

OPEN MEETING ITEM



0000169254

COMMISSIONERS
DOUG LITTLE - Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN



ARIZONA CORPORATION COMMISSION

RECEIVED

2016 MAR 25 P 2:41

AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

DATE: MARCH 25, 2016
DOCKET NO.: W-01004B-15-0313 AND W-01004B-15-0342
TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Scott M. Hesla. The recommendation has been filed in the form of an Order on:

ASH FORK DEVELOPMENT ASSOCIATION, INC. D/B/A
ASH FORK WATER SERVICE
(RATES / FINANCE)

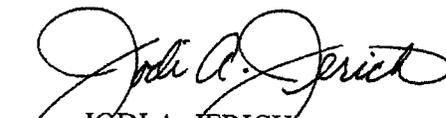
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

APRIL 5, 2016

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:

APRIL 12, 2016 AND APRIL 13, 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.


JODI A. JERICH
EXECUTIVE DIRECTOR

Arizona Corporation Commission

DOCKETED

MAR 25 2016

DOCKETED BY 

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

[WWW.AZCC.GOV](http://www.azcc.gov)

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

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 DOUG LITTLE – Chairman
4 BOB STUMP
5 BOB BURNS
6 TOM FORESE
7 ANDY TOBIN

8 IN THE MATTER OF THE APPLICATION OF ASH
9 FORK DEVELOPMENT ASSOCIATION, INC.
10 D/B/A ASH FORK WATER SERVICE FOR A RATE
11 INCREASE.

DOCKET NO. W-01004B-15-0313

12 IN THE MATTER OF THE APPLICATION OF ASH
13 FORK DEVELOPMENT ASSOCIATION, INC.
14 D/B/A ASH FORK WATER SERVICE FOR
15 APPROVAL OF A FINANCING APPLICATION.

DOCKET NO. W-01004B-15-0342

DECISION NO. _____

ORDER

16 Open Meeting
17 April 12 and 13, 2016
18 Phoenix, Arizona

19 **BY THE COMMISSION:**

20 * * * * *

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

23 **FINDINGS OF FACT**

24 **I. Procedural History**

25 1. On September 1, 2015, in Docket No. W-01004B-15-0313 (“Rate Docket”), Ash Fork
26 Development Association, Inc. d/b/a Ash Fork Water Service (“Ash Fork” or “Company”) filed with
27 the Arizona Corporation Commission (“Commission”) an application for a permanent rate increase.

28 2. On September 30, 2015, in Docket No. W-01004B-15-0342 (“Financing Docket”), Ash
Fork filed an application requesting authorization to incur long-term debt from the Water Infrastructure
Finance Authority of Arizona (“WIFA”) in an amount not to exceed \$150,000 for the purpose of
constructing an arsenic treatment plant at Well No. 2.

3. On October 1, 2015, in the Rate Docket, the Commission’s Utilities Division (“Staff”) filed a Letter of Deficiency stating that the rate application did not meet the sufficiency requirements

1 outlined in Arizona Administrative Code ("A.A.C.") R14-2-103.

2 4. On October 8, 2015, in both dockets, Ash Fork filed letters certifying that notices of the
3 rate application and financing application were mailed to all customers of record by means of an insert
4 in their October water bill.

5 5. On October 15, 2015, in the Rate Docket, Ash Fork filed an amendment to its rate
6 application.

7 6. On October 27, 2015, in the Rate Docket, Staff filed a Letter of Sufficiency stating that
8 the rate application, as amended, had met the sufficiency requirements outlined in A.A.C. R14-2-103,
9 and classifying Ash Fork as a Class D Utility.

10 7. On December 9, 2015, Staff filed a Motion to Consolidate in each of the two dockets,
11 requesting a procedural order to consolidate the Rate Docket and Financing Docket. According to
12 Staff, the issues presented in both dockets are directly related and consolidation would conserve
13 resources. The Company did not file an objection to the motion.

14 8. On December 11, 2015, in the Rate Docket, Ash Fork filed an amendment to its rate
15 application.

16 9. On December 21, 2015, a Procedural Order was issued consolidating the Rate Docket
17 and Financing Docket.

18 10. On January 11, 2016, Staff filed its Staff Report recommending approval of the
19 applications subject to certain terms and conditions.

20 11. On January 25, 2016, the Company filed a Response to the Staff Report requesting
21 clarification of certain issues.

22 12. On February 4, 2016, a Procedural Order was issued directing Staff to address the issues
23 raised by the Company.

24 13. On February 19, 2016, Staff filed its Response to the February 4, 2016, Procedural
25 Order.

