

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED

FEB 3 1988

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MARCIA WEEKS
CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
DALE H. MORGAN
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF)
FLAGSTAFF RANCH WATER COMPANY, INC.,)
AN ARIZONA CORPORATION, FOR A CERTIFI-)
CATE OF CONVENIENCE AND NECESSITY TO)
OPERATE A WATER UTILITY IN PORTIONS OF)
COCONINO COUNTY, ARIZONA.)
)
)

DOCKET NO. U-2502-87-206

DECISION NO. 55874

OPINION AND ORDER

DATE OF HEARING: October 27, 1987

PLACE OF HEARING: Phoenix, Arizona

PRESIDING OFFICER: Jerry L. Rudibaugh

APPEARANCES: MARTINEZ & CURTIS, by William P. Sullivan, on behalf
of Flagstaff Ranch Water Company, Inc.

Janice Urbanic, Staff Attorney, on behalf of the
Arizona Corporation Commission

BY THE COMMISSION:

On August 18, 1987, Flagstaff Ranch Water Co., Inc. ("Applicant"), an
Arizona corporation, filed an application with the Arizona Corporation
Commission ("Commission") for a Certificate of Convenience and Necessity
("Certificate" or "CC&N") to operate a water utility in portions of Coconino
County, Arizona ("County"). On September 28, 1987, Applicant filed a
supplement to its application in which it requested authority to issue stock.

Pursuant to notice dated October 13, 1987, this matter came before a duly
authorized Hearing Officer of the Commission at the Commission's offices in
Phoenix, Arizona on October 29, 1987. Applicant and the Commission's
Utilities Division Staff ("Staff") appeared through counsel. Evidence was
presented concerning the application, and after a full public hearing this
matter was adjourned pending submission of a Recommended Opinion and Order by

1 the Presiding Officer to the Commission.

2 DISCUSSION

3 The requested certificated area contains approximately 1,012 acres and is
4 located approximately 1.8 miles west of the intersection of I-40 and I-17 near
5 the City of Flagstaff ("City"). The area is located within Sections 23, 24,
6 and 25. Township 21 North, Range 6 East, Gila and Salt River Base and
7 Meridian, in the County. The following are the owners of the requested area:
8 Flagstaff Ranch Associates, Notre Dame Development Corporation, State Mortgage
9 Company, and I.C. 40 Partners (hereinafter, collectively referred to as
10 "Developers"). The Developers want to develop their land but currently there
11 is no existing water company and the City will not provide water service.
12 According to Applicant, there is expected to be substantial growth in the
13 area. In fact, the State of Arizona has built a full scale diamond
14 interchange off Interstate I-10 that abuts the proposed certificated area.
15 The area is projected to be built-out in approximately 20 years with over
16 14,000 people. Further, it will consist of a mixed use of industrial,
17 commercial, and residential construction.

18 The owners of I.C. 40 Partners have requested water service commencing in
19 June 1988 for construction of a motel. We note that the owners of I.C. 40
20 Partners are also the initial incorporators of Applicant. Based on the
21 application, approximately 75 customers were anticipated in 1988. However,
22 except for the aforementioned customer, the only other potential customer that
23 Applicant was able to identify at the hearing was an industrial plant possibly
24 needing water by September of 1988. Applicant indicated that the initial
25 certified operator of the system will be Mr. William B. Howe who, since 1980,
26 has been the general manager of Doney Park Water and as a result is aware of
27 the Commission rules and regulations as well as the operations of a small
28 water company in the Flagstaff area.

1 As a supplement to its application, Applicant has requested Commission
2 approval to issue up to 4,000,000 shares of preferred stock and 20,000 shares
3 of common stock in order to finance the construction of the water system.
4 Initially, Applicant plans to issue 7,000 shares of common and 2,000,000
5 shares of preferred stock. The owners of I.C. 40 Partners are to receive the
6 7,000 shares of common stock for forming the water company. The preferred
7 stock will be issued to the Developers based upon the amount of acreage each
8 own in the proposed service area. In turn, the Developers will contribute
9 cash and assets to construct the initial distribution system. The preferred
10 stock shall be non-assessable and shall be entitled to receive a seven percent
11 dividend prior to any dividend being paid on the common stock. Further, the
12 preferred dividends are not cumulative. Although construction of the
13 distribution system has not started, we note there is an existing well owned
14 by Flagstaff Ranch capable of producing 140,000 gallons per day. For stock
15 purposes, Applicant has placed a value on the aforementioned well and its
16 corresponding site easements of \$841,000. Flagstaff Ranch will be
17 contributing these assets for its shares of preferred stock while State
18 Savings Mortgage Company, Notre Dame Development, and I.C. 40 Partners will be
19 contributing cash for their preferred stock in the amounts of \$525,000,
20 \$467,000 and \$172,000, respectively.

