, 2015.

26 On April 28, 2015, Staff filed its Staff Report, recommending approval of SEU's application,
27 with conditions.

28 On May 4, 2015, Staff filed a Notice of Errata correcting Attachment C to the Staff Report.

1 On May 6, 2015, SEU filed Objections to the Staff Report.

2 On May 11, 2015, the evidentiary hearing was held as scheduled in this matter. Staff and the
3 Company appeared through counsel and no members of the public were present to give public
4 comments on the Company's application. At the conclusion of the hearing, the parties were directed
5 to brief the issue on whether hook-up fees are appropriate in this matter and information on a
6 proposed Central Arizona Groundwater Replenishment District ("CAGR D") Adjuster mechanism.
7 SEU was directed to docket proposed language for a tariff regarding flushing and/or vaulting and
8 hauling and Staff was directed to file, as late-filed exhibits, the two attachments that were
9 inadvertently not included in the Staff Report.

10 On June 12, 2015, SEU filed its Closing Brief.

11 On June 29, 2015, Staff filed its Responsive Brief.

12 On June 30, 2015, SEU filed a Notice of Filing Vaulting and Hauling and/or Flushing Tariff
13 and Proposed Language Regarding a Future CAGR D Adjuster Mechanism.

14 On July 10, 2015, SEU filed a Reply Brief.

15 On September 29, 2015, Staff filed a Notice of Filing Late-Filed Exhibits in support of its
16 testimony given during the hearing in this matter.

17 On October 29, 2015, a telephonic procedural conference was held. Staff and SEU appeared
18 through counsel. At the conclusion of the conference, Staff was directed to clarify its position
19 regarding its Recommendation No. 3.

20 On October 30, 2015, Staff filed a Notice of Filing Staff's Clarification Regarding
21 Wastewater Expense.

22 On the same date, SEU filed a Notice that Southwest Environmental Utilities, L.L.C., had
23 Filed an Application for a Designation of Assured Water Supply and Revised Proposed Language
24 Regarding a Future CAGR D Adjuster Mechanism.

25 * * * * *

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

28

FINDINGS OF FACT**Background**

1. SEU is an Arizona public service corporation that has requested authorization to provide water and wastewater utility services in portions of Pinal County, Arizona.

2. SEU is a limited liability company and is in good standing with the Commission's Corporations Division.²

3. SEU filed an amended application requesting a CC&N to provide water and wastewater services to several developments known as: Florence Majestic Ranch; Johnson Ranch Estates; Redstone Ranch; Sunaire Ranch; and Majestic Ranch, all located in Town of Florence, in Pinal County, Arizona. The requested CC&N area encompasses approximately 1,572 acres and is more fully described in Exhibit A, attached hereto and incorporated herein by reference.³

4. SEU has received requests for services for all portions of its requested CC&N area.⁴

5. SEU states in its amended application that it anticipates serving approximately 1,360 residential customers, three commercial customers, four construction customers, and three irrigation customers in the first five years of service.⁵

6. SEU is owned by George H. Johnson and Mrs. Jana S. Johnson. Mr. Johnson also owns Johnson Utilities, L.L.C. ("Johnson"), a public service corporation authorized to provide water and wastewater services in portions of Pinal County, Arizona. According to Staff, Johnson currently serves approximately 30,900 wastewater customers and approximately 23,400 water utility customers in portions of Pinal County, Arizona.⁶

7. Staff states that Johnson has no outstanding Commission compliance issues.⁷ Further, Staff believes SEU's owner, "has demonstrated the ability to formulate, develop and operate water and wastewater utilities in Arizona."⁸

8. Staff believes that although SEU has no prior operating experience, its owner has

² Exhibit A-1.

³ Exhibit A-2 at Attachment 11.

⁴ Exhibit A-1 and A-2.

⁵ Exhibit A-1.

⁶ Exhibit S-1.

⁷ *Id.* at 6.

⁸ *Id.*

1 many years' experience; there is no evidence of negative determinations and/or questionable business
 2 practices regarding SEU, its affiliate and/or owner; and SEU, through its owner, has adequate
 3 financial capability to provide utility services in the proposed CC&N area.⁹

4 9. Staff believes SEU is a fit and proper entity, subject to Staff's recommended
 5 conditions, and has the capabilities to serve the requested CC&N area.¹⁰

6 10. Notice of the amended application was given in accordance with the law.

7 11. Staff recommends approval of SEU's amended application for a CC&N. Staff also
 8 recommends that the Commission:

- 9 a. For the purpose of setting initial rates, determine SEU's fair value rate
 10 base for its property devoted to water service to be \$3,086,256.
- 11 b. For the purpose of setting initial rates, determine SEU's the fair value rate
 12 base for its property devoted to wastewater service to be \$3,461,108.
- 13 c. Approve an expense of \$10,000 per month for vaulting and hauling and/or
 14 flushing of the sewer lines in the CC&N area.
- 15 d. Disallow hook-up fees at this time for SEU.
- 16 e. Approve SEU's Curtailment Plan and Backflow Prevention Tariffs as
 17 filed.
- 18 f. Approve separate Service Line and Meter charges as recommended by
 19 Staff and listed in Staff's Engineering Report, Table C.
- 20 g. Approve Staff's proposed rates as shown on Staff's Schedules MJR-W4
 21 for water and MJR-WW4 for wastewater. In addition to collection of its
 22 regular rates, SEU may collect from its customers a proportionate share of
 23 any privilege, sales or use tax.
- 24 h. Require SEU to file with Docket Control, as a compliance item in this
 25 docket, a tariff consistent with the rates and charges authorized by the
 26 Commission within 30 days of the decision in this matter.
- 27 i. Require SEU to notify Docket Control, as a compliance item in this
 28 docket, within 15 days of providing service to its first customer.
- 29 j. Require SEU to file a rate application no later than six-months following
 30 the fifth anniversary of the date it begins providing service to its first
 31 customer.
- 32 k. Require SEU to maintain its books and records in accordance with the
 33 National Association of Regulatory Utility Commissioners Uniform
 34 System of Accounts.
- 35 l. Require SEU to use the depreciation rates recommended by Staff for water
 36 and wastewater utilities.
- 37 m. Require SEU to comply with the minimum deposit charge as set forth in
 38 A.A.C. R14-2-403(B)(7).
- 39 n. Require SEU to file with Docket Control, as a compliance item in this
 40 docket, a copy of the Aquifer Protection Permit for Phase I of this

⁹ Exhibit S-1 at 6.

¹⁰ *Id.*

1 development within 2 years of the effective date of a Decision in this
2 manner.

- 3 o. Require SEU to file with Docket Control, as a compliance item in this
4 docket, a copy of the Arizona Department of Environmental Quality
5 (“ADEQ”) Certificate of Approval to Construct (“ATC”) for the proposed
6 water facilities, for the first parcel of each development in the requested
7 areas within 2 years of the effective date of a Decision in this matter.
8 p. Require SEU to file with Docket Control, as a compliance item in this
9 docket, a copy of Arizona Department of Water Resources (“ADWR”)
10 Designation of Assured Water Supply (“DAWS”) in lieu of a Certificate
11 of Assured Water Supply (“CAWS”) for the requested areas within 2
12 years of the effective date of a Decision in this matter.¹¹
13 q. Require SEU to file with Docket Control, as a compliance item in this
14 docket, within 90 days of the effective date of this Decision, at least five
15 Best Management Practice Tariffs in the form of tariffs that substantially
16 conform to the templates created by Staff for the Commission’s review
17 and consideration. The templates created by Staff are available on the
18 Commission’s website at
19 <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may
20 request cost recovery of actual costs associated with the Best Management
21 Practices implemented in its next general rate application.

22 12. Staff also recommends that if the Company fails to meet Condition Nos. h, i, j, k, n, o,
23 p, and q, that the CC&N will be considered null and void after due process.

24 Proposed Water/Wastewater Systems

25 13. The Company proposes to construct the plant facilities needed to serve the proposed
26 CC&N area in two phases. At completion, the water system will include: four production wells,
27 producing approximately 750 gallons per minute (“GPM”); four water facility plants, with a
28 minimum of 2.0 MG storage reservoirs and a total of 4,530 GPM booster pumping capacity; and
water mains totaling approximately 24,000 linear feet.¹²

14 14. SEU estimates a cost of \$4,553,587 for construction of all offsite water
15 infrastructure.¹³

16 15. SEU’s proposed wastewater system construction will also be completed in two phases.
17 The total wastewater system will consist of: at least a 1.3 million gallons per day (“MGD”)
18 wastewater treatment plant (“WWTP”); gravity sewer mains totaling approximately 19,000 linear
19

20 ¹¹ Staff initially recommended that the Company file a CAWS, but Staff agreed to modify its recommendation in the
21 Company’s Late-Filed Exhibit docketed on October 30, 2015.

22 ¹² Exhibit A-2 at Attachment 1 at 4.

23 ¹³ Staff’s Late-Filed Exhibit docketed September 29, 2015.

