ORIGINAL

COMMISSIONERS
DOUG LITTLE – Interim Chairman
BOB STUMP
BOB BURNS
TOM FORESE

OPEN MEETING ITEM

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Executive Director

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2016 JAN 26 P 2: 55

AZ CORP COMMISSION
DOCKET CONTROL

ARIZONA CORPORATION COMMISSION

DATE: JANUARY 26, 2016

DOCKET NO.: W-02168A-15-0369

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 Order on:

TRUXTON CANYON WATER COMPANY, INC.
(FINANCING)

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:

JANUARY 29, 2016

The parties have waived the 10 days for filing of exceptions

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:

FEBRUARY 2, 2016 AND FEBRUARY 3, 2016

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
JAN 26 2016
DOCKETED BY

JODI A. JERICH
EXECUTIVE DIRECTOR

This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE – Interim Chairman
BOB STUMP
BOB BURNS
TOM FORESE
VACANT

IN THE MATTER OF THE APPLICATION OF TRUXTON CANYON WATER COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT.	DOCKET NO. W-02168A-15-0369 DECISION NO. _____ **ORDER**

Open Meeting
February 2 and 3, 2016
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

Procedural History

1. On October 30, 2015, Truxton Canyon Water Company, Inc. ("Truxton" or "Company") filed with the Arizona Corporation Commission ("Commission") an application requesting authorization to incur long-term debt in the amount of $348,615, to construct an arsenic treatment plant and for the facilities needed to house the arsenic treatment plant. The application also stated that in Decision No. 74835 (November 14, 2014) the Commission authorized the Company to obtain financing in the amount of $259,800 to construct the arsenic treatment plant, but that an additional $100,815 is needed to construct a building to house the arsenic treatment plant.[1]

2. Between December 7 and December 9, 2015, three consumer comments were filed in

[1] In Decision No. 74835, the Commission ordered the Neal Family Trust ("Trust") to transfer the building that would house the arsenic treatment plant to Truxton. Subsequently, in Decision No. 75320 (November 30, 2015) the Commission amended Decision No. 74835 by removing the requirement that the Trust transfer the building that would house the arsenic treatment plant to Truxton.

this docket in support of the Company's finance application.

3. On December 28, 2015, Truxton filed an amended application requesting authorization to incur additional debt in the amount of $4,000, to cover costs associated with obtaining permits for a new approval to construct ("ATC") as required by the Arizona Department of Environmental Quality ("ADEQ") for the arsenic treatment plant. The amended application seeks authorization to finance long-term debt in the amount of $364,615.

4. On January 5, 2016, Truxton docketed a Filing of Public Notice of Application stating that notice had been mailed to each of its customers on or before November 30, 2015.

5. On January 7, 2016, the Commission's Utilities Division ("Staff") filed a Staff Report recommending approval of the amended application subject to Staff's recommendations and conditions.

6. On January 12, 2016, Truxton filed a Response to Staff Report; Motion to Expedite the Recommended Opinion and Order; and Waiver of the Exception Period ("Response"). Truxton's Response stated that the Company agrees with Staff's analysis for the most part, and that the difference between Staff's and the Company's analysis is *de minimus*. Therefore, the Company stated it does not object to Staff's recommendations. Further, the Response requested that the Recommended Opinion and Order in this matter be expedited to allow the Company time to meet ADEQ requirements, and for the arsenic treatment plant to be built and operational within six months.

Water System/Compliance

7. Truxton is an Arizona public service corporation providing water utility service to approximately 950 residential and commercial customers in the vicinity of Kingman, Arizona in Mohave County.

8. Truxton's water system consists of five active wells, a storage capacity of 580,000 gallons, and a distribution system. Truxton's water system also includes three inactive wells and one inactive 20,000 gallon storage tank.

