

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

DOCKETED

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

JUN 10 2016

2016 JUN 10 PM 3 28

FROM: Utilities Division

DOCKETED BY *KA*

DATE: June 10, 2016

RE: IN THE MATTER OF THE APPLICATION OF TIERRA BUENA WATER COMPANY, INC. FOR AN INCREASE IN ITS RATES AND FOR AUTHORITY TO INCUR LONG-TERM DEBT (DOCKET NOS. W-02076A-15-0135 AND W-02076A-15-0024)

INTRODUCTION AND BACKGROUND

Tierra Buena Water Company, Inc. ("Tierra Buena" or "Company") is a class E Arizona public service corporation that provides water service to approximately 127 customers. The Company's service area is located in a non-incorporated community, north of the Town of Litchfield Park and west of the City of Glendale in Maricopa County. The current rates were authorized in Decision No. 75292, dated October 27, 2015. This Decision authorized the Company to incur long-term debt in an amount not to exceed \$904,573 pursuant to a loan agreement with the Water Infrastructure Finance Authority or Arizona ("WIFA") to fund plant needed to remedy the Company's noncompliant arsenic levels. The Decision also authorized a WIFA loan surcharge recovery mechanism that would enable Tierra Buena to pay for the principle, interest, reserve fund and taxes related to the loan.

Decision No. 75292 stated, "IT IS FURTHER ORDERED that upon filing notice confirming the loan's execution, Tierra Buena Water Company, Inc. may file with Docket Control, in this docket, an application requesting implementation of the loan surcharge, as discussed herein." The Decision also ordered Staff to calculate the appropriate loan surcharge amount and to file a recommended order within 30 days of Tierra Buena's application requesting implementation of the loan surcharge.

On May 3, 2016, the Company filed documentation for a \$210,891 loan agreement with WIFA. On May 11, 2016, the Company filed a certification of loan compliance and an application for implementation of the loan surcharge.

STAFF'S CALCULATION OF THE SURCHARGE FOR THE \$210,891 WIFA LOAN

The Company requires an additional \$20,478.05 to pay for principal, interest, the debt reserve payment, and income tax on the loan. Accordingly, Staff has calculated the WIFA loan surcharge using the actual amount of the loan, interest rate, and customer count as shown on Schedule CSB-1. Further, in compliance with Decision No. 75292, Staff has amortized the loan using 19.5 years and has reflected only the depreciation expense on the plant funded with the WIFA

loan. To collect the \$20,478.05, Staff recommends approval of the WIFA loan surcharges presented below:

MONTHLY WIFA LOAN SURCHARGE

5/8 x 3/4-Inch Meter	\$ 5.37
3/4-Inch Meter	\$ 8.06
1-Inch Meter	\$ 13.44
1 1/2-Inch Meter	\$ 26.87
2-Inch Meter	\$ 43.00
3-Inch Meter Surcharge	\$ 80.62
4-Inch Meter Surcharge	\$ 134.37
6-Inch Meter Surcharge	\$ 268.74

STAFF'S RESPONSE TO COMPANY'S "APPLICATION TO AMEND DECISION NO. 75292" FILED ON FEBRUARY 29, 2016

On February 29, 2016, the Company filed an "Application to Amend Decision No. 75292" to implement a water acquisition surcharge. The filing explained that WIFA declined to fund \$21,704 to purchase water from Valley Utilities as WIFA cannot lend money to purchase water. On page 2, beginning at line 10 of the filing, the Company stated:

After learning about WIFA's position, the Company asked Commission staff how it should proceed. Commission staff suggested the Company file a motion to amend the decision and implement a surcharge to pay Valley Utilities for the water. Accordingly, the Company is filing this application to amend Decision No. 75292 to implement a water acquisition surcharge.

In the Company's May 11, 2016 filing to implement the WIFA loan surcharge, the Company requested that "Staff also address the issues raised in Tierra Buena's Application to Amend Decision No. 75292 filed on February 29, 2016 in this docket."

Staff's Response

The Company, on page 3, line 3 of Tierra Buena's "Application to Amend Decision No. 75292" (Docket Nos. W-02076A-15-0135 and W-02076A-15-00024) filed on February 29, 2016, provides two options to resolve the purchased water issue. It states, "Therefore, the Company moves the Commission for either: (1) authority to implement the water acquisition surcharge; or (2) authority to enter into a water exchange agreement with Valley Utilities. To this date and to Staff's knowledge the Commission has not acted upon the Company's request. In the event that the Commission approves the Company's request to amend Decision No. 75292 pursuant to A.R.S. §40-252, Staff recommends that the Company's request to enter into a water exchange agreement with Valley Utilities as discussed in Tierra Buena's "Application to Amend Decision No. 75292" be approved.