1 feet; force mains totaling approximately 7,000 linear feet; and two lift stations.¹⁴

2 16. SEU estimates a proposed cost of \$5,573,808 for the construction of a 300,000 gallon
3 per day (“GPD”) WWTP, sewer mains, a lift station, and a force main needed to serve approximately
4 1,360 customers during the first five years of development.¹⁵

5 17. Staff stated that it reviewed the Company’s Preliminary Engineering Report and Staff
6 believes the Company’s proposed cost for the plant facilities needed to serve the CC&N area are
7 reasonable and appropriate.¹⁶ However, Staff noted that no “used and useful” determination of the
8 proposed plant was made, and no conclusions should be inferred for rate making or rate base
9 purposes in the future.¹⁷

10 18. At this time, the Company has no facilities in the proposed CC&N area; therefore,
11 Staff reported no outstanding compliance issues for SEU. However, Staff states that because SEU’s
12 proposed CC&N area is located within the Pinal Active Management Area (“AMA”), the Company
13 will be subject to Pinal AMA reporting and conservation requirements. Staff states that before
14 beginning construction on its water facilities, SEU will need to seek an ADEQ ATC. Staff
15 recommends that SEU file, as a compliance item, a copy of the ATC for the first parcel of each
16 development in the requested CC&N area, within two years of the effective date of a Decision in this
17 matter. In addition, to establish that there is an adequate water supply in the requested CC&N area,
18 Staff recommends that the Company file, as a compliance item, a copy of the ADWR DAWS in lieu
19 of a CAWS, as well as an Aquifer Protection Permit for the CC&N area, within two years of the
20 effective date of a Decision in this matter. SEU’s requested CC&N area is within the Town of
21 Florence (“Town”) city limits. SEU has obtained the necessary consent or franchise from the Town to
22 allow the Company to provide water and wastewater within certain portions of the Town’s city
23 limits.¹⁸

24 19. SEU submitted proposed Backflow Prevention and Curtailment tariffs for Staff’s
25 review. Staff recommends approval of the tariffs.

26 ¹⁴ Exhibit A-2 at Attachment 1 at 11.

27 ¹⁵ *Id.*

28 ¹⁶ Exhibit S-1 at Attachment A.

¹⁷ *Id.*

¹⁸ Exhibit S-1 at 5.

1 20. Staff recommends that the Company file, as a compliance item, within 90 of the
2 effective date of a Decision in this matter, at least five BMP tariffs, for Staff's review and
3 consideration.

4 21. We find Staff's recommendations reasonable and we will adopt them.

5 **Pro Forma/Recommended Water/Wastewater Rates**

6 22. Because there are no existing rates, SEU provided projected income statements,
7 balance sheets, cash flow, and rate base information for the first five years of operation. SEU
8 provided estimated cost of construction, estimated Advances in Aid of Construction ("AIAC"),
9 customer refundable connection fees and estimated Contributions in Aid of Construction ("CIAC") in
10 the form of hook-up fees ("HUFs").

11 23. There are two issues that remain in dispute following the conclusion of the hearing,
12 the filing of briefs, and the filing of late-filed exhibits. The two issues are: 1) SEU objects to Staff's
13 recommendation to remove CIAC in the form of HUFs from its water and wastewater rate base; and
14 2) SEU objects to Staff's recommended rate design for both its water and wastewater service which
15 result in higher initial rates, because of Staff's recommended removal of HUFs from water and
16 wastewater rate base. The Company is in agreement with Staff's recommendations on all other rate
17 issues.

18 **Fair Value Rate Base ("FVRB")**

19 24. For its water utility service, SEU proposes a FVRB at the end of five years of
20 \$1,456,494, with a net operating income of \$73,526, generated from 5.05 percent rate of return. For
21 the same time period, Staff recommends a water utility FVRB of \$3,086,256, with an estimated net
22 operating income of \$308,785, based on a 10 percent rate of return.¹⁹

23 25. For its wastewater utility service, SEU proposes a FVRB at the end of five years of
24 \$2,448,586, with a net operating income of \$143,102, resulting in a rate of return of 5.84 percent.
25 Staff's recommends a FVRB for wastewater utility service at the end of five years of \$3,461,108,
26 with a net operating income of \$347,392, based on a rate of return of 10 percent.

27
28 ¹⁹ Exhibit S-1 at Attachment C at 2.

1 26. The Company does not oppose Staff's recommended rate of return of 10 percent for
2 both its water and wastewater utility service.²⁰

3 **Plant-in-Service**

4 27. Staff recommends approval of SEU's pro forma Off-Site Water Facilities Plant-in-
5 Service in the amount of \$4,553,587.²¹

6 28. Staff recommends reducing the Company's proposed CIAC, in the form of HUFs,
7 from \$1,351,200 to \$0, resulting in an increase in the Company's proposed Water Facilities Plant-in-
8 Service from \$2,621,477 to \$3,972,677.²²

9 29. Staff recommends approval of the Company's pro forma AIAC for its water facilities
10 in the amount of \$21,309,000, and concurs with the Company's proposal that AIAC should be
11 refunded at a rate of five percent per year, until fully refunded.²³

12 30. For SEU's wastewater utility service, Staff recommends approval of SEU's pro forma
13 Off-Site Wastewater Plant-in-Service in the amount of \$5,573,809.²⁴ Staff recommends reducing the
14 Company's proposed CIAC, in the form of HUFs, from \$1,356,000 to \$0.²⁵

15 31. Staff recommends approval of the Company's pro forma AIAC for its wastewater
16 facilities in the amount of \$26,580,384, and Staff concurs with the Company's proposal that AIAC
17 should be refunded at a rate of five percent per year until fully refunded.²⁶

18 32. Staff states that it is the Commission's policy not to approve HUFs in initial CC&N
19 cases.²⁷ Although SEU argues that the Commission approved HUFs for Johnson, its sister company,
20 in its initial CC&N case, Staff opines that the Johnson case is an exception and not the rule for
21 approving HUFs in initial CC&N cases.²⁸ Staff states that it found no other cases where HUFs have
22 been approved by the Commission in an initial CC&N case.²⁹

23
24 ²⁰ Exhibit A-4 at 1.

25 ²¹ Exhibit S-1 at Attachment C at 3.

26 ²² *Id.* at 6.

27 ²³ Exhibit S-1 at Attachment C, Schedule MJR-W-1 and Tr. at 113.

28 ²⁴ Exhibit S-1 at Attachment C at 3.

²⁵ *Id.*

²⁶ Exhibit S-1 at Attachment C, Schedule MJR-W-1 and Tr. at 113.

²⁷ Staff's Responsive Brief at 1.

²⁸ *Id.*

²⁹ *Id.*

1 33. Staff argues that even though the Commission approved HUFs in Johnson’s initial
 2 CC&N case, the Commission later discontinued the HUFs in Decision No. 71854 (August 25, 2010),
 3 after fully vetting the HUFs during the Company’s first rate case.³⁰ Staff further stated that the
 4 Commission, “*sua sponte*, reinstated” HUFs for Johnson in Decision No. 72579 (September 15,
 5 2011), after having “examined the performance history of [Johnson] in a full rate case. . .”³¹ Staff
 6 asserts that the Commission does not have the benefit of examining SEU’s performance as a utility
 7 and that SEU and Johnson are separate legal entities, and SEU has no business history.³² Staff
 8 contends that because SEU is its own legal entity it “must stand on its own merit and establish that it
 9 is in the public interest for it to provide water and wastewater services to its customers.”³³

10 34. Staff argues that the potential for SEU to over rely on non-investor contributions to
 11 fund construction of the facilities needed to serve the CC&N area could lead to detrimental long-term
 12 financial issues for the Company. Staff states that the Commission addressed this issue in Decision
 13 No. 71414 (December 8, 2009), *The Application of H20, Inc. for a Determination of the Current*
 14 *Fair Value of its Utility Property and for an Increase in its Water Rates and Charges for Utility*
 15 *Service*. In Decision No. 71414, *H20* argued that its unexpended HUFs (CIAC and AIAC) should not
 16 be deducted from its rate base.³⁴ Staff states that in the *H20* case, the Commission stated that:

17 [I]f the Company is allowed to continue to collect hook-up fees and developer advances
 18 as the primary means of funding infrastructure, the short-term benefits associated with
 19 that strategy could result in devastating long-term consequences when the source of
 20 contributed capital no longer exists and customers alone are left to support a utility with
 21 minimal equity investment in its infrastructure. Under such a scenario, the only likely
 22 source of funds would be in the form of substantial, and likely frequent, rate increases
 23 because the utility has very little rate base upon which it would be entitled to earn a
 24 return. . . [T]he Company’s extreme reliance on customer supplied funds portends future
 25 calamity unless an infusion of investor capital occurs to bring H20’s capital structure
 26 more into balance. The absence of such investment could undermine substantially the
 27 Company’s future ability to provide the necessary capital to fund needed infrastructure
 28 investment.³⁵

35. Staff argues that its recommendation to eliminate SEU’s proposed HUFs will help to

³⁰ Staff’s Responsive Brief at 2.

³¹ *Id.*

³² *Id.*

³³ *Id.*

³⁴ Staff citing Decision No. 71414 at 4.

³⁵ *Id.* at 9.

1 ensure that SEU does not set itself up for financial failure and that Staff's recommendation is in the
 2 public interest. Staff also contends that granting HUFs should not be based on the Company's
 3 assertion that its proposal to fund 57.5 percent of the water and 67.18 percent of the wastewater
 4 facilities needed in the CC&N area, are the "proper proportions." Staff states that "it is not the fact of
 5 being invested, it is the degree thereof."