9. ADEQ has determined that Truxton's water system has major deficiencies in operations and monitoring. According to an ADEQ Drinking Water Compliance Status Report dated April 1, 2015, ADEQ is unable to determine if Truxton's water system is currently delivering water that meets

water quality standards as set forth in 40 CFR 141 and Arizona Administrative Code ("A.A.C.") Title 18, Chapter 4. ADEQ has listed the following deficiencies for Truxton's water system:

a. Arsenic level exceeds maximum contaminant levels of 10 parts per billion ("ppb") and the Company has failed to meet the December 12, 2012 deadline, to submit an ATC for installation of the required arsenic treatment system.

b. The Company's sampling procedure and/or sampling equipment used to test for maximum residual disinfection levels is questionable.

c. The Company's monitoring for Stage 1 and Stage 2 disinfection of byproducts is deficient.

10. The Commission's Utilities Division Compliance Section reported that as of December 2, 2015, Truxton had two delinquent compliance items.

11. Truxton's CC&N area is not located in an Active Management Area ("AMA") as designated by Arizona Department of Water Resources ("ADWR"). ADWR has determined that the Company's water system is currently in compliance with departmental requirements governing water providers and/or community water systems.[2]

12. Due to the Company's ongoing ADEQ compliance issues, in Decision No. 74835 the Commission authorized Truxton to borrow $259,800 from the Water Infrastructure Finance Authority ("WIFA") to pay for the construction of an arsenic treatment plant. In addition, the Company's amended application requests approval to borrow an additional $100,815 to construct a building to house the arsenic treatment plant, and $4,000 to recover costs associated with obtaining required ADEQ ATC permits.

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[2] ADWR Compliance Reported dated November 3, 2015.

13. Staff reviewed the Company's proposed project and engineering costs for the construction of an aluminum metal frame building and site preparation. Below are the Company's proposed plant additions and associated costs, and Staff's recommended adjustments:

Description	Company's Estimated Cost	Staff's Recommended Adjustments	Staff's Recommended Costs
A manufactured 24' x 36' x 16' metal frame building (including roof, wall, one main door, one overhead door) including labor and expense	$43,500		$43,500[4]
24' x 36' concrete slab for the building (including labor expense)	$7,800		$7,800[4]
Power (temporary supply)	$5,000		$5,000
Permit	$1,500	+$4,000[1]	$5,500
Site grading	$8,200		$8,200[4]
Electrical (including power line extension control panel)	$4,500	-$4,500[2]	0
Subtotal	$70,500	-$500	$70,000
Contingency	$14,100		$14,100
Legal/Administration Fee 5%	$3,525		$3,525
Engineering fee (structure engineering) – 5%	$3,525		$3,525
Contractor's Overhead (10%)	$9,165	-$9,165[3]	0
Totals	**$100,815**	**-$9,665**	**$91,150**

Note: 1. In a subsequent filing the Company informed Staff that a new approval to construct for the arsenic treatment plant will be needed at a cost of $4,000.
2. Item and its costs have been approved in Decision No. 74835.
3. Staff believes that the Contractor's Overhead is accounted for in the Contingency expense.
4. The cost includes Davis Bacon wages.

14. Staff recommends a downward adjustment of $9,665 from the Company's proposed $100,815 to $91,150, to remove costs that were previously approved in Decision No. 74835, and to remove contractor overhead costs that were included in contingency fees.[3]

15. Staff recommends that the Commission authorize Truxton to borrow a total amount of $350,950 (consisting of $259,800 for the arsenic treatment plant approved in Decision No. 74835 and $91,150 for the building used to house the arsenic treatment plant and ADEQ permit fees).

16. Staff believes its recommended adjustments are reasonable and recommends that the Commission adopt them. However, Staff states it made no "used and useful" determination for the proposed plant and that no conclusion should be inferred for future rate making or rate base purposes.

17. Staff also recommends that if a new ATC is issued by ADEQ for the arsenic treatment plant, that Truxton file with Docket Control, as a compliance item in this docket, a copy of the ATC within 45 days of its issuance.

18. In Decision No. 74835, the Commission approved financing for the Company's proposed arsenic treatment plant through WIFA. The Company's application did not specify the amortization period for the proposed WIFA loan. Staff states that the typical amortization period for WIFA is 20 years; however, Staff states the actual period will not be known until the loan is closed. Staff used a 20-year amortization period for purposes of analyzing debt service on the loan.