CONCLUSIONS AND RECOMMENDATIONS

Staff concludes that the Company should be ordered to file a full rate case application no later than six years from the effective date of this order, so that Staff can determine that the projects are completed and include them in rate base. Further, Staff can at that time recommend that the loan surcharges or debt service be included in base rates.

Staff concludes that the Company has filed the required loan documentation pursuant to Decision No. 75292.

Staff concludes that authorization of a WIFA loan surcharge that includes the debt service costs on the financing is appropriate and recommends approval.

Staff recommends approval of a WIFA loan surcharge comprised of the monthly customer components presented in Schedule CSB-1.

Staff recommends that the Company file within 30 days of a Decision in this matter a WIFA loan surcharge tariff consistent with the rates reflected on Schedule CSB-1.

Staff recommends that the Company begin billing the WIFA loan surcharge on the first of the month after the effective date of this order.

Staff recommends that the Company notify its customers of the WIFA loan surcharge tariff approved herein within 30 days of the effective date of the Decision in this proceeding.

Staff recommends that the Company file a full rate case application no later than five years from the effective date of this order.

Staff recommends that in the event that the Commission approves the Company's request to amend Decision No. 75292 pursuant to A.R.S. §40-252, that the Company's request to enter into a water exchange agreement with Valley Utilities as discussed in Tierra Buena's "Application to Amend Decision No. 75292" be approved.



Thomas M. Broderick
Director
Utilities Division

TMB:CSB:red\ML

ORIGINATOR: Crystal S. Brown

WIFA LOAN SURCHARGE CALCULATION

Loan Amount: **\$210,891**
Term (In Years): **19.5**
WIFA Interest & Fee Rate **4.675%**

Step 1 - Find the Principal and Interest Components of the Annual Surcharge Revenue

\$6,788.04 Principal (From Loan Amortization Schedule)
\$9,714.93 Plus: Interest (From Loan Amortization Schedule)
\$16,502.97 Debt Service Component of the Annual Surcharge Revenue

Step 2 - Find the Gross Revenue Conversion Factor

1.26242322 From Testimony Staff Report, Schedule CSB-1, Page 3

Step 3 - Find the Incremental Income Tax Factor

1.26242 minus 1 = 0.26242

Step 4 - Find the Annual Income Tax Component of Surcharge Related To Principle

0.26242 Incremental Income Tax Factor (From Step 3)
\$6,788.04 Multiplied by: Annual Principal Payment on Loan from Step 1 (Note: Interest Expense is tax deductible)
\$1,781.35 Annual Income Tax Component Related to the Principle

Step 5 - Find the Annual Income Tax Component of Surcharge Related to Depreciation Expense

0.26242 Incremental Income Tax Factor (From Step 3)
\$4,217.82 Depreciation Expense on WIFA Loan Funded Plant (\$210,891 x 2.00%)
\$1,106.86 Annual Income Tax Component of Surcharge Related to Depreciation Expense

Step 6 - Find the Net Annual Income Tax Component of Surcharge

\$1,781.35 Annual Income Tax Component Related to the Principle (From Step 4)
(\$1,106.86) Less: Annual Income Tax Component of Surcharge Related to Depreciation Expense (From Step 5)
\$674.49 Net Annual Income Tax Component of Surcharge Revenue

Step 7 - Find the Debt Reserve Component of the Annual Surcharge Revenue

\$16,502.97 Annual Interest and Principal Payments on the Loan (From Step 1)
20% Multiplied by: One-fifth of Annual Principal and Interest Payment
\$3,300.59 Debt Reserve Component of the Annual Surcharge Revenue for first five years

Step 8 - Find the Annual Surcharge Revenue Requirement Needed for the Loan Including Reserve Fund

\$674.49 Net Annual Income Tax Component of the Annual Surcharge Revenue (From Step 6)
\$16,502.97 Plus: Debt Service Component of the Annual Surcharge Revenue (From Step 1)
\$3,300.59 Plus: Annual Reserve Fund Deposit (From Step 7)
\$20,478.05 Total Annual Surcharge Revenue Requirement for the Loan

Step 9 - Find the Equivalent Bills

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Multiplier	Number of Customers	Number of Months in Year	Equivalent Bills Col B x C x D
5/8"x 3/4" Meter	1	x 0	x 12	= -
3/4" Meter	1.5	x 0	x 12	= -
1" Meter	2.5	x 127	x 12	= 3,810
1 1/2" Meter	5	x 0	x 12	= -
2" Meter	8	x 0	x 12	= -
3" Meter	15	x 0	x 12	= -
4" Meter	25	x 0	x 12	= -
6" Meter	50	x 0	x 12	= -
		<u>127</u>		<u>3,810</u>