6 36. The Company opposes Staff's recommendation to eliminate HUFs from the
 7 Company's rate base for its proposed water and wastewater facilities. Staff recommended
 8 elimination of the HUFs for the water utility would result in an increase of \$1,629,762, to the
 9 Company's pro forma water rate base, and an increase of \$1,012,522 in the Company's pro forma
 10 wastewater rate base, at the end of five years.³⁶

11 37. SEU argues that Staff's recommendation to eliminate HUFs for new CC&Ns is
 12 inconsistent with the Commission's approval of HUFs for SEU's sister company, Johnson.³⁷ SEU
 13 states it requested approval of wastewater HUFs beginning at \$100 for a 4-inch sewer lateral and
 14 water HUFs starting at \$600 for a 5/8 x 3/4-inch meter. SEU asserts that HUFs were approved by the
 15 Commission in Johnson's initial CC&N for both its water and wastewater facilities.³⁸ SEU states
 16 that, in that Decision, the Commission approved HUFs for Johnson starting at \$750 for water and
 17 \$1,000 for wastewater and that the rates proposed by SEU in this case are similar to what was
 18 proposed in the Johnson case.³⁹

19 38. SEU also contends that HUFs will benefit ratepayers in that HUFs allow lower initial
 20 rates,⁴⁰ help mitigate risks by placing a greater financial burden on developers for the construction of
 21 new plant instead of on ratepayers,⁴¹ and that SEU's proposed HUFs do not represent a
 22 disproportionate share of the cost of constructing plant if approved.⁴² SEU argues that under its
 23 proposed HUFs, the Company will maintain an appropriate amount of equity in the business by
 24

25 ³⁶ Exhibit A-4 at 1.

26 ³⁷ *Id.* at 3.

27 ³⁸ Exhibit A-4 at 3, referencing Decision No. 60223 (May 27, 1997).

28 ³⁹ SEU's Closing Brief at 2 and Tr. at 59.

⁴⁰ Tr. at 23 and 30.

⁴¹ SEU states that HUFs "paid by developers reduce a utility's risk related to the potential that development will not be successful and that the anticipated customer base will not materialize."

⁴² Exhibit A-4 at 4.

1 funding 57.57 percent of the water and 67.81 percent of the wastewater plant-in-service.⁴³

2 39. SEU asserts that “the proposed equity percentages of 57.5 percent for water and 67.18
3 percent for wastewater, based on the proposed HUFs, are more than adequate for the Company to be
4 invested. We are not persuaded that the percentages presented by the Company accurately reflect the
5 overall percentage of plant to be funded by the Company. While the percentages quoted by the
6 Company reflect the amount of off-site water and wastewater plant the Company proposes to fund
7 with equity; the percentages do not represent the total amount of AIAC and CIAC the Company
8 proposes to collect to construct its water and wastewater facilities. SEU proposes to invest
9 \$2,621,477 of \$4,553,587, or 57.57 percent, in its off-site water facilities and \$1,829,550 of
10 \$5,573,809, or 67.18 percent, in its off-site wastewater facilities. The Company also proposes AIAC
11 in the amount of \$21,309,000 for its on-site water facilities for total plant-in-service in the amount of
12 \$25,862,587. For its on-site wastewater facilities, the Company proposes AIAC in the amount of
13 \$26,580,384 for total plant-in-service of \$32,154,193. The Company’s proposed total investment
14 (inclusive of AIAC and CIAC) represents an estimated 9.8 percent for its water facilities and 8.5
15 percent for wastewater.⁴⁴

16 40. We find persuasive Staff’s argument that, at this time, SEU has no performance
17 history as a utility on which to base the establishment of HUFs. We also find persuasive the potential
18 financial pitfalls articulated in the H2O Decision, where unexpended (collected, but not used) HUFs,
19 collected over an extended period of time, could result in financial instability for the utility, an
20 unbalanced capital structure, and uncertainty for ratepayers. Additionally, we find that Staff’s
21 recommendation to eliminate the proposed HUFs in this case is consistent with previous Commission
22 Decisions for initial CC&Ns. Therefore, we decline, at this time, to approve the collection of HUFs
23 for the Company’s water and wastewater facilities. Further, we will adopt Staff’s recommended
24 FVRB of \$3,086,256 for water and \$3,461,108 for wastewater at the end of the first five years of
25 utility service for the purposes of setting initial rates in this proceeding.

26 ...

27 ⁴³ SEU Closing Brief at 4, Exhibit S-1 at Attachment C at 3.

28 ⁴⁴ $\$25,862,587$ (total water plant-in-service) / $\$2,621,477$ (plant funded by SEU) = 9.5 percent. $\$32,154,193$ (total wastewater plant-in-service) / $\$3,744,259$ (plant funded by SEU) = 8.5 percent.

1 **Operating Revenues/Income/ Expenses**

2 41. There are no issues in dispute regarding revenues, expenses and income for the
3 Company's proposed water utility services. The Company does not oppose Staff's recommended
4 total operating revenues of \$1,437,945 for its water utility service for the first five years of
5 operations. On a going forward basis, Staff recommends operating expenses of \$1,129,161, an
6 operating income of \$308,785, based on a 10 percent return on Staff's adjusted rate base, (assuming
7 1,350 residential connections at the fifth year of operations). Staff's recommended operating income
8 is an upward adjustment of \$236,711 from the Company's proposed operating revenues of \$73,526.⁴⁵

9 42. Staff's recommended annual cash flow from operations for SEU's water utility service
10 for year five of operations is \$784,894.⁴⁶ The Company does not oppose Staff's recommended cash
11 flow for its water utility service.

12 43. Regarding its wastewater service, SEU did not oppose Staff's operating revenues of
13 \$1,586,840 at the end of five years and assuming 1,350 connections. Staff's recommended total
14 operating revenues were based on providing a 10 percent rate of return on Staff's adjusted rate base
15 (assuming 1,350 connections at the end of five years).⁴⁷

16 44. Staff's recommended annual cash flow from operations for the Company's wastewater
17 utility service is \$968,433 for year five of operations.⁴⁸ The Company does not oppose Staff's
18 recommended cash flow for its wastewater utility service.

19 **Central Arizona Groundwater Replenishment District ("CAGRDR")**

20 45. SEU seeks authorization for an adjuster mechanism to recover expenses related to its
21 desire to obtain membership in the CAGRDR. Because the Company's requested CC&N area is
22 located within the Pinal AMA, the Company states that it must enroll its water utility service in the
23 CAGRDR.⁴⁹ SEU states that as a water provider it would be responsible for paying tax assessment fees
24

25 _____
⁴⁵ Exhibit S-1 at Attachment C, Schedule MJR-W1 IS.

26 ⁴⁶ Exhibit S-1 at Attachment C at 4.

27 ⁴⁷ Staff's Notice of Filing Staff's Clarification Regarding Wastewater Expense docketed October 30, 2015, reduced
operating expenses by \$120,000, from \$1,239,447 to \$1,119,447, increasing operating income, from \$347,392, to
\$467,392 for a 13.50 percent rate of return.

28 ⁴⁸ Exhibit S-1 at Attachment C at 4.

⁴⁹ Tr. at 37.

1 for any excess groundwater that its uses in the CC&N area.⁵⁰ SEU seeks Commission approval to
 2 pass through those tax assessments to customers using a CAGRDR adjuster mechanism.⁵¹ SEU states
 3 that the Commission has previously approved a CAGRDR adjuster mechanism for Johnson, the
 4 assessment fees are not discretionary, and the mechanism is an appropriate way to pass through to
 5 customers the taxes associated with membership in the CAGRDR.⁵²

6 46. SEU states that in Commission Decision No. 71854 (August 25, 2010), the
 7 Commission described the history and purpose of the CAGRDR as follows:

8 The CAGRDR was established in 1993 by the Arizona legislature to serve as a
 9 groundwater replenishment entity for its members. The CAGRDR is operated by the
 10 Central Arizona Water Conservation District which operates the Central Arizona Project.
 11 The CAGRDR provides a mechanism for landowners and designated water supply
 12 providers to demonstrate a 100-year water supply under Arizona's assured water supply
 13 rule ("AWS Rules") which became effective in 1995. Members of the CAGRDR must pay
 14 the pumping limits imposed by the AWS Rules. The CAGRDR includes the Phoenix,
 15 Tucson, and Pinal active management areas ("AMAs"). Joining the CAGRDR is one of the
 16 steps in the process of becoming a designated provider, which means that a water
 17 provider has demonstrated to the Arizona Department of Water Resources ("ADWR")
 18 that it has a 100-year water supply. The AWS Rules were designed to protect
 19 groundwater supplies within each AMA and to ensure that people purchasing or leasing
 20 subdivided land with an AMA have a water supply of adequate quality and quantity. The
 21 AWS Rules require new subdivisions to demonstrate to ADWR that a 100- year water
 22 supply is available to serve the subdivision before home sales can begin. An assured
 23 water supply can be demonstrated in one of two ways: the subdivision owner can prove
 24 an assured water supply for the specific subdivision and receive a certificate of assured
 25 water supply ("CAWS") from ADWR or, alternatively, a subdivision owner can receive
 26 service from a city, town, or private water company that has been designated by ADWR
 27 as having a 100-year water supply.

28 The costs of the CAGRDR are covered by a replenishment assessment levied on CAGRDR
 members. Designated water providers such as Johnson Utilities⁵³ that serve a Member
 Service Area pay a replenishment tax directly to the CAGRDR according to the number of
 acre-feet of "excess groundwater" delivered with a provider's service area during a year.
 The amount due the CAGRDR is based on CAGRDR's total cost per acre-foot of recharging
 groundwater, including the capital costs of constructing recharge facilities, water
 acquisition costs, operation and maintenance costs and administrative costs.⁵⁴

47. Staff and the Company agree that the Commission has approved adjuster mechanisms

⁵⁰ Tr. at 37.

⁵¹ *Id.*

⁵² SEU Late-Filed Exhibit docketed October 30, 2015.

⁵³ Johnson Utilities was the applicant in this case.

⁵⁴ Decision No. 71854 at 35-37.