21 Based on expected growth in the area, Applicant estimated the initial
22 well would provide sufficient water for approximately three years. A
23 hydrological study of the proposed area was conducted, from which it was
24 concluded that additional wells could be drilled on site to provide a 100 year
25 supply. Further, it was concluded that the water quality was satisfactory for
26 use as a potable supply without treatment. It is also noted that the area is
27 not in an active management area.

28 Staff analyzed the application and recommended granting of the

1 Certificate and approval of the financing along with ordering Applicant to do
2 the following:

- 3 1. Install flow meters at the well heads.
- 4 2. Maintain its books and records in conformity with the NARUC
5 Uniform System of Accounts for Class B Water Utilities.
- 6 3. File a schedule for the collection of any proportionate
7 share of privilege, sales, or use tax.
- 8 4. Notify the Commission of all stock issuances.
- 9 5. File for rate review within thirty months from commencing
10 operations.
- 11 6. Secure a performance bond in the amount of \$32,000.

12 We concur with the above recommendations and will also order Applicant to
13 notify the Commission when operations actually commence. Further the
14 notification of stock issuance should be within 30 days of the actual
15 issuance. As to the performance bond, we note that for some time now, we have
16 been compelling new applicants to secure a performance bond upon the granting
17 of a new certificate. We feel this is necessary to ensure that customers of a
18 new water company are assured continuing public water service in the event of
19 the company's financial failure. We shall, therefore, require Applicant to
20 maintain a performance bond (cash deposit, surety bond, or similar
21 alternative, i.e., certificate of deposit) with the Commission in the amount
22 of \$32,000. This will help produce a financially secure system and enable
23 Applicant to meet its continuing obligations to its customers in the event of
24 unforeseen circumstances. A certificate will not issue from this Commission
25 until said bond is posted. Applicant shall maintain the aforementioned bond
26 until such time as the system achieves viable operations, is sold to another
27 company, or 10 years have passed, whichever is sooner. At such time, the bond
28 will be returned to Applicant upon application to and approval of the

1 Commission.

2 Staff projected Applicant's expenses over the next five years and
3 recommended rates that would enable Applicant to sustain a positive cash flow
4 after approximately four years. Applicant had initially proposed
5 substantially lower rates, but concurred with Staff's rates. Staff also
6 proposed service line and meter installation charges which were substantially
7 less than those proposed by Applicant. Staff used the high end of the range
8 of meter and service line installation charges that had been prepared as a
9 guideline by the Commission's Engineering Division in January 1987. As
10 additional support, Staff compared its proposed charges with those recently
11 approved (See Decision No. 55650, July 15, 1987) for a water utility
12 (Ponderosa Utility Corporation) located in the general vicinity of Applicant's
13 proposed area. We note that the comparable charges were higher than those
14 Staff recommended by \$45 to \$75 per meter size. Applicant revised its
15 initially proposed charges after performing a cost study (Applicant Exhibit
16 No. 10) of service line and meter installation charges for the general City
17 area.

18 We concur with the rates which the Staff has recommended and which the
19 Company has accepted. As to the service line and meter installation charges,
20 we find Applicant's cost analysis for the actual service area to be more
21 reliable than Staff's range for all utilities. Hence, we will approve
22 Applicant's revised charges except as noted hereinafter. Included in
23 Applicant's cost analysis was \$62 per installation for repairs to landscaping
24 and asphalt. Staff questioned the need for this charge since the land is
25 currently undeveloped. We concur with Staff and will not allow inclusion of
26 the repair costs. In addition, Staff indicated that the amounts included for
27 meter costs were excessive. We will also take that into consideration in
28 setting the appropriate charges.