Step 10 - Find the Monthly Surcharge for the 1-Inch Meter Size Customers

\$20,478.05 Total Annual Surcharge Revenue Requirement for the Loan (From Step 8)
3,810 Divided by: Total Number of Equivalent Bills (From Step 9)
\$5.37 Monthly Surcharge for 1-Inch Customers

Step 11 - Find the Monthly Surcharge for the Remaining Meter Size Customers

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Multiplier	1-Inch Customers' Surcharge	Surcharge by Meter Size Col B x C	
5/8"x 3/4" Meter	1	x \$5.37	= \$5.37	
3/4" Meter	1.5	x \$5.37	= \$8.06	
1" Meter	2.5	x \$5.37	= \$13.44	
1 1/2" Meter	5	x \$5.37	= \$26.87	
2" Meter	8	x \$5.37	= \$43.00	
3" Meter	15	x \$5.37	= \$80.62	
4" Meter	25	x \$5.37	= \$134.37	
6" Meter	50	x \$5.37	= \$268.74	

Step 12 - Recalculation of Annual Surcharge Revenue

Col A	Col B	Col C	Col D	Col E
Meter Size	Number of Customers	Number of Months in Year	Surcharge by Meter Size	Annual Surcharge Rev Col B x C x D
5/8"x 3/4" Meter	0	x 12	x \$5.37	= \$0.00
3/4" Meter	0	x 12	x \$8.06	= \$0.00
1" Meter	127	x 12	x \$13.44	= \$20,478.05
1 1/2" Meter	0	x 12	x \$26.87	= \$0.00
2" Meter	0	x 12	x \$43.00	= \$0.00
3" Meter	0	x 12	x \$80.62	= \$0.00
4" Meter	0	x 0	x \$134.37	= \$0.00
6" Meter	0	x 0	x \$268.74	= \$0.00
	<u>127</u>		<u>\$580.48</u>	<u>\$20,478.05 (From Step 8)</u>

Line

No.								
1	WIFA Loan Amount Requested	\$210,891						
2	Down Payment:	\$0						
3	Amount Financed:	\$210,891						
4	Number of years:	19.5	Compounding Periods	12				
5	WIFA Interest & Fee Rate	4.675%						

LOAN AMORTIZATION SCHEDULE

12	13	14	15	11 Payments		12	13	14	15
				16	17				
16	17	18	19	20	21	22	23	24	25
Period	Loan payment (1)	Beginning-of-month principal (2)	Interest [r * (2)] (3)	Principal [(1) - (3)] (4)	End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)	
17	1	\$1,375.25	\$210,891.00	\$821.60	\$553.65	\$210,337.35			
18	2	1,375.25	210,337.35	819.44	555.81	209,781.54			
19	3	1,375.25	209,781.54	817.27	557.97	209,223.57			
20	4	1,375.25	209,223.57	815.10	560.15	208,663.42			
21	5	1,375.25	208,663.42	812.92	562.33	208,101.09			
22	6	1,375.25	208,101.09	810.73	564.52	207,536.57			
23	7	1,375.25	207,536.57	808.53	566.72	206,969.85			
24	8	1,375.25	206,969.85	806.32	568.93	206,400.92			
25	9	1,375.25	206,400.92	804.10	571.14	205,829.78			
26	10	1,375.25	205,829.78	801.88	573.37	205,256.41			
27	11	1,375.25	205,256.41	799.64	575.60	204,680.81			
28	12	1,375.25	204,680.81	797.40	577.85	204,102.96	9,714.93	6,788.04	16,502.97

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION)
 OF TIERRA BUENA WATER COMPANY,)
 INC. FOR AN INCREASE IN ITS RATES)
 AND FOR AUTHORITY TO INCUR)
 LONG-TERM DEBT)

DOCKET NOS. W-02076A-15-0135
 W-02076A-15-0024

DECISION NO. _____

ORDER

Open Meeting
 July 12 and July 13, 2016
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction and Background

1. Tierra Buena Water Company, Inc. ("Tierra Buena" or "Company") is a class E Arizona public service corporation that provides water service to approximately 127 customers. The Company's service area is located in a non-incorporated community, north of the Town of Litchfield Park and west of the City of Glendale in Maricopa County. The current rates were authorized in Decision No. 75292, dated October 27, 2015. This Decision authorized the Company to incur long-term debt in an amount not to exceed \$904,573 pursuant to a loan agreement with the Water Infrastructure Finance Authority or Arizona ("WIFA") to fund plant needed to remedy the Company's noncompliant arsenic levels. The Decision also authorized a WIFA loan surcharge recovery mechanism that would enable Tierra Buena to pay for the principle, interest, reserve fund, and taxes related to the loan.