19. To determine the revenue needed to cover debt service on Staff's recommended WIFA loan amount of $350,950, Staff used a pro forma interest rate of 5.25 amortized over 20 years.[4]

20. Staff determined that at as of December 31, 2014, Truxton had a capital structure that consisted of no equity and no debt.[5] Staff also determined that the pro forma effect of Truxton drawing the entire proposed loan amount of $350,950 would result in a capital structure comprised of 3.2 percent short-term debt, 96.8 percent long-term debt, and zero percent equity.[6]

21. Based on Staff's pro forma calculations, Staff estimates that the Company will need to generate additional cash flow in the amount of $40,681.57 through the surcharge to cover service on

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[3] Staff Report at 1.
[4] *Id.*
[5] *Id.* at 2.
[6] Staff Schedule CSB-2.

the loan.[7] Under Staff's recommended pro forma surcharge, a typical ¾-inch meter customer will be required to pay a monthly surcharge of $2.02.

22. Based on Staff's pro forma calculations, Staff increased total operating revenues by $40,682 from Staff adjusted base revenues of $549,886, to $590,568, to recognize WIFA surcharge revenues.[8] Staff therefore made pro forma adjustments to operating expenses, increasing depreciation expense from $9,579 to $21,188, and increasing income tax expense from $16,061 to $22,688, which results in total pro forma operating expenses of $514,506.[9]

23. Staff's proposed estimated WIFA surcharge (including loan principal and interest), would result in a debt service coverage ratio ("DSC") of 3.43 after tax.[10] Staff stated a DSC ratio represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt.[11] Staff also stated that a DSC of greater than 1.0 indicates that cash flow from operations is sufficient to cover expected debt service and a DSC of less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is necessary to preclude default on the debt obligation. [12]

24. Based on Staff's adjusted end of year financial statements for Truxton, Staff concluded that Truxton's DSC is not meaningful because the Company has no debt. Staff stated that its recommended pro forma after tax DSC of 3.43 shows that Truxton will have adequate cash flow to meet all obligations on the proposed loan through collection of the surcharge.[13]

25. Staff stated that it has been in frequent communication with the Company, WIFA and ADEQ regarding the processing of this financing application. According to Staff, ADEQ is requiring Truxton to complete construction of the arsenic treatment plant on or before June 30, 2016, and in order to meet ADEQ's deadline, the Company must obtain the WIFA approval so that the Company may begin constructing the arsenic treatment facility by no later than March 2016. Staff stated that in order for the Company to meet all of the above deadlines, WIFA has agreed to consider the Company's

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[7] Staff Schedule CSB-3.
[8] *Id.* at 2.
[9] *Id.*
[10] Staff Report at 3.
[11] *Id.*
[12] *Id.*
[13] *Id.*

WIFA loan application at its next board meeting scheduled for February 17, 2016. Therefore, Staff requested the Commission consider this matter at its February 2, 2016 Open Meeting.

26. Staff recommends:

a. The Commission approve Staff's recommended finance amount of $350,950 and that the surcharge mechanism approved in Decision No. 74835 apply to the total Staff recommended loan amount. Further, Staff states a surcharge based on Staff's recommended finance amount of $350,950 may result in a surcharge of $2.02 per month for 3/4-inch metered customers.

b. The Company file with the Commission a WIFA loan surcharge tariff that will enable to Company to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan.

c. The Company follow the same methodology presented on Schedule CSB-3 to calculate the additional revenue needed to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan using the actual loan amount, interest rate and customer counts.

d. The Company make a WIFA loan surcharge filing within 15 days of the loan closing.

e. The Company place the WIFA loan surcharge proceeds in a segregated account, to be used only for making payments on the WIFA loan and the annual income taxes related to the loan as shown on CSB-3, page 1, line 31.

f. The Company file a rate case no later than May 31, 2018 with a December 31, 2017 test year.

g. Approval of the WIFA loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the effective date of the Decision resulting from this proceeding;

h. The Company notify its customers of the WIFA Loan Surcharge by means of a bill insert in the next regularly scheduled billing after the Commission's decision in this proceeding.

i. The Commission adopt Staff's total cost of $91,150 for construction of a building and site preparation for the arsenic treatment plant.

j. The Company file with Docket Control, as a compliance item in this docket, a copy of the new Certificate of Approval to Construct issued by Arizona Department of Environmental Quality for the arsenic treatment plant within forty-five (45) days of the effective date of its issuance.