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

1 **II. Background**

2 14. Ash Fork is a Class D Arizona nonprofit corporation providing water utility service to
3 approximately 466 customers¹ in a service area approximately 50 miles west of Flagstaff, in Yavapai
4 County, Arizona, pursuant to a Certificate of Convenience and Necessity (“CC&N”) transferred to Ash
5 Fork in Decision No. 43321 (May 23, 1973). The Commission approved Ash Fork’s present rates and
6 charges in Decision No. 71181 (June 30, 2009).

7 15. Ash Fork’s water system consists of two wells capable of producing approximately 252
8 gallons per minute (“GPM”) of total capacity; two water storage tanks with a total storage capacity of
9 1,000,000 gallons; and a distribution system. During the test year ending December 31, 2014, the
10 Company reported 34,405,000 gallons pumped and 33,362,000 gallons sold, resulting in a water loss
11 ratio of 3.03 percent.²

12 16. Based on Staff’s engineering analysis, the Company has adequate production and
13 storage capacity to support its existing customer base and reasonable growth.

14 17. Ash Fork is not located within an Arizona Department of Water Resources (“ADWR”) active
15 management area (“AMA”). In a Compliance Status Report dated December 4, 2015, ADWR
16 determined that Ash Fork is currently in compliance with departmental requirements governing water
17 providers and/or community water systems.

18 18. According to an Arizona Department of Environmental Quality (“ADEQ”) Compliance
19 Status Report dated October 26, 2015, Ash Fork has no major deficiencies and is currently delivering
20 water that meets the water quality standards required by 40 C.F.R. §§ 141.1, *et seq.* (National Primary
21 Drinking Water Regulations) and A.A.C., Title 18, Chapter 4.

22 19. Staff’s Compliance Section database shows no outstanding compliance issues for the
23 Company.

24 20. Staff reviewed the Consumer Services Section database from 2012 through 2015 and
25 found no complaints or inquiries against the Company and one public comment opposing the rate
26 increase.

27 _____
28 ¹ The Company has approximately 243 metered customers and 223 standpipe customers.

² Staff indicates that a water loss ratio of 10 percent or less is acceptable.

1 21. Ash Fork is in good standing with the Commission's Corporations Division.

2 22. Ash Fork has approved Cross-Connection & Backflow and Curtailment tariffs on file
3 with the Commission.

4 **III. Rate Application**

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

6 23. Ash Fork proposed an original cost rate base ("OCRB") of \$388,740.

7 24. Staff determined the Company's original cost rate base ("OCRB") to be \$468,857, due
8 to Staff's decrease of \$37,249 in net plant in service; increase of \$81,420 in accumulated depreciation;
9 increase of \$87,988 in contributions-in-aid-of-construction ("CIAC"); and increase of \$22,810 in cash
10 working capital. Staff states that its adjustments to plant in service conform to the actual invoices
11 provided by the Company. The Company did not dispute Staff's adjustments to rate base.

12 25. We find that Staff's adjustments to the Company's OCRB are reasonable and
13 appropriate, and should be adopted. We further find that the Company's fair value rate base ("FVRB")
14 is equivalent to its OCRB and is \$468,857.

15 26. Staff made several adjustments to the Company's proposed test year revenues, resulting
16 in an increase of \$6,201, from \$278,069 to \$284,270. The net increase to test year revenues was due
17 to Staff's adjustments to include the revenues from uncharged services provided to community
18 buildings owned by the Company, various late payment charges, and other retail sales.

19 27. In its Response to the Staff Report, the Company asked whether the imputed revenues
20 from the uncharged services provided to the community buildings were calculated at retail levels or at
21 cost. Staff explained in response that it calculated the revenues using the commercial rates applicable
22 to a 5/8 x 3/4-inch meter because the Company's application indicates that the community buildings
23 utilize that meter size.

24 28. We find that Staff's adjustments to test year revenues are reasonable and appropriate
25 and adopt an adjusted test year revenue figure of \$284,270.

26 29. Staff made several adjustments to the Company's proposed operating expenses,
27 resulting in a net decrease of \$33,177, from \$292,490 to \$259,313. The net decrease to test year
28 operating expenses is due to Staff's adjustments to depreciation expense and property tax expense.

1 Staff also removed sales taxes from the Company's proposed test year expenses because sales tax is
 2 paid by customers and not included in revenue. The Company did not dispute Staff's adjustments to
 3 test year operating expenses.

4 30. We find that Staff's adjustments to test year operating expenses are reasonable and
 5 appropriate and adopt an adjusted test year operating expense figure of \$259,313.

6 31. Based on Staff's analysis, the Company's present rates and charges produced adjusted
 7 operating revenues of \$284,270 and adjusted test year operating expenses of \$259,313, resulting in test
 8 year operating income of \$24,957 and a rate of return of 5.32 percent on the Company's FVRB of
 9 \$468,857.