1 in order to advance important policy concerns and to protect the public interest. The parties also
 2 agree that conservation and wise stewardship of increasingly stressed water supplies is a matter of
 3 paramount concern in Arizona.⁵⁵

4 48. The Company has filed an application for a DAWS for the CC&N area.⁵⁶ The
 5 Company states that a DAWS will eliminate the need for individual developers to obtain a CAWS for
 6 their respective developments.⁵⁷ Staff and the Company have agreed that Staff's recommendation
 7 should be modified to allow the Company to file a DAWS in lieu of filing a CAWS for the various
 8 developments and we have adopted that recommendation in this Decision.⁵⁸

9 49. SEU requests that the Commission order that in the event the Company obtains a
 10 DAWS within two years from the date of this Decision, the Company may file a motion to amend
 11 this Decision prospectively, pursuant to A.R.S. § 40-252, to authorize a CAGRDR adjuster mechanism.

12 50. In Decision No. 71854, Staff recommended that the Commission approve an adjuster
 13 mechanism for Johnson to recover its tax assessment fees associated with the company's membership
 14 in the CAGRDR, inclusive of eight conditions that Staff believed were necessary to safeguard
 15 ratepayers.⁵⁹ Staff stated that the eight conditions would require the Company to keep the
 16 Commission closely informed of the CAGRDR fee calculation and would allow the Commission to
 17 closely monitor Johnson's collection of CAGRDR fees and Johnson's treatment of monies collected to
 18 pay the CAGRDR fees.⁶⁰

19 51. While we agree with Staff and SEU that a CAGRDR adjuster mechanism is an effective
 20 way of dealing with recovery of the cost associated with membership in the CAGRDR, we believe that
 21 some of the additional conditions articulated by Staff in Decision No. 71854 should be included in
 22 any future CAGRDR adjuster mechanism to safeguard ratepayers. Therefore, we find that it is
 23 reasonable to grant the Company's request that if it obtains a DAWS within two years of the effective
 24 date of this Decision, the Company may file a motion to amend this Decision prospectively pursuant
 25

26 ⁵⁵ SEU Late-Filed Exhibit docketed October 30, 2015.

27 ⁵⁶ *Id.*

28 ⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ Decision No. 71854 at 38.

⁶⁰ *Id.*

1 to A.R.S. § 40-252 to authorize a CAGR D adjuster mechanism. Further, we find that any future
 2 CAGR D adjuster mechanism approved in this docket should include, but is not limited to, the
 3 following additional conditions:

- 4 a. The Company shall, on a monthly basis, place all CAGR D monies
 5 collected from customers in a separate, interest bearing account ("CAGR D
 Account").
- 6 b. The only time the Company can withdraw money from the CAGR D
 7 Account is to pay the annual CAGR D fee to the CAGR D, which is due on
 8 October 15th of each year.
- 9 c. The Company shall provide to Staff a semi-annual report of the CAGR D
 10 Account and the CAGR D use fees collected from customers and paid to
 11 the CAGR D, with reports due during the last week of October and the last
 12 week of April each year.
- 13 d. The CAGR D adjuster fees shall be calculated as follows: The total
 14 CAGR D fees for the most current year in the Pinal AMA shall be divided
 15 by the gallons sold in that year to determine a CAGR D fee per 1,000
 16 gallons.
- 17 e. By August 25th of each year, beginning on the first year the Company is
 18 assessed CAGR D fees, the Company shall submit for Commission
 19 consideration its proposed CAGR D adjuster fees for the Pinal AMA,
 20 along with calculations and documentation from relevant state agencies to
 21 support the data used in the calculations. Failure to provide such
 22 documentation to Staff shall result in the immediate cessation of the
 23 CAGR D adjuster fee. Commission-approved fees shall become effective
 24 on the following October 1st.
- 25 f. If the CAGR D changes its current method of assessing fees (i.e. based on
 26 the current volume of water used by customers) to some other method,
 27 such as, but not limited to, future projection of water usage, or total water
 28 allocated to the Company, the Company's collection from customers of
 the CAGR D fees shall cease.

Flushing and/or Vaulting and Hauling Expense

52. Because the proposed CC&N encompasses 1,572 acres, Staff believes that it may be
 necessary for the Company to periodically flush its sewage lines and/or vault and haul sewage until
 there are sufficient flows to operate the WWTP effectively.⁶¹ Based on the Company's Preliminary
 Engineering Report, Staff's witness explained that "some of the large parcels in the Northeast and
 Southeast areas of the proposed CC&N area are estimated to only have 10 to 15 customers at the end
 of five years," which means waste will have to travel long distances (approximately one mile) to the

⁶¹ Exhibit S-1 at Attachment A at 2.

1 Company's proposed WWTP.⁶² Staff states that "for the waste to travel this distance, SEU will need
2 to flush its sewer lines on a frequent basis."⁶³

3 53. Staff also expressed concern that the operational costs for the proposed WWTP during
4 the first five years of development could be costly.⁶⁴ Staff's witness stated that because the
5 Company's proposed CC&N area encompasses 1,572 acres, and that construction during the first five
6 years will be focused on the entire CC&N area, Staff believes that the WWTP will be expensive to
7 operate during the first five years and that the Company may be required to frequently flush the sewer
8 lines and/or provide vaulting and hauling for a prolonged period of time.⁶⁵

9 54. Staff's witness explained that if the housing market slows down and SEU has
10 customers in every parcel of the CC&N area, it may be possible that vault and haul operations could
11 last for an extended period of time.⁶⁶ Staff testified that there have been cases where flushing and/or
12 vaulting and hauling has lasted more than five years. In addition to the high operational costs, Staff
13 states that odor from the WWTP is a concern.⁶⁷

14 55. Staff initially recommended a \$10,000 per month expense for flushing and/or vaulting
15 and hauling operations in the CC&N area during the first five years of operations.

16 56. The Company opposed Staff's recommendation to add the \$10,000 per month
17 expense for flushing and/or vaulting and hauling and argued that the costs should be "borne solely by
18 the developers pursuant to their respective collection main extension agreements" ("CMEA").⁶⁸ At
19 the conclusion of the hearing, Staff and the Company requested additional time to develop language
20 for a proposed tariff that would address the flushing and/or vaulting and hauling issue.

21 57. Post hearing, the Company submitted, and Staff agreed to, a proposed tariff (attached
22 hereto as Attachment B and incorporated herein) that sets forth the requirements to be used for SEU's
23 flushing and/or vaulting and hauling operations within the CC&N area.⁶⁹

24
25 ⁶² Exhibit S-1 at Attachment A.

26 ⁶³ *Id.*

27 ⁶⁴ *Id.*

28 ⁶⁵ *Id.*

⁶⁶ Tr. at 77.

⁶⁷ Tr. at 83.

⁶⁸ Exhibit A-4 at 2 and Tr. at 25.

⁶⁹ SEU's Late-Filed Exhibit docketed June 30, 2015.

1 58. The tariff states that there are two situations where WWTPs may temporarily need to
2 provide flushing and/or vaulting and hauling. The first scenario pertains to newly constructed
3 WWTPs where there are not enough users on the system to create sufficient flows to move the
4 sewage through the system. In those cases, sewage must be collected in a lift station and/or
5 underground vault and then pumped into tank trucks for disposal. This process is referred to as
6 vaulting and hauling. The second scenario involves moving solid waste through the systems
7 collection lines. The tariff states that when there are insufficient flows it may be necessary to flush
8 the collection lines in order to avoid accumulation of solids in the lines.

9 59. SEU's tariff states that it will seek reimbursement from developers through their
10 respective CMEAs for the costs associated with flushing and/or vaulting and hauling, and that SEU
11 shall notify developers in the CC&N area when there are sufficient wastewater flows whereby
12 flushing and/or vaulting and hauling are no longer necessary and developers are no longer being
13 billed for the hauling and/or vaulting and hauling operations.

14 60. SEU contends that other regulated utilities have required developers to pay for the
15 costs for flushing and/or vaulting and hauling until such time as there are sufficient flows to operate
16 the WWTP without flushing the sewer lines.⁷⁰ During testimony, SEU's witness stated that he was
17 aware that EPCOR Water has required the developer for the Corte Bella subdivision to pay the
18 expense of flushing and/or vaulting and hauling during the early stages of development.⁷¹ SEU states
19 that customers should not have to pay the cost for the initial start-up services for the WWTP.⁷²

20 61. Staff reviewed and agreed to the Company's proposed tariff related to flushing and/or
21 vaulting and hauling for the CC&N area. Staff also modified its recommended wastewater expenses
22 from \$1,239,447 to \$1,119,447 (at the end of five years) to reflect the elimination of the \$120,000 for
23 wastewater flushing expense.⁷³

24 62. Staff's modified recommendation removes the wastewater hauling expense for year
25 five operations from SEU total operating expenses. Although Staff removed the wastewater hauling

26 _____
27 ⁷⁰ Exhibit A-4 at 2 and Tr. at 26.

⁷¹ Tr. at 26.

⁷² Exhibit A-4 at 2.

28 ⁷³ Staff's Notice of Filing Staff's Clarification Regarding Wastewater Expense docketed October 30, 2015.

1 expense, Staff did not modify its recommended wastewater revenues to reflect the elimination of the
 2 wastewater hauling expense. As a result, the operating income from Staff's recommended
 3 wastewater revenues increased from \$347,392 to \$467,392 and the rate of return increased from 10
 4 percent to 13.5 percent for year five of operations.⁷⁴ Neither the Company nor Staff presented
 5 evidence demonstrating that a higher wastewater operating income was needed. Therefore, we find it
 6 appropriate to reduce Staff's recommended revenue requirement by \$120,000 (to reflect the
 7 elimination of the wastewater flushing and/or vaulting and hauling expense) from \$1,586,840 to
 8 \$1,466,840. Accordingly, Staff's recommended rates for the provision of wastewater, exclusive of
 9 effluent, should be reduced by 7.8 percent ($\$120,000/\$1,538,433$) to recover the revised revenue
 10 requirement of \$1,466,840.