27. Truxton does not object to Staff's recommendations.[14]

28. Staff's recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. Truxton is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-285, 40-301, and 40-303.

2. The Commission has jurisdiction over Truxton and the subject matter of the application.

3. Notice of the application was given in accordance with the law.

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

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

6. Approval of the arsenic cost surcharge is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

7. Staff's recommendations, as stated herein, are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED Truxton Canyon Water Company, Inc., is authorized to obtain a 20-year amortizing loan through the Water Infrastructure Finance Authority of Arizona for an amount

[14] Truxton's Response docketed January 12, 2016.

not to exceed $350,950, and an interest rate not to exceed the current Water Infrastructure Finance Authority subsidized rate at the time the loan is executed, to finance the arsenic treatment facilities described herein.

IT IS FURTHER ORDERED that the financing authority granted herein is expressly contingent on Truxton Canyon Water Company, Inc.'s use of the proceeds to finance the arsenic treatment facilities described herein.

IT IS FURTHER ORDERED that Truxton Canyon Water Company, Inc. is authorized to engage in any transactions and execute any documents necessary to effectuate the financing authorizations granted herein.

IT IS FURTHER ORDERED that a Water Infrastructure Finance Authority surcharge mechanism is authorized to meet Truxton Canyon Water Company, Inc.'s principal and interest, and annual income tax obligations on the loan as described herein.

IT IS FURTHER ORDERED that upon the filing of the loan closing notice, Truxton Canyon Water Company, Inc., shall file in this docket, a Water Infrastructure Finance Authority loan surcharge tariff application requesting implementation of the associated surcharge. The application shall follow the same methodology presented in the Staff Report to calculate the additional revenue needed to meet its loan obligations, using the actual loan terms, and the actual number of customers at the time of loan closing, and using the result of that calculation to develop its surcharge tariff application. The increase in revenue calculation should be included in the surcharge tariff application.

IT IS FURTHER ORDERED that Truxton Canyon Water Company, Inc., shall file as a compliance item in this docket, within fifteen (15) days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

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

IT IS FURTHER ORDERED that approval of the Water Infrastructure Financing Authority

surcharge shall be rescinded if Truxton Canyon Water Company, Inc. has not drawn funds from the Water Infrastructure Finance Authority loan within one year of the date of this Decision.

IT IS FURTHER ORDERED that Truxton Canyon Water Company, Inc., shall provide within fifteen (15) days after the effective date of this Decision, a notice to its customers, in a form acceptable to Staff, showing the Water Infrastructure Financing Authority surcharge by means of a bill insert in the Company's next regularly scheduled billing.

IT IS FURTHER ORDERED that Truxton Canyon Water Company, Inc., shall file, as a compliance item in this docket, within 30 days of the effective date of this Decision, proof that it has completed the required customer notice.

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

IT IS FURTHER ORDERED that Truxton Canyon Water Company, Inc., shall set up a separate interest bearing bank account the same month the arsenic surcharge mechanism takes effect, and starting the first month the arsenic surcharge is collected from Truxton Canyon Water Company's customers, the Company shall deposit all revenues collected from the arsenic surcharge mechanism in that separate interest bearing account, to be used only for making payments on the Water Infrastructure Financing Authority loan and the annual income taxes related to the loan for the arsenic treatment plant described herein.

IT IS FURTHER ORDERED that Truxton Canyon Water Company, Inc. shall file with Docket Control, as a compliance item in this docket within forty-five (45) days of its issuance, a copy of the new Certificate of Approval to Construct issued by Arizona Department of Environmental Quality for the arsenic treatment plant.

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

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____day of _____ 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
YK:ru

SERVICE LIST FOR: TRUXTON CANYON WATER COMPANY, INC.

DOCKET NO.: W-02168A-15-0369

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