10 **B. Revenue Requirement**

11 32. A summary of the parties' proposed revenue requirements and increases over adjusted
 12 test year revenues of \$284,270 are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Increase</u>
14 Ash Fork	\$313,364	\$29,094	10.23 %
15 Staff	\$296,739	\$12,469	4.39 %

16 33. The parties' proposed revenue requirements would result in the following operating
 17 incomes using adjusted test year revenues of \$284,270 and adjusted test year operating expenses of
 18 \$259,546:

	<u>Operating Income</u>	<u>Rate of Return</u>	<u>Operating Margin</u>
20 Ash Fork	\$53,818	11.48 %	17.17 %
21 Staff	\$37,193	7.93 %	12.53 %

22 ...
 23 ...
 24 ...
 25 ...
 26 ...
 27 ...
 28 ...

1 **C. Rate Design**

2 34. The rates and charges for the Company at present, as proposed in its rate application,
3 and as recommended by Staff are as follows:

	<u>Present</u> <u>Rates</u>	<u>Company</u>	<u>Proposed</u> <u>Rates</u> <u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$12.00	\$13.50	\$12.20
3/4" Meter	12.00	13.50	18.00
1" Meter	18.00	21.00	30.00
1 1/2" Meter	24.00	32.00	60.00
2" Meter	35.00	44.00	75.00
3" Meter	55.00	70.00	180.00
4" Meter	100.00	125.00	300.00
6" Meter	120.00	150.00	600.00

12 **MONTHLY WIFA LOAN**
13 **SURCHARGE**

5/8" x 3/4" Meter	N/A	N/A	TBD
3/4" Meter	N/A	N/A	TBD
1" Meter	N/A	N/A	TBD
1 1/2" Meter	N/A	N/A	TBD
2" Meter	N/A	N/A	TBD
3" Meter	N/A	N/A	TBD
4" Meter	N/A	N/A	TBD
6" Meter	N/A	N/A	TBD
Standpipe/Bulk (per 1,000 gallons)	N/A	N/A	TBD

20 **COMMODITY RATES**
21 **(Per 1,000 gallons)**

22 Residential (All Meter Sizes)

First 3,000 Gallons	\$3.35	\$3.62	N/A
From 3,001 to 6,000 Gallons	4.00	4.32	N/A
Over 6,000 Gallons	4.66	5.03	N/A

24 Commercial (All Meter Sizes)

First 6,000 Gallons	4.00	4.32	N/A
Over 6,000 Gallons	4.66	5.03	N/A

27 ...

28 ...

1	<u>5/8" x 3/4" & 3/4" Meter – Residential</u>			
	First 3,000 Gallons	3.35	3.62	\$3.40
2	From 3,001 to 6,000 Gallons	4.00	4.32	4.20
	Over 6,000 Gallons	4.66	5.03	5.00
3				
4	<u>5/8" x 3/4" & 3/4" Meter - Commercial</u>			
	First 6,000 Gallons	N/A	N/A	\$4.20
5	Over 6,000 Gallons	N/A	N/A	5.00
6	<u>1" Meter – Residential & Commercial</u>			
	First 20,000 Gallons	N/A	N/A	\$4.20
7	Over 20,000 Gallons	N/A	N/A	5.00
8	<u>1 1/2" Meter – Residential & Commercial</u>			
	First 55,000 Gallons	N/A	N/A	\$4.20
9	Over 55,000 Gallons	N/A	N/A	5.00
10	<u>2" Meter – Residential & Commercial</u>			
	First 72,000 Gallons	N/A	N/A	\$4.20
11	Over 72,000 Gallons	N/A	N/A	5.00
12				
13	<u>3" Meter – Residential & Commercial</u>			
	First 200,000 Gallons	N/A	N/A	\$4.20
14	Over 200,000 Gallons	N/A	N/A	5.00
15	<u>4" Meter – Residential & Commercial</u>			
	First 340,000 Gallons	N/A	N/A	\$4.20
16	Over 340,000 Gallons	N/A	N/A	5.00
17	<u>6" Meter – Residential and Commercial</u>			
	First 700,000 Gallons	N/A	N/A	\$4.20
18	Over 700,000 Gallons	N/A	N/A	5.00
19				
20	<u>Standpipe/Bulk Commercial</u> (per 1,000 gallons)			
21	All gallons	\$9.20	\$12.00	\$9.50
22	<u>Standpipe/Bulk Residential</u> (per 1,000 gallons)			
	All gallons	\$9.20	N/A	\$9.50
23	First 6,000 gallons	N/A	\$10.70	N/A
24	Over 6,000 gallons	N/A	12.00	N/A
25	<u>Coin-Operated Standpipe</u>			
	Per 25 Gallons	\$0.25	N/A	\$0.25
26	Per 20 Gallons	N/A	\$0.25	N/A
27				
28				

Filtered Water Dispenser

Per Gallon	\$0.25	\$0.25	\$0.25
------------	--------	--------	--------

SERVICE LINE AND METER INSTALLATION CHARGES:

<u>Meter Sizes</u>	<u>Current Total Changes</u>	<u>Company Proposed Total Charges</u>	<u>Staff Recommended Service Line Charges</u>	<u>Staff Recommended Meter Charges</u>	<u>Staff Recommended Total Charges</u>
5/8" x 3/4" Meter	\$ 350	\$ 380	\$ 290	\$ 90	\$ 380
3/4" Meter	350	380	290	90	380
1" Meter	420	450	310	140	450
1 1/2" Meter	900	950	500	450	950
2" Meter	1,340	1,400	660	740	1,400
3" Meter	2,100	2,200	900	1,300	2,200
4" Meter	2,800	3,000	1,200	1,800	3,000
6" Meter	3,600	3,750	1,250	2,500	3,750

SERVICE CHARGES:

	<u>Current</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
Establishment	\$20.00	\$20.00	\$20.00
Establishment (After hours)	24.00	N/A	N/A
After Hours Service Charge	N/A	10.00	30.00
Reconnection (Delinquent)	15.00	15.00	15.00
Reconnection (Delinquent, After Hours)	24.00	N/A	N/A
Meter Test (If Correct)	40.00	40.00	30.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 months)	**	**	**
NSF Check	15.00	15.00	15.00
Deferred Payment	N/A	N/A	N/A
Meter Re-Read (If Correct)	10.00	10.00	10.00
Late Fee (Per month)	1.50%	1.50%	1.50%
Monthly Service Charge for Fire Sprinkler	***	***	***

* Per Commission Rule A.A.C. R-14-2-403(B).

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

*** 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of its regular rates and charges, the Company shall collect from its customers their proportionate share of any privilege, sale or use tax in accordance with A.A.C. R14-2-409(D)(5).

1 35. The rates and revenue requirements proposed by the parties would have the following
2 bill impacts on the typical residential 5/8 x 3/4-inch meter customer with median usage of 2,951
3 gallons:

	<u>Typical 5/8 x 3/4-inch Residential Meter with Median Usage</u>		
	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>% Increase</u>
4 Ash Fork	\$21.89	\$24.18	10.46
5 Staff	\$21.89	\$22.23	1.55

6
7
8 36. In its Response to the Staff Report, the Company questioned why Staff's recommended
9 monthly usage charge varied across meter sizes. According to the Company, the monthly minimum
10 charge for the 5/8 x 3/4-inch meter and 3/4-inch meter should be the same because it is difficult to
11 distinguish the difference between the two sizes. Staff clarified in response that its recommended
12 monthly minimum charges are based on the draw capacity of the various meter sizes, which is
13 consistent with industry wide practice for water utilities. According to Staff, the drawing capacity of
14 a meter is a good indicator of the potential water needs and associated costs incurred by the utility in
15 providing service to that meter.

16 37. The Company further expressed concern that Staff did not adequately analyze bulk
17 water sales from standpipe customers in formulating Staff's recommended rate design. Staff clarified
18 in response that its recommended rates were designed to produce \$188,594 in standpipe revenues,
19 which is 64.46 percent of total water sales. According to Staff, the recommended rates reflect a
20 reasonable assessment of the Company's standpipe sales.

21 38. The Company also questioned why Staff did not consider the possibility of
22 implementing a residential standpipe rate. Staff clarified in response that its recommended rate of
23 \$9.50 is for all standpipe customers, in part, because it is difficult to consistently identify each
24 customer's class of service at a standpipe. Further, Staff stated that standpipe rates are typically
25 equivalent to the third tier residential rate so that a standpipe customer does not buy water at a lower
26 rate than a customer connected to the system. According to Staff, it would be unfair for a connected
27 (captive) customer to pay more for water than a non-connected customer.

28 39. The Company also expressed concern that Staff did not consider sales tax in the

1 formulation of Staff's recommended rates. Staff clarified in response that it is not appropriate to
2 include sales tax in initial rates because they are added on and passed through to the Arizona
3 Department of Revenue.

4 40. The Company further questioned why Staff did not include the costs of plant identified
5 in the Company's three-year capital improvement plan in Staff's recommended rates. Staff clarified
6 in response that requiring current customers to fully pay for future capital expenditures in rates is
7 inconsistent with ratemaking matching principles. Staff stated that capital improvements can be funded
8 in part through depreciation expense recoveries. According to Staff, its recommended rates will
9 provide the Company with sufficient funds to meet debt service requirements and operating expenses,
10 and to manage contingencies.

11 **IV. Financing Application**

12 41. In its financing application, the Company requests approval to finance a loan in an
13 amount not to exceed \$150,000 from WIFA, the proceeds of which will be used to fund the purchase
14 of new Arsenic Treatment Equipment for Well No. 2.