11 63. We also find that the revenue requirement for SEU's water utility service is
 12 \$1,437,945, and operating expenses are \$1,129,161, to provide an operating income of \$308,785, a
 13 10 percent return on Staff's adjusted rate base, (assuming 1,350 residential connections at the end of
 14 the fifth year of operations). For SEU's wastewater utility service, we find that the Company has a
 15 revenue requirement of \$1,466,840, and operating expenses of \$1,119,447, to provide an operating
 16 income of \$347,392, and a 10 percent return on Staff's adjusted rate base, (assuming 1,350 residential
 17 connections at the end of the fifth year of operations).

18 64. Further, we find the Company's proposed flushing and/or vaulting and hauling tariff to
 19 be reasonable, and we will adopt it.

20 Rate Design

21 65. Under the Company's proposed initial water rates, the typical residential bill, using a
 22 ¾-inch meter and an average monthly usage of 7,500 gallons, would be \$52.36.⁷⁵

23 66. Staff's recommended water rates for the typical residential bill, using a ¾-inch meter
 24 and average monthly usage of 7,500 gallons, is estimated to be \$63.75.

25 67. Under the Company's proposal for initial wastewater rates, the typical residential bill
 26 for a customer using a ¾-inch lateral, would be a flat rate charge of \$67.88.⁷⁶ Using the Company's

27 ⁷⁴ Staff's Notice of Filing Staff's Clarification Regarding Wastewater Expense, Revised Schedule MJR-WW-1 IS.

28 ⁷⁵ Exhibit S-1 at Attachment C, Schedule MJR-W5.

⁷⁶ Exhibit S-1 at Attachment C, Schedule MJR-WW5.

1 proposed criteria, Staff's recommended wastewater rates would result in a typical residential bill of
2 \$88.37.⁷⁷

3 68. The Company and Staff's proposed rate structure and break over points do not differ
4 for water and wastewater rates.

5 69. The pro forma rates and charges proposed by the Company for water utility services,
6 and as recommended by Staff, are as follows:

	<u>Pro Forma</u> <u>Rates</u> <u>Company</u>	<u>Recommended</u> <u>Rates</u> <u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>		
5/8" x 3/4" Meter	\$23.25	\$24.00
5/8" x 3/4" Meter – Low Income	-	20.40
3/4" Meter	34.88	36.00
1" Meter	53.13	60.00
1" Meter – Low Income	-	51.00
1 1/2" Meter	116.25	120.00
2" Meter	186.00	192.00
3" Meter	372.00	384.00
4" Meter	581.25	600.00
6" Meter	1,162.50	1,200.00
8" Meter	-	1,920.00
10" Meter	-	2,760.00
<u>COMMODITY CHARGE</u>		
Charge per 1,000 gallons		
<u>All 5/8 x 3/4" and 3/4" meter sizes</u>		
<u>classes except irrigation</u>		
0 to 3,000 gallons	\$1.58	\$2.50
3,001 to 10,000 gallons	2.83	4.50
Over 10,000 gallons	4.08	6.19
<u>1" Meter</u>		
0 to 25,000 gallons	2.83	4.50
Over 25,000 gallons	4.08	6.19
<u>1 1/2" Meter</u>		
0 to 50,000 gallons	2.83	4.50
Over 50,000 gallons	4.08	6.19

27 ...

28 ⁷⁷ Exhibit S-1 at Attachment C, Schedule MJR-WW5.

1	<u>2" Meter</u>		
	0 to 80,000 gallons	2.83	4.50
2	Over 80,000 gallons	4.08	6.19
3	<u>3" Meter</u>		
	0 to 160,000 gallons	2.83	4.50
4	Over 160,000 gallons	4.08	6.19
5	<u>4" Meter</u>		
	0 to 250,000 gallons	2.83	4.50
6	Over 250,000 gallons	4.08	6.19
7			
8	<u>6" Meter</u>		
	0 to 500,000 gallons	2.83	4.50
9	Over 500,000 gallons	4.08	6.19
10	<u>8" Meter</u>		
	0 to 800,000 gallons	2.83	4.50
11	Over 800,000 gallons	4.08	6.19
12	Standpipe or bulk water per 1,000 gallons	4.08	6.19
13	<u>HOOK-UP FEE</u>		
14	<u>Meter Size</u>		
15	5/8" x 3/4" Meter	\$600.00	\$0.00
	3/4" Meter	900.00	0.00
16	1" Meter	1,500.00	0.00
17	1 1/2" Meter	3,000.00	0.00
	2" Meter	4,800.00	0.00
18	3" Meter	9,600.00	0.00
	4" Meter	15,000.00	0.00
19	6" Meter	30,000.00	0.00
20	<u>OTHER SERVICE CHARGES:</u>		
21	Establishment of Service (R14-2-403.D)	\$25.00	\$25.00
22	Establishment of Service (After Hours)	50.00	N/A
	Re-establishment (within 12 months)(R14-2-403.D.1.		(a)
23	Reconnection (Delinquent)(R14-2-403.D.1)	30.00	30.00
	Moving meter at customers request(R14-2-405.B.5)	At Cost	(b)
24	After Hours Service Charge (R14-2-403.D)	50.00	50.00
	Deposit (R14-2-403B.7)		(c)
25	Meter Test (if correct)(R14-2-408.F)	-	30.00
	Meter Reread (if correct)(R14-2-408.C)	15.00	15.00
26	NSF Check (R14-2-409.F.1)	40.00	40.00
27	Only one NSF charge can be charged if one check is returned that includes both water and wastewater payments		
28			

1	Late payment charge (per month)	1.50%	1.50%
1	Deferred Payment (per month) (R14-2	1.50%	1.50%
2	Deposit Interest (per year)(R14-2-403.B.3)	0%	(d)
2	Sales or Use tax		(e)

3 **SERVICE LINE AND METER INSTALLATION CHARGES:**
 4 **(Refundable pursuant to A.A.C. R14-2-40-5)**

5		<u>Staff</u>			
6	<u>Company</u>	<u>Recommended</u>	<u>Staff</u>	<u>Staff</u>	<u>Staff</u>
6	<u>Proposed</u>	<u>Service Line</u>	<u>Recommended</u>	<u>Meter Charges</u>	<u>Recommended</u>
6		<u>Charges</u>			<u>Total</u>
7	5/8" x 3/4" Meter	\$400.00	\$300.00	\$100.00	\$400.00
7	3/4" Meter	440.00	315.00	125.00	440.00
8	1" Meter	500.00	365.00	135.00	500.00
8	1 1/2" Meter	715.00	415.00	300.00	715.00
9	2" Meter (Turbine)	1,170.00	500.00	670.00	1,170.00
9	2" Meter (Compound)	1,700.00	700.00	1,000.00	1,700.00
10	3" Meter (Turbine)	1,585.00	715.00	870.00	1,585.00
10	3" Meter (Compound)	2,190.00	735.00	1,455.00	2,190.00
11	4" Meter (Turbine)	2,540.00	1,000.00	1,540.00	2,540.00
11	4" Meter (Compound)	3,215.00	1,215.00	2,000.00	3,215.00
12	6" Meter (Turbine)	4,815.00	1,815.00	3,000.00	4,815.00
12	6" Meter (Compound)	6,270.00	2,270.00	4,000.00	6,270.00

- 14 (a) Monthly minimum times months off the system if reconnected within 12 months.
- 15 (b) Cost to include parts, labor, overhead, and all applicable taxes, including income tax.
- 15 (c) Per A.A.C. Rule R14-2-403.B.7 – residential customer deposits shall not exceed two times the average residential class bill.
- 16 (d) Per A.A.C. Rule R14-2-403.B
- 17 (e) Per A.A.C. Rule R14-2-408.D.5 – In addition to the collecting of regular rates each utility may collect from its customers a proportionate share of any privilege, sales or use tax.

18 70. The pro forma rates and charges proposed by SEU for wastewater utility services, and
 19 as recommended by Staff, are as follows:

20		<u>Pro Forma</u>	<u>Recommended</u>
21		<u>Rates</u>	<u>Rates</u>
21		<u>Company</u>	<u>Staff</u>
22	<u>MONTHLY USAGE CHARGE:</u>		
23	5/8" x 3/4" Meter	\$45.25	58.91
24	5/8" x 3/4" Meter – Low Income	-	50.07
24	3/4" Meter	67.88	88.37
25	1" Meter	113.13	147.28
25	1" Meter – Low Income	-	125.18
26	1 1/2" Meter	226.25	294.55
26	2" Meter	362.00	471.28
27	3" Meter	724.00	942.56
28	4" Meter	1131.25	1472.75

1	6" Meter	2262.50	2945.50
	8" Meter	3620.00	4712.80
2	10" Meter	5203.75	6774.65
	12" Meter	-	

COMMODITY CHARGE

Charge per 1,000 gallons

5	Treated Effluent per 1,000 Gallons	\$1.00	\$1.00 ⁷⁸
6	Treated Effluent per acre foot	325.80	

HOOK-UP FEE

Meter Size

9	5/8" x 3/4" Meter	\$600.00	\$0.00
	3/4" Meter	900.00	0.00
10	1" Meter	1,500.00	0.00
	1 1/2" Meter	3,000.00	0.00
11	2" Meter	1,800.00	0.00
	3" Meter	8,600.00	0.00
12	4" Meter	15,000.00	0.00
13	6" Meter	30,000.00	0.00

OTHER SERVICE CHARGES:

15	Establishment of Service (R14-2-403.D.1)	\$25.00	\$25.00
16	Establishment of Service (After Hours) if sewer only	50.00	N/A
	Re-establishment (within 12 months)(R14-2-403.D.1.		(a)
17	Reconnection (Delinquent)(R14-2-403.D.1)	-	\$30.00
	(if wastewater customer only)		
18	After Hours Service Charge (R14-2-403.D) (if	50.00	50.00
	wastewater customer only, at customer's request)		
19	Deposit (R14-2-403B.7)		(b)
	Late Payment Penalty (per month)(R14-2-608.F)		(c)
20	Deferred Payment (per month)	1.50%	1.50%
	Deposit Interest (per year)(R14-2-603.B)		(d)
21	Main Extension and additional facility agreements	At Cost	(e)
	All revenue related taxes will be charged customers		(f)
22	NSF Check (R14-2-409.E.1)	\$40.00	\$40.00
	Only one NSF charge can be charged if one check is		(g)
23	returned that includes both water and wastewater		
	payments		
24	Service Line Connection Charge (refundable)	350.00	\$350.00

25 ...