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1 \$21,704 to purchase water from Valley Utilities as WIFA cannot lend money to purchase water. On
2 page 2, beginning at line 10 of the filing, the Company stated,

3 6. "After learning about WIFA's position, the Company asked Commission staff how it
4 should proceed. Commission staff suggested the Company file a motion to amend the decision and
5 implement a surcharge to pay Valley Utilities for the water. Accordingly, the Company is filing this
6 application to amend Decision No. 75292 to implement a water acquisition surcharge."

7 7. In the Company's May 11, 2016 filing to implement the WIFA loan surcharge, the
8 Company requested that "Staff also address the issues raised in Tierra Buena's Application to Amend
9 Decision No. 75292 filed on February 29, 2016 in this docket."

10 *Staff's Response*

11 8. The Company, on page 3, line 3 of Tierra' Buena's "Application to Amend Decision
12 No. 75292" (Docket Nos. W-02076A-15-0135 and W-02076A-15-00024) filed on February 29, 2016,
13 provides two options to resolve the purchased water issue. It states, "Therefore, the Company moves
14 the Commission for either: (1) authority to implement the water acquisition surcharge; or (2) authority
15 to enter into a water exchange agreement with Valley Utilities. To this date and to Staff's knowledge
16 the Commission has not acted upon the Company's request. In the event that the Commission
17 approves the Company's request to amend Decision No. 75292 pursuant to A.R.S. §40-252, Staff
18 recommends that the Company's request to enter into a water exchange agreement with Valley
19 Utilities as discussed in Tierra Buena's "Application to Amend Decision No. 75292" be approved.

20 **Conclusions and Recommendations**

21 9. Staff concludes that the Company should be ordered to file a full rate case application
22 no later than five years from the effective date of this order, so that Staff can determine that the
23 projects are completed and included in rate base. Further, Staff can recommend that the loan
24 surcharges or debt service be included in base rates.

25 10. Staff concludes that the Company has filed the required loan documentation pursuant
26 to Decision No. 75292.

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ORDER

IT IS THEREFORE ORDERED that the application by Tierra Buena Water Company, Inc. for the implementation of its WIFA loan surcharge mechanism is approved as discussed herein.

IT IS FURTHER ORDERED that the Tierra Buena Water Company, Inc. is hereby authorized and directed to file with the Commission’s Docket Control, as a compliance item in this docket, within 30 days of the effective date of this Decision, a revised tariff setting forth the following WIFA loan surcharges:

MONTHLY WIFA LOAN SURCHARGE

5/8 x 3/4-Inch Meter	\$ 5.37
3/4-Inch Meter	\$ 8.06
1-Inch Meter	\$ 13.44
1 1/2-Inch Meter	\$ 26.87
2-Inch Meter	\$ 43.00
3-Inch Meter Surcharge	\$ 80.62
4-Inch Meter Surcharge	\$ 134.37
6-Inch Meter Surcharge	\$ 268.74

IT IS FURTHER ORDERED that Tierra Buena Water Company, Inc. file within 30 days of a Decision in this matter a WIFA loan surcharge tariff consistent with the rates reflected on Table A.

IT IS FURTHER ORDERED that the Tierra Buena Water Company, Inc. begin billing the WIFA loan surcharge on August 1, 2016.

IT IS FURTHER ORDERED that the Tierra Buena Water Company, Inc. notify its customers of the WIFA loan surcharge tariff approved herein within 30 days of the effective date of the Decision in this proceeding.

IT IS FURTHER ORDERED that in the event that the Commission approves Tierra Buena Water Company, Inc.’s request to amend Decision No. 75292 pursuant to A.R.S. §40-252, that Tierra Buena Water Company, Inc.’s request to enter into a water exchange agreement with Valley Utilities as discussed in Tierra Buena Water Company, Inc.’s “Application to Amend Decision No. 75292” be approved.

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IT IS FURTHER ORDERED that the Tierra Buena Water Company, Inc. file a full rate case application no later than six years from the effective date of this order.

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

BY THE 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 this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

TMB:CSB:red/ML

1 SERVICE LIST FOR: Tierra Buena Water Company, Inc.
2 DOCKET NOS. W-02076A-15-0135 and W-02076A-15-0024

3 Mr. Steve Wene
4 Moyes Sellers & Hendricks, Ltd.
5 1850 North Central Avenue, Suite 1100
6 Phoenix, Arizona 85004

6 Mr. Thomas M. Broderick
7 Director, Utilities Division
8 Arizona Corporation Commission
9 1200 West Washington Street
10 Phoenix, Arizona 85007

9 Ms. Janice M. Alward
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13 Mr. Dwight Nodes
14 Chief Administrative Law Judge, Hearing Division
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