15 42. Staff analyzed Ash Fork's water system and determined that the arsenic level at Well
16 No. 2 has decreased from 11.1 parts-per-billion ("ppb") in 2014, to 10.1 ppb in 2015 based on annual
17 averages. Staff notes that the Maximum Contaminant Level ("MCL") for arsenic is 10.0 ppb. In light
18 of the declining arsenic measurements, Staff recommends that the Company monitor the arsenic level
19 at Well No. 2 for an additional year prior to obtaining the WIFA loan to install the Arsenic Treatment
20 Equipment. Staff concludes that if the annual average arsenic level at Well No. 2 exceeds 10.0 ppb
21 after one year, the proposed capital improvements would be appropriate and the cost estimates are
22 reasonable.

23 43. Staff's recommended base rates and revenues would not provide sufficient cash flow
24 for the Company to meet its proposed long-term debt obligation under the WIFA loan. Staff therefore
25 recommends implementing a loan surcharge mechanism to calculate the additional debt service
26 (principal, interest, and reserve fund) on the WIFA loan. Based on Staff's calculation, the debt service
27 and reserve fund payments on a 20-year amortizing loan, in the amount of \$150,000, at an estimated
28 interest rate of 5.25 percent, will require the Company to generate annual cash flows of \$14,555 through

1 the surcharge mechanism.³

2 44. Since the terms of the WIFA loan will not be known until after the loan is closed, Staff
3 is recommending approval of a surcharge mechanism, with the surcharge amount determined by Staff
4 in a later filing. Staff estimates that the loan surcharge will increase the monthly bill for a typical
5 residential 5/8 x 3/4-inch meter customer with median water usage by \$3.02, resulting in the following
6 bill impact:

7 Typical 5/8 x 3/4-inch Residential Meter with Median Usage (with WIFA loan surcharge)

8	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>% Increase</u>
9 Ash Fork	\$21.89	\$24.18	10.46
10 Staff	\$21.89	\$25.25	15.35

11

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

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

26

27 ³ The estimated annual cash flow of \$14,555 to cover the long-term debt obligation on the WIFA loan would be in addition
28 to Staff's recommended base revenue requirement of \$296,734, for total estimated annual revenues of \$311,294. We note
that Staff's recommended revenue requirement inclusive of the WIFA loan surcharge is similar to the Company's proposed
revenue requirement of \$313,364.

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

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

7 46. Staff's estimated loan surcharge and recommended rates would result in a times-
8 interest-earned ratio ("TIER") and debt service coverage ("DSC") ratio of 2.00 and 2.05, respectively.
9 TIER represents the number of times earnings before income tax expense covers interest expense on a
10 debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER
11 less than 1.0 is not sustainable in the long term, but does not necessarily mean that debt obligations
12 cannot be met in the short term. A DSC ratio represents the number of times internally generated cash
13 will cover required principal and interest payments on short-term and long-term debt. A DSC of less
14 than 1.0 means that debt service obligations cannot be met by cash generated from operations and that
15 another source of funds is necessary to preclude default on the debt obligation.

16 47. According to Staff's analysis, its estimated loan surcharge and recommended rates will
17 provide the Company with sufficient cash flow to pay operating expenses, fund contingencies, principal
18 and interest on its proposed loan, and to meet the minimum 1.2 DSC ratio required by WIFA.

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

22 49. In its Response to the Staff Report, the Company questioned how the surcharge
23 mechanism would apply to standpipe customers. Staff clarified in response that the surcharge
24 calculation will be determined by Staff at a later date once the loan is drawn, if at all, and noted that
25 the calculation will include standpipe customer sales volumes.

26 **V. Staff's Recommendations**

27 50. Staff recommends the following:

- 28 a) That Staff's recommended rates and charges be approved;

- 1 b) That the Company file with Docket Control, as a compliance item in this docket,
2 a schedule of its approved rates and charges within 30 days of the decision in this
3 matter;
- 4 c) That the Company continue to use the depreciation rates utilized by the National
5 Association of Regulatory Utility Commissioners ("NARUC") as presented in
6 Table H-1 of the Engineering Report portion of the Staff Report in this matter;
- 7 d) Approval of the Company's application for authorization to issue long-term debt
8 to WIFA in an amount not to exceed \$150,000, subject to the following condition:
- 9 (i) The Company shall file documentation after one year demonstrating
10 arsenic levels in excess of 10 ppb prior to purchasing the proposed
11 Arsenic Treatment Equipment;
- 12 e) That the Company open a separate interest-bearing account, upon approval of the
13 loan surcharge, in which all surcharge monies collected from customers will be
14 deposited. The only disbursements of funds from this account shall be to make
15 debt service and reserve payments to WIFA and for arsenic treatment related
16 maintenance;
- 17 f) That the Company record the customer-provided WIFA reserve funding in
18 NARUC Account No. 253, "Other Deferred Credits" as soon as it begins
19 collecting revenue from the surcharge. The deferred credit should be clearly noted
20 as "Customer Provided Funding for WIFA Reserve Fund" on the Company's
21 books and records, and the net balance in this account continue to be shown as a
22 regulatory liability until the balance is fully amortized or otherwise credited back
23 to ratepayers;
- 24 g) That the deferred credit balance be recognized as a reduction to the Company's
25 rate base in future rate case filings, only to the extent that it does not result in a
26 negative rate base amount;
- 27 h) That the amortization of the deferred credit begins once the plant is placed in
28 service; that the deferred credit be amortized over five years; and that the