26 ...

27 _____

⁷⁸ Staff initially recommended a Commodity Charge of \$0.63 per 1,000 gallons, but modified its position at hearing to concur with the Company's pro forma rate of \$1.00 per 1,000 gallons.

WATER LATERAL SERVICE

4" Meter	1,000.00	0.00
6" Meter	2,000.00	0.00
8" Meter	4,000.00	0.00

- (a) Monthly minimum if re-establishment of service is within 12 months.
- (b) Deposit Per R14-2-603.B.7.a – residential customers deposits shall not exceed two times the average residential class bill as evidenced by the utility’s most recent annual report filed with the Commission.
- (c) Per A.A.C. Rule R14-2-608-F – Late payment penalty
- (d) Per A.A.C. Rule R14-2-603.B.
- (e) Per A.A.C. Rule R-14-2-606 Cost to include parts, material, labor, overhead and all applicable taxes including income tax.
- (f) Per A.A.C. Rule R14-2-608.D.5 – In additions to the collection of regular rates each utility may collect from its customers a proportionate share of any privilege, sales or use tax, or other imposition based on the gross revenues received by the company.
- (g) The company will not provide sewer service separate from water service. The bills will be combined on one billing and there will only be one NSF Check fee.

71. Based on our findings above, we find Staff’s recommended rate design for SEU’s water utility service to be reasonable, and we will adopt it.

72. The Company does not oppose Staff’s recommended water utility service line and meter installation charges, and we will adopt them.

73. Based on our discussion above, modifying Staff’s recommended wastewater revenues to align with Staff’s adjusted recommended operating expenses (eliminating the wastewater flushing and/or vaulting and hauling expense), the final schedule of rates approved below reflect that, exclusive of effluent, the wastewater rates have been reduced by 7.8 percent.

74. Because an allowance for property tax expense is included in the Company’s rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission’s attention that a number of water companies have been unwilling or unable to fulfill their obligations to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, to SEU should annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current on its property taxes in Arizona.

...
...

CONCLUSIONS OF LAW

1
2 1. SEU Environmental Utilities, L.L.C. is a public service corporation within the
3 meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281, 40-282, and 40-285.

4 2. The Commission has jurisdiction over SEU Environmental Utilities, L.L.C. and the
5 subject matter of the Application.

6 3. Notice of the application was provided in accordance with the law.

7 4. There is a public need and necessity for water and wastewater service in the proposed
8 CC&N areas described in Exhibit A, attached hereto and incorporated herein by reference.

9 5. For setting initial rates, SEU's FVRB for its water utility service is \$3,086,256.

10 6. For setting initial rates, SEU's FVRB for its wastewater utility service is \$3,461,108.

11 7. The rates and charges and conditions of service established herein are just and
12 reasonable and are in the public interest.

13 8. SEU Environmental Utilities, L.L.C. is a fit and proper entity, subject to Staff's
14 recommendations as modified herein, to receive a CC&N to provide water and wastewater utility
15 service in the CC&N area.

16 9. Staff's recommendations, as modified herein, are reasonable and should be adopted.

ORDER

17
18 IT IS THEREFORE ORDERED that Southwest Environmental Utilities, L.L.C.'s application
19 for a Certificate of Convenience and Necessity to provide water and wastewater utility service to the
20 area more fully described herein as Exhibit A, attached hereto, is hereby granted subject to the
21 following Ordering Paragraphs.

22 IT IS FURTHER ORDERED that for the purpose of setting initial rates, Southwest
23 Environmental Utilities, L.L.C.'s fair value rate base for its water utility service is \$3,086,256.

24 IT IS FURTHER ORDERED that for the purpose of setting initial rates, Southwest
25 Environmental Utilities, L.L.C.'s fair value rate base for its wastewater utility service is \$3,461,108.

26 IT IS FURTHER ORDERED that the Curtailment Plan and Backflow Prevention Tariffs filed
27 in this docket by Southwest Environmental Utilities, L.L.C. are hereby approved.

28 ...

1 IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. shall use the
2 depreciation rates recommended by Staff for its water and wastewater utility service

3 IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. shall comply
4 with the minimum deposit charge as set forth in A.A.C. R14-2-403(B)(7).

5 IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. shall file
6 annually, with the Commission's Utilities Division, as part of its Annual Report, an affidavit attesting
7 that is current on its property taxes in Arizona.

8 IT IS FURTHER ORDERED that if Southwest Environmental Utilities, L.L.C. fails to
9 comply with the following Ordering Paragraphs (also set forth in Finding of Fact No. 11) the
10 Certificate of Convenience and Necessity approved herein shall be considered null and void after due
11 process.

12 IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. is hereby
13 authorized and directed to file with Docket Control, as a compliance item in this docket, a tariff
14 consistent with the rates and charges authorized herein within 30 days of the effective date of this
15 Decision.

16 **WATER RATES AND CHARGES**

17 **MONTHLY USAGE CHARGE:**

18	5/8" x 3/4" Meter	\$24.00
19	5/8" x 3/4" Meter – Low Income	20.40
20	3/4" Meter	36.00
21	1" Meter	60.00
22	1" Meter – Low Income	51.00
23	1 1/2" Meter	120.00
24	2" Meter	192.00
25	3" Meter	384.00
26	4" Meter	600.00
27	6" Meter	1,200.00
28	8" Meter	1,920.00
	10" Meter	2,760.00

26 **COMMODITY CHARGE**

27 Charge per 1,000 gallons

28 ...

1	<u>All 5/8 x 3/4" and 3/4" meter sizes</u>	
	<u>classes except irrigation</u>	
2	0 to 3,000 gallons	\$2.50
	3,001 to 10,000 gallons	4.50
3	Over 10,000 gallons	6.19
4	<u>1" Meter</u>	
5	0 to 25,000 gallons	4.50
	Over 25,000 gallons	6.19
6		
	<u>1 1/2" Meter</u>	
7	0 to 50,000 gallons	4.50
	Over 50,000 gallons	6.19
8		
	<u>2" Meter</u>	
9	0 to 80,000 gallons	4.50
10	Over 80,000 gallons	6.19
11		
	<u>3" Meter</u>	
12	0 to 160,000 gallons	4.50
	Over 160,000 gallons	6.19
13		
	<u>4" Meter</u>	
14	0 to 250,000 gallons	4.50
	Over 250,000 gallons	6.19
15		
	<u>6" Meter</u>	
16	0 to 500,000 gallons	4.50
17	Over 500,000 gallons	6.19
18		
	<u>8" Meter</u>	4.50
	0 to 800,000 gallons	6.19
19	Over 800,000 gallons	
20	Standpipe or bulk water per 1,000 gallons	6.19
21	...	
22	...	
23	...	
24	...	
25	...	
26	...	
27	...	
28		

OTHER SERVICE CHARGES:

Establishment of Service (R14-2-403.D)	\$25.00
Re-establishment (within 12 months)(R14-2-403.D.1.	(a)
Reconnection (Delinquent)(R14-2-403.D.1)	30.00
Moving meter at customers request(R14-2-405.B.5)	(b)
After Hours Service Charge (R14-2-403.D)	50.00
Deposit (R14-2-403B.7)	(c)
Meter Test (if correct)(R14-2-408.F)	30.00
Meter Reread (if correct)(R14-2-408.C)	15.00
NSF Check (R14-2-409.F.1)	40.00
Only one NSF charge can be charged if one check is returned that includes both water and wastewater payments	
Late payment charge (per month)	1.50%
Deferred Payment (per month) (R14-2	1.50%
Deposit Interest (per year)(R14-2-403.B.3)	(d)
Sales or Use tax	(e)

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-40-5)

	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>
5/8" x 3/4" Meter	\$300.00	\$100.00	\$400.00
3/4" Meter	315.00	125.00	440.00
1" Meter	365.00	135.00	500.00
1 1/2" Meter	415.00	300.00	715.00
2" Meter (Turbine)	500.00	670.00	1,170.00
2" Meter (Compound)	700.00	1,000.00	1,700.00
3" Meter (Turbine)	715.00	870.00	1,585.00
3" Meter (Compound)	735.00	1,455.00	2,190.00
4" Meter (Turbine)	1,000.00	1,540.00	2,540.00
4" Meter (Compound)	1,215.00	2,000.00	3,215.00
6" Meter (Turbine)	1,815.00	3,000.00	4,815.00
6" Meter (Compound)	2,270.00	4,000.00	6,270.00

- (a) Monthly minimum times months off the system if reconnected within 12 months.
- (b) Cost to include parts, labor, overhead, and all applicable taxes, including income tax.
- (c) Per A.A.C. Rule R14-2-403.B.7 – residential customer deposits shall not exceed two times the average residential class bill.
- (d) Per A.A.C. Rule R14-2-403.B
- (e) Per A.A.C. Rule R14-2-408.D.5 – In addition to the collecting of regular rates each utility may collect from its customers a proportionate share of any privilege, sales or use tax.

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

WASTEWATER RATES AND CHARGES**MONTHLY USAGE CHARGE:**

5/8" x 3/4" Meter	\$54.31
5/8" x 3/4" Meter – Low Income	46.16
3/4" Meter	81.48
1" Meter	135.79
1" Meter – Low Income	115.42
1 1/2" Meter	271.57
2" Meter	434.52
3" Meter	869.04
4" Meter	1,357.87
6" Meter	2,715.75
8" Meter	4,345.20
10" Meter	6,246.22
12" Meter	

COMMODITY CHARGE

Treated Effluent (per 1,000 Gallons)	\$1.00
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OTHER SERVICE CHARGES:

Establishment of Service (R14-2-403.D.1)	\$25.00
Re-establishment (within 12 months)(R14-2-403.D.1.	(a)
Reconnection (Delinquent)(R14-2-403.D.1)	\$30.00
(if wastewater customer only)	
After Hours Service Charge (R14-2-403.D)	50.00
(if wastewater customer only, at customer's request)	
Deposit (R14-2-403B.7)	(b)
Late Payment Penalty (per month)(R14-2-608.F)	(c)
Deferred Payment (per month)	1.50%
Deposit Interest (per year)(R14-2-603.B)	(d)
Main Extension and additional facility agreements	(e)
All revenue related taxes will be charged customers	(f)
NSF Check (R14-2-409.E.1)	\$40.00
Only one NSF charge can be charged if one check is	(g)
returned that includes both water and wastewater	
payments	
Service Line Connection Charge (refundable)	\$350.00

(a) Monthly minimum if re-establishment of service is within 12 months.

(b) Deposit Per R14-2-603.B.7.a – residential customers deposits shall not exceed two times the average residential class bill as evidenced by the utility's most recent annual report filed with the Commission.

(c) Per A.A.C. Rule R14-2-608-F – Late payment penalty

(d) Per A.A.C. Rule R14-2-603.B.

(e) Per A.A.C. Rule R-14-2-606 Cost to include parts, material, labor, overhead and all applicable taxes including income tax.

- 1 (f) Per A.A.C. Rule R14-2-608.D.5 – In additions to the collection of regular rates each utility
2 may collect from its customers a proportionate share of any privilege, sales or use tax, or other
3 imposition based on the gross revenues received by the company.
- 4 (g) The company will not provide sewer service separate from water service. The bills will be
5 combined on one billing and there will only be one NSF Check fee.

6 IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. shall file
7 with Docket Control, as a compliance item in this docket, a notice with the Commission within
8 15 days of providing service to its first customer.

9 IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. shall file a
10 rate application no later than six months following the fifth anniversary of the date the Company
11 begins providing service to its first customer.

12 IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. shall file
13 with Docket Control, as a compliance item in this docket, a copy of the Aquifer Protection
14 Permit for Phase I of this development within (2) years of the effective date of this Decision.

15 IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. shall file
16 with Docket Control, as a compliance item in this docket, a copy of the Arizona Department of
17 Environmental Quality Certificate of Approval to Construct for the proposed water facilities for
18 the first parcel of each development in the requested areas within (2) years of the effective date
19 of this Decision.

20 IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. shall file
21 with Docket Control, as a compliance item in this docket, a copy of Arizona Department of
22 Water Resources Designation of Assured Water Supply for the requested areas within (2) years
23 of the effective date of this Decision.

24 IT IS FURTHER ORDERED that if Southwest Environmental Utilities, L.L.C. obtains a
25 Designation of Assured Water Supply within two years of the effective date of this Decision, the
26 Company may file a motion to amend this Decision prospectively, pursuant to A.R.S. § 40-252,
27 to authorize a CAGR D Adjuster Mechanism.

28 IT IS FURTHER ORDERED that any future CAGR D Adjuster Mechanism approved in this
docket by the Commission shall include, but is not limited to, the following additional conditions:

- a. Southwest Environmental Utilities, L.L.C. shall, on a monthly basis, place
all CAGR D monies collected from customers in a separate, interest

bearing account ("CAGR D Account").

- b. The only time Southwest Environmental Utilities, L.L.C. can withdraw money from the CAGR D Account is to pay the annual CAGR D fee to the CAGR D, which is due on October 15th of each year.
- c. Southwest Environmental Utilities, L.L.C. shall provide to Staff a semi-annual report of the CAGR D Account and the CAGR D use fees collected from customers and paid to the CAGR D, with reports due during the last week of October and the last week of April each year.
- d. The CAGR D adjuster fees shall be calculated as follows: The total CAGR D fees for the most current year in the Pinal AMA shall be divided by the gallons sold in that year to determine a CAGR D fee per 1,000 gallons.
- e. By August 25th of each year, beginning on the first year Southwest Environmental Utilities, L.L.C. is assessed CAGR D fees, the Company shall submit for Commission consideration its proposed CAGR D adjuster fees for the Pinal AMA, along with calculations and documentation from relevant state agencies to support the data used in the calculations. Failure to provide such documentation to Staff shall result in the immediate cessation of the CAGR D adjuster fee. Commission-approved fees shall become effective on the following October 1st.
- f. If the CAGR D changes its current method of assessing fees (i.e. based on the current volume of water used by customers) to some other method, such as, but not limited to, future projection of water usage, or total water allocated to Southwest Environmental Utilities, L.L.C, the Company's collection from customers of the CAGR D fees shall cease.

IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. shall file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least five Best Management Practice Tariffs in the form of tariffs that substantially conform to the templates created by Staff for the Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may request cost recovery of actual costs associated with the Best Management Practices implemented in its next general rate application.

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1 IT IS FURTHER ORDERED that Southwest Environmental Utilities, L.L.C. shall maintain its
2 books and records in accordance with the National Association of Regulatory Utility Commissioners
3 Uniform System of Accounts.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

6
7 CHAIRMAN

COMMISSIONER

8
9 COMMISSIONER

COMMISSIONER

COMMISSIONER

10
11 IN WITNESS WHEREOF, I, JODI JERICH, Executive
12 Director of the Arizona Corporation Commission, have
13 hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this _____ day of _____ 2015.

16 JODI JERICH
17 EXECUTIVE DIRECTOR

18 DISSENT _____

19
20 DISSENT _____
YK:tv(ru)

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1 SERVICE LIST FOR: SOUTHWEST ENVIRONMENTAL UTILITIES, L.L.C.

2 DOCKET NO.: WS-20878A-13-0065

3
4 Jeffrey W. Crockett
5 CROCKETT LAW GROUP, PLLC
6 1702 E. Highland Ave., Suite 204
7 Phoenix, AZ 85016
8 Attorneys for Southwest Environmental
9 Utilities, L.L.C.

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

10 Thomas Broderick, Director
11 Utilities Division
12 ARIZONA CORPORATION COMMISSION
13 1200 West Washington Street
14 Phoenix, AZ 85007

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EXHIBIT A
LEGAL DESCRIPTIONS
FOR
SOUTHWEST ENVIRONMENTAL UTILITIES, LLC.
CC&N

CONSISTING OF 2 PARCELS DESCRIBED AS FOLLOWS

BEING PORTIONS OF SECTION 12 TOWNSHIP 5 SOUTH, RANGE 9 EAST AND
SECTIONS 7, 8, 17, AND 18, TOWNSHIP 5 SOUTH RANGE 10 EAST OF
THE GILA AND SALT RIVER BASE AND MERIDIAN, PINAL COUNTY, ARIZONA
AND DESCRIBED AS FOLLOWS:

PARCEL 1

BEGINNING AT THE SOUTHWEST CORNER OF SAID SECTION 18,

THENCE N.00°24'15"E., ALONG THE WEST LINE OF SAID SECTION 18, A DISTANCE
OF 2653.09 FEET TO THE WEST QUARTER CORNER OF SAID SECTION 18;

THENCE N.00°34'14"E., CONTINUING ALONG SAID WEST LINE, A DISTANCE OF
2598.88 FEET TO THE NORTHWEST CORNER OF SAID SECTION 18;

THENCE N.89°29'42"E., ALONG THE NORTH LINE OF SAID SECTION 18. A
DISTANCE OF 409.56 FEET;

THENCE LEAVING SAID NORTH LINE OF SAID SECTION 18, N.15°25'20"W., A
DISTANCE OF 108.55 FEET;

THENCE N.24°57'43"W., A DISTANCE OF 115.42 FEET;

THENCE N.17°44'42"W., A DISTANCE OF 236.79 FEET;

THENCE N.39°36'06"W., A DISTANCE OF 257.56 FEET;

THENCE N.50°11'31"W., A DISTANCE OF 84.54 FEET;

THENCE N.01°08'06"W., A DISTANCE OF 182.25 FEET;

THENCE N.05°42'39"E., A DISTANCE OF 108.79 FEET;

THENCE N.03°00'49"W., A DISTANCE OF 171.63 FEET;

THENCE N.26°33'54"W., A DISTANCE OF 40.22 FEET TO A POINT ON THE WEST LINE OF SAID SECTION 7;

THENCE N.00°31'20"E. ALONG THE WEST LINE OF SAID SECTION 7, A DISTANCE OF 1516.91 FEET TO THE WEST QUARTER CORNER OF SAID SECTION 7;

THENCE N.00°24'19"E. ALONG THE WEST LINE OF SAID SECTION 7, A DISTANCE OF 2582.92 FEET TO THE NORTHWEST CORNER OF SAID SECTION 7;