1 amortization expense would be used to offset depreciation expense;

- 2 i) Approval of a surcharge mechanism that Staff estimates may result in a monthly
3 surcharge amount as follows:

<u>Meter Size</u>	<u>Monthly Surcharge</u>
5/8 x 3/4" Meter	\$3.02
3/4" Meter	\$4.54
1" Meter	\$7.56
1 1/2" Meter	\$15.12
2" Meter	\$24.20
3" Meter	\$45.37
4" Meter	\$75.62
6" Meter	\$151.24

- 4
5
6
7
8
9
10 j) That the actual amount of the WIFA loan surcharge be calculated by Staff based
11 upon the actual terms of the WIFA loan and actual number of customers at the
12 time of loan closing;
- 13 k) That the Company file as a compliance item in this Docket, within 30 days of the
14 execution of any financing transaction authorized herein, a notice confirming that
15 such execution has occurred and a certification by an authorized Company
16 representative that the terms of the financing fully comply with the authorizations
17 granted;
- 18 l) That the Company provide to Staff, upon request, a copy of any loan documents
19 executed pursuant to the authorizations granted herein;
- 20 m) That the Company may file, in this docket, upon filing notice of the loan closing,
21 an application requesting implementation of the associated surcharge;
- 22 n) That Staff shall calculate the appropriate loan surcharge and prepare and file a
23 recommended order for Commission consideration within 30 days of the
24 Company's filing of an application requesting implementation of the surcharge;
- 25 o) That approval of the loan and surcharge be rescinded if the Company has not
26 started drawing funds from the loan within two years of the effective date of this
27 Decision;
- 28 p) That the Company, as a compliance item in this docket, notify its customers of the

1 rates and charges approved herein and their effective date, in a form acceptable to
 2 Staff, by means of an insert in its next regular scheduled billing, and file copies
 3 with Docket Control within 30 days of the date notice is sent to customers; and

- 4 q) That the Company file with Docket Control, as a compliance item in this docket,
 5 within 90 days of the effective date of this Decision, at least three BMPs in the
 6 form of tariffs that substantially conform to the templates created by Staff. The
 7 templates created by Staff are available on the Commission's website at
 8 <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may request
 9 cost recovery of the actual costs associated with the BMPs implemented in its next
 10 general rate application.

11 **VI. Resolution**

12 51. We find that Staff's recommended revenues, rates, and charges are just and reasonable
 13 and should be adopted. We further find that it is reasonable, consistent with sound financial practices,
 14 and in the public interest to grant Ash Fork the authority to issue up to \$150,000 in long-term debt for
 15 the purposes stated in its financing application, subject to the terms and conditions recommended by
 16 Staff.

17 52. We further find that Staff's recommended compliance conditions are reasonable and
 18 appropriate and should be adopted, subject to the following modification: that the notice provided to
 19 customers regarding the rates and charges authorized herein also include information generally
 20 explaining the WIFA loan surcharge mechanism, the condition under which the surcharge may take
 21 effect, and the estimated surcharge amounts per customer meter size.

22 53. We find that Staff's recommendations, as modified herein, are in the public interest and
 23 should be adopted.

24 **CONCLUSIONS OF LAW**

25 1. Ash Fork Development Association, Inc. d/b/a Ash Fork Water Service is a public
 26 service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. § 40-
 27 250, 40-251, 40-301, and 40-302.

28 2. The Commission has jurisdiction over Ash Fork Development Association, Inc. d/b/a

1 Ash Fork Water Service and the subject matter of the applications.

2 3. Notice of the applications was provided in the manner prescribed by law.

3 4. Ash Fork Development Association, Inc. d/b/a Ash Fork Water Service's fair value rate
4 base is \$468,857.

5 5. The rates, charges, and conditions of service authorized herein are just, reasonable, and
6 in the public interest and should be approved without a hearing.

7 6. The authorizations granted herein are for lawful purposes which are within the corporate
8 powers of the Company, are compatible with the public interest, with sound financial practices, and
9 with the proper performance by the Company of service as a public service corporation, and will not
10 impair the Company's ability to perform that service.

11 7. The financing approved herein is for the purposes stated in the financing application, is
12 reasonably necessary for those purposes, and is not reasonably chargeable to operating expenses or to
13 income.