THENCE N.89°42'17"E. ALONG THE NORTH LINE OF SAID SECTION 7, A DISTANCE OF 2446.83 FEET TO THE NORTH QUARTER CORNER OF SAID SECTION 7;

THENCE N.89°42'22"E. CONTINUING ALONG SAID NORTH LINE OF SAID WEST HALF, A DISTANCE OF 1126.07 FEET;

THENCE S.00°20'26"E., A DISTANCE OF 1321.30 FEET;

THENCE N.89°16'52"E., A DISTANCE OF 658.03 FEET;

THENCE S.00°31'36"E., A DISTANCE OF 661.20 FEET;

THENCE S.89°57'19"E., A DISTANCE OF 660.17 FEET TO A POINT ON THE EAST LINE OF SAID SECTION 7, SAID POINT BEING S.00°19'40"E., A DISTANCE OF 1981.58 FEET FROM THE NORTHEAST CORNER OF SAID SECTION 8;

THENCE N.89°41'14"E., A DISTANCE OF 2649.31 FEET; TO A POINT ON THE NORTH-SOUTH MID SECTION LINE OF SAID SECTION 8;

THENCE S.00°19'50"E., ALONG THE SAID NORTH-SOUTH MID SECTION LINE A DISTANCE OF 661.63 FEET, TO THE CENTER OF SAID SECTION 8;

THENCE S.00°19'50"E., ALONG THE SAID NORTH-SOUTH MID SECTION LINE A DISTANCE OF 2642.50 FEET, TO THE SOUTH QUARTER CORNER OF SAID SECTION 8 AND THE NORTH QUARTER CORNER OF SECTION 17;

THENCE S.00°16'36"E., ALONG THE NORTH-SOUTH MID SECTION LINE OF SAID SECTION 17 A DISTANCE OF 4452.50 FEET, TO A POINT

THENCE LEAVING SAID NORTH-SOUTH MID SECTION LINE N.90°00'00"E., A DISTANCE OF 1316.41 FEET;

THENCE S.01°00'09"E., A DISTANCE OF 826.94 FEET, TO A POINT ON THE SOUTH LINE OF SAID SECTION 17, SAID POINT BEING N.89°45'22"E A DISTANCE OF 1324.35 FEET FROM THE SOUTHEAST CORNER OF SAID SECTION 17;

THENCE S.89°45'24"W., ALONG THE SAID SOUTH LINE OF SAID SECTION 17 A DISTANCE OF 1324.35 FEET, TO THE SOUTH QUARTER CORNER OF SAID SECTION 17;

THENCE S.89°45'41"W., CONTINUING ALONG THE SAID SOUTH LINE OF SAID SECTION 17 A DISTANCE OF 2648.72 FEET, TO THE SOUTHWEST CORNER OF SAID SECTION 17;

THENCE N.00°18'43"W., ALONG THE WEST LINE OF SAID SECTION 17 A DISTANCE OF 2641.52 FEET, TO THE WEST QUARTER CORNER OF SAID SECTION 17 AND THE EAST QUARTER CORNER OF SECTION 18;

THENCE N.89°51'00"W., ALONG THE EAST-WEST MID SECTION LINE OF SAID SECTION A DISTANCE OF 2641.96 FEET, TO THE CENTER OF SAID SECTION 18;

THENCE S.00°15'32"E., ALONG NORTH-SOUTH MID SECTION LINE, A DISTANCE OF 2646.01 FEET TO THE SOUTH QUARTER CORNER OF SAID SECTION 18;

THENCE S.89°58'47"W., ALONG THE SOUTH LINE OF SAID SECTION 18 A DISTANCE OF 2396.08 FEET, TO THE SOUTHWEST CORNER OF SAID SECTION 18; AND THE POINT OF BEGINNING FOR PARCEL 1.

EXCEPT THE NORTHEAST QUARTER OF THE NORTHWEST QUARTER, THE NORTHWEST QUARTER OF THE NORTHWEST QUARTER AND THE SOUTHWEST QUARTER OF THE NORTHWEST QUARTER OF SAID SECTION 7, OTHERWISE KNOWN AS PARCELS 3, 4, AND 5 OF FINISTERRE RANCHETTES AS SHOWN ON BOOK 1 OF RECORDS OF SURVEY, PAGE 93, PINAL COUNTY RECORDER.

THE ABOVE DESCRIBED PARCEL 1 CONTAINS 1,430 ACRES MORE OR LESS

PARCEL 2

BEGINNING AT THE SOUTHWEST CORNER OF SAID SECTION 12,

THENCE N.00°10'32"W., ALONG THE WEST LINE OF SAID SECTION 12, A DISTANCE OF 2678.11 FEET;

THENCE N.89°57'33"E., A DISTANCE OF 1549.82 FEET;

THENCE S.00°00'57"E., A DISTANCE OF 916.20 FEET;

THENCE N.89°45'56"E., A DISTANCE OF 985.61 FEET;

THENCE N.00°00'57"W., A DISTANCE OF 803.25 FEET TO A POINT ON THE SOUTHERLY RIGHT OF WAY LINE FOR EAST SALAZAR ROAD;

THENCE S.73°06'18"E. ALONG SAID SOUTHERLY RIGHT OF WAY LINE A DISTANCE OF 999.04 FEET TO A POINT ON THE SOUTHERLY RIGHT OF WAY LINE FOR US HIGHWAY 79;

THENCE S.30°22'30"E. ALONG SAID SOUTHERLY RIGHT OF WAY LINE A DISTANCE OF 2639.38 FEET TO A POINT ON THE SOUTHERLY LINE OF SAID SECTION 12;

THENCE S.89°57'58"W. ALONG SAID SOUTHERLY LINE A DISTANCE OF 4817.78 FEET TO THE POINT OF BEGINNING FOR PARCEL 2

EXCEPT THE FOLLOWING DESCRIBED PARCEL;

BEGINNING AT THE SOUTHWEST CORNER OF SAID SECTION 12,

THENCE N.00°10'32"W., ALONG THE WEST LINE OF SAID SECTION 12, A DISTANCE OF 2678.11 FEET;

THENCE N.89°57'33"E., A DISTANCE OF 1549.82 FEET;

THENCE S.00°00'57"E., A DISTANCE OF 916.20 FEET;

THENCE CONTINUE S.00°00'57"E., A DISTANCE OF 1762.08 FEET;

THENCE S.89°57'58"W. ALONG SAID SOUTHERLY LINE A DISTANCE OF 1542.34 FEET TO THE POINT OF BEGINNING.

THE ABOVE DESCRIBED PARCEL 2 CONTAINS 128 ACRES MORE OR LESS.

NOTE: THIS LEGAL DESCRIPTION IS FOR CC&N PURPOSES ONLY AND DOES NOT REPRESENT THE RESULTS OF AN ACTUAL FIELD SURVEY.

Southwest Environmental Utilities, L.L.C.

Sheet No. ____

EXHIBIT B

Docket WS-20878A-13-0065

Cancelling Sheet No. ____

Tariff Schedule VH: Vaulting and Hauling and/or Flushing Sewer Lines**1. General.**

There are two circumstances whereby a wastewater treatment plant and collection system require temporary additional procedures in order to function properly. First, a newly constructed wastewater treatment plant requires a minimum inflow of sewage to operate properly. Where there are insufficient users on the system to produce the required minimum inflow, sewage must be collected in a lift station and/or underground vault and periodically pumped into a tank truck as needed for disposal at another wastewater treatment plant. This process, referred to herein as vaulting and hauling, may be discontinued once the required minimum inflow is reached on a sustained basis.

Second, in order to prevent the accumulation of sewage solids in the sewage collection lines, the collection system is engineered to achieve a minimum flow velocity. The minimum flow velocity at which no solids accumulate on the bottom of the sewage lines is called self-cleaning flow velocity. When home sales first commence in a new subdivision, there is relatively little sewage produced and discharged into the collection system. As a result, there may be insufficient flow to move the sewage solids through the collection system to the wastewater treatment plant. In such event, the collection system will require periodic flushing with water until such time as there are sufficient inflows to reach self-cleaning flow velocity. The flushing process may be discontinued once self-cleaning flow velocity is reached on a sustained basis.

2. Applicability.

This Tariff Schedule VH applies to any person or entity (hereinafter, "Customer" or "Developer") signing a collection main extension agreement ("CMEA") with the Company.

3. Customer Responsibility.

A. Vaulting and Hauling. Until such time as, in the Company's determination, the Company's wastewater treatment plant receives the required sustained minimum sewage inflow to operate properly based on sound engineering principles, the Company shall be responsible for vaulting and hauling the sewage collected from all lots covered under the CMEA. The Developer shall reimburse the Company at cost for any of the costs of vaulting and hauling. Once the required minimum sewage inflow is reached on a sustained basis, the Company shall notify the Developer in writing that the vaulting and hauling has been discontinued and the Customer will no longer be billed for vaulting and hauling.

B. Flushing Collection Lines. Until such time as, in the Company's determination, sewage inflows from any subdivision or commercial development subject to a CMEA reach self-cleaning flow

Issued: [TBD]

ISSUED BY:

Effective: [TBD]

Southwest Environmental Utilities, L.L.C.
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velocity, the Company shall be responsible for periodically flushing the collection lines within the subdivision or development to prevent the accumulation of sewage solids in the collection lines. The Developer shall reimburse the Company at cost for any of the costs of flushing. Once self-cleaning flow velocity is reached for a subdivision or commercial development on a sustained basis, the Company shall notify the Customer in writing that the flushing has been discontinued and that the Customer will no longer be billed for flushing.

4. Charges.

The Company shall render a bill to the Developer on a monthly basis for actual costs of vaulting and hauling and/or flushing the collection lines, which costs shall include all applicable service charges and applicable taxes.

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