14 8. Approval of the proposed financing should not guarantee or imply any specific
15 treatment of any capital additions for ratemaking or rate base purposes.

16 9. Staff's recommendations, as modified herein, are just and reasonable and in the public
17 interest.

18 **ORDER**

19 IT IS THEREFORE ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
20 Water Service is hereby directed to file with Docket Control, as a compliance item in this docket, by
21 April 29, 2016, revised schedules setting forth the following rates and charges:

22 **MONTHLY USAGE CHARGES:**

23

24	5/8" x 3/4" Meter	\$12.20
	3/4" Meter	18.00
25	1" Meter	30.00
	1 1/2" Meter	60.00
26	2" Meter	75.00
	3" Meter	180.00
27	4" Meter	300.00
28	6" Meter	600.00

WIFA LOAN MONTHLY SURCHARGE:

1		
2	5/8" x 3/4" Meter	TBD
3	3/4" Meter	TBD
	1" Meter	TBD
4	1 1/2" Meter	TBD
5	2" Meter	TBD
	3" Meter	TBD
6	4" Meter	TBD
	6" Meter	TBD
7	Standpipe/Bulk (per 1,000 gallons)	TBD

COMMODITY CHARGES:
(Per 1,000 Gallons)**5/8" x 3/4" & 3/4" Meter – Residential**

10	First 3,000 Gallons	\$3.40
11	From 3,001 to 6,000 Gallons	4.20
12	Over 6,000 Gallons	5.00

5/8" x 3/4" & 3/4" Meter - Commercial

13	First 6,000 Gallons	\$4.20
14	Over 6,000 Gallons	5.00

1" Meter – Residential & Commercial

15	First 20,000 Gallons	\$4.20
16	Over 20,000 Gallons	5.00

1 1/2" Meter – Residential & Commercial

17	First 55,000 Gallons	\$4.20
18	Over 55,000 Gallons	5.00

2" Meter – Residential & Commercial

19	First 72,000 Gallons	\$4.20
20	Over 72,000 Gallons	5.00

3" Meter – Residential & Commercial

21	First 200,000 Gallons	\$4.20
22	Over 200,000 Gallons	5.00

4" Meter – Residential & Commercial

23	First 340,000 Gallons	\$4.20
24	Over 340,000 Gallons	5.00

6" Meter – Residential and Commercial

25	First 700,000 Gallons	\$4.20
26	Over 700,000 Gallons	5.00

Standpipe/Bulk – Residential & Commercial(per 1,000 gallons)

All gallons \$9.50

Coin-Operated Standpipe

Per 25 Gallons \$0.25

Filtered Water Dispenser

Per Gallon \$0.25

SERVICE LINE AND METER INSTALLATION CHARGES:

<u>Meter Sizes</u>	<u>Service Line</u>	<u>Meter Charges</u>	<u>Total Charges</u>
	<u>Charges</u>		
5/8" x 3/4" Meter	\$ 290	\$ 90	\$ 380
3/4" Meter	290	90	380
1" Meter	310	140	450
1 1/2" Meter	500	450	950
2" Meter	600	750	1,400
3" Meter	900	1,300	2,200
4" Meter	1,200	1,800	3,000
6" Meter	1,250	2,500	3,750

SERVICE CHARGES:

Establishment	\$20.00
After Hours Service Charge	30.00
Reconnection (Delinquent)	15.00
Meter Test (If Correct)	30.00
Deposit	*
Deposit Interest	*
Re-Establishment (Within 12 months)	**
NSF Check	15.00
Meter Re-Read (If Correct)	10.00
Late Fee (Per month)	1.50%
Monthly Service Charge for Fire Sprinkler	***

* Per A.A.C. R-14-2-403(B).

** Months off system times monthly minimum per A.A.C. 14-2-403(D).

*** 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on or after May 1, 2016.

IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork

1 Water Service shall, as a compliance item in this docket, notify its customers of the authorized rates
2 and charges and their effective date, as well as information generally explaining the loan surcharge
3 mechanism, the condition under which the surcharge will take effect, and the estimated surcharge
4 amounts per customer meter size, in a form acceptable to the Commission's Utilities Division Staff, by
5 means of an insert in its next regularly scheduled billing, and file a copy with Docket Control within
6 thirty (30) days of the date notice is sent to customers.

7 IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
8 Water Service shall use the depreciation rates delineated in Table H-1 of the Engineering Report portion
9 of the Staff Report in this matter.

10 IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
11 Water Service shall file with Docket Control, as a compliance item in this docket, a
12 report documenting that the annual average arsenic level for calendar year 2016 exceeds 10 ppb prior
13 to purchasing the Arsenic Treatment Equipment, as discussed herein.

14 IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
15 Water Service is authorized to incur long-term financing, in an amount not to exceed \$150,000,
16 pursuant to a loan agreement with the Water Infrastructure Finance Authority of Arizona, at an interest
17 rate not to exceed that available from the Water Infrastructure Finance Authority of Arizona, subject
18 to the condition stated in Findings of Fact No. 50(d).

19 IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
20 Water Service shall open a separate interest-bearing account, upon approval of the loan surcharge, in
21 which all surcharge monies collected from customers will be deposited. The only disbursements of
22 funds from this account shall be to make debt service and reserve payments to WIFA and for arsenic
23 treatment related maintenance.

24 IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
25 Water Service record the customer-provided WIFA reserve funding in NARUC Account No. 253,
26 "Other Deferred Credits" as soon as it begins collecting revenue from the surcharge. The deferred
27 credit should be clearly noted as "Customer Provided Funding for WIFA Reserve Fund" on the
28 Company's books and records, and the net balance in this account continue to be shown as a regulatory

1 liability until the balance is fully amortized or otherwise credited back to ratepayers.

2 IT IS FURTHER ORDERED that the deferred credit balance be recognized as a reduction to
3 the Company's rate base in future rate case filings, only to the extent that it does not result in a negative
4 rate base amount.

5 IT IS FURTHER ORDERED that the amortization of the deferred credit begins once the plant
6 is placed in service; that the deferred credit be amortized over five years; and that the amortization
7 expense would be used to offset depreciation expense.

8 IT IS FURTHER ORDERED that approval of the loan and surcharge authorized herein shall
9 be rescinded without further order of the Commission if the Company has not drawn funds from the
10 loan within two years from the effective date of this Decision.

11 IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
12 Water Service is hereby authorized to pledge, mortgage, lien, and/or otherwise encumber its assets in
13 the State of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104, in connection with the
14 indebtedness authorized herein.

15 IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
16 Water Service is hereby authorized to engage in any transaction and to execute any documents
17 necessary to effectuate the authorizations granted herein.

18 IT IS FURTHER ORDERED that such financing authority is expressly contingent upon Ash
19 Fork Development Association, Inc. d/b/a Ash Fork Water Service's use of the proceeds for the
20 purposes set forth in its financing application, as discussed herein.

21 IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
22 Water Service shall file with Docket Control, as a compliance item in this docket, within 30 days of
23 the execution of any financing transaction authorized herein, a notice confirming that such execution
24 has occurred and a certification by an authorized Company representative that the terms of the financing
25 fully comply with the authorizations granted herein.

26 IT IS FURTHER ORDERED that upon filing notice confirming the loan's execution, Ash Fork
27 Development Association, Inc. d/b/a Ash Fork Water Service may file with Docket Control, in this
28 docket, an application requesting implementation of the loan surcharge, as discussed herein.

1 IT IS FURTHER ORDERED that Staff shall calculate the appropriate loan surcharge amount
2 and prepare and file a recommended order for Commission consideration, within thirty (30) days of
3 the filing of the Company's application requesting implementation of the loan surcharge.

4 IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
5 Water Service shall provide to the Commission's Utilities Division, upon request, a copy of any loan
6 documents executed pursuant to the authorizations granted herein.

7 IT IS FURTHER ORDERED that Ash Fork Development Association, Inc. d/b/a Ash Fork
8 Water Service file with Docket Control, as a compliance item in this docket, within 90 days of the
9 effective date of this Decision, at least three BMPs in the form of tariffs that substantially conform to
10 the templates created by Staff. The templates created by Staff are available on the Commission's
11 website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may request cost
12 recovery of the actual costs associated with the BMPs implemented in its next general rate application.

13 ...

14 ...

15 ...

16 ...

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

27 ...

28 ...

1 IT IS FURTHER ORDERED that, in addition to the collection of its regular rates and charges,
2 Ash Fork Development Association, Inc. d/b/a Ash Fork Water Service shall collect from its customers
3 a proportionate share of any privilege, sales or use tax in accordance with A.A.C. R14-2-409(D).

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRMAN _____ COMMISSIONER

9
10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER

11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive Director
13 of the Arizona Corporation Commission, have hereunto set my
14 hand and caused the official seal of the Commission to be affixed
15 at the Capitol, in the City of Phoenix, this _____ day
16 of _____ 2016.

17 _____
18 JODI JERICH
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____
22 SMH:dp(rt)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

SERVICE LIST FOR:

ASH FORK DEVELOPMENT ASSOCIATION, INC.
D/B/A ASH FORK WATER SERVICE

DOCKET NOS.:

W-01004B-15-0313 AND W-01004B-15-0342

Lewis E. Hume
ASH FORK WATER SERVICE
PO Box 436
518 Lewis Avenue
Ash Fork, AZ 86320

Janice Alward, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Thomas Broderick, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007