1 Applicant proposed a connection fee of \$1,000 which would be charged each
 2 new customer desiring water service. A new customer was defined as a customer
 3 seeking service to a structure or lot which had never previously received
 4 service. At the hearing, Applicant explained that the \$1,000 fee was intended
 5 to be charged only to developers. In addition, the term "developer" was
 6 defined as somebody who is designing and building a subdivision. Further, the
 7 monies collected would be maintained in a separate account to be utilized only
 8 for capital expenditures.

9 Staff recommended the proposed connection fee be denied as it was not
 10 cost-based. According to Staff, approval of the connection fee will place the
 11 burden of financing future construction onto Applicant's customers. Staff
 12 argued that if Applicant was unable to finance the project, then the
 13 application should be denied. Applicant attempted to respond to Staff's
 14 concerns by showing that the connection fee was related to the cost of a new
 15 well that would be needed in approximately three to four years. We share
 16 Staff's concerns and accordingly will not approve the connection fee. First,
 17 there is no guarantee when and if a new well will be needed. In addition, we
 18 are concerned that Applicant's initial customers will be indirectly paying for
 19 the current well and for future wells.

20 Applicant had proposed a purchase power adjustment mechanism ("PPAM").
 21 Staff recommended denial since there was not historical data to support a
 22 PPAM. As a result, Applicant withdrew its request for a PPAM.

23 * * * * *

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

26 FINDINGS OF FACT

27 1. Applicant is an Arizona corporation which was formed for the
 28 purpose of providing water utility service as a public service corporation.

1 2. On August 18, 1987, Applicant filed an application with the
2 Commission for a Certificate to furnish water service to various portions of
3 the County.

4 3. On September 28, 1987, Applicant filed a supplement to its
5 application in which it requested authority to issue 20,000 shares of \$1 par
6 value common stock and 4,000,000 shares of preferred stock, \$1 par value.

7 4. The area proposed to be included in Applicant's certificated area
8 consists of approximately 1,012 acres located within Sections 23, 24, and 25,
9 Township 21 North, Range 6 East, Gila and Salt River Base and Meridian, in the
10 County.

11 5. A hearing was held regarding the application on October 27, 1987.

12 6. Applicant notified all of the property owners in the requested area
13 of its proposed application.

14 7. Applicant has obtained the necessary franchise from the County to
15 serve the area sought by the application.

16 8. There are no public service corporations serving or certificated to
17 serve the area.

18 9. Applicant is suited to provide water service to the proposed area.

19 10. Applicant concurred with the following rates and charges
20 recommended by Staff:

- 21 . . .
- 22 . . .
- 23 . . .
- 24 . . .
- 25 . . .
- 26 . . .
- 27 . . .
- 28 . . .

1		<u>Staff Proposal</u>		
2			<u>Gallons</u>	
		<u>Charge</u>	<u>Included</u>	
3	<u>Residential and Commercial:</u>			
4	5/8" x 3/4" Meter Per Month	\$ 18.00	1,000	
	3/4" Meter Per Month	\$ 27.00	N/A	
5	1" Meter Per Month	\$ 45.00	N/A	
	1-1/2" Meter Per Month	\$ 90.00	N/A	
6	2" Meter Per Month	\$144.00	N/A	
	3" Meter Per Month	\$270.00	N/A	
7	4" Meter Per Month	\$450.00	N/A	
	5" Meter Per Month	\$675.00	N/A	
8	6" Meter Per Month	\$900.00	N/A	
9	<u>Commodity Charge:</u>			
10	Per 1,000 Gallons	\$ 2.95		
11	<u>Flat Rate:</u>			
12	Per Stand Pipe Per Month/Fire Hydrant-2"	\$ 10.00		
	Per Stand Pipe Per Month/Fire Hydrant-4"	\$ 15.00		
13	Per Stand Pipe Per Month/fire Hydrant-6"	\$ 30.00		
14	<u>Bulk Water Sale:</u>			
15	Per 1,000 Gallons	\$ 5.30(A)*		
16	*A. The Company may provide bulk water service within and outside the CC&N			
17	area at \$5.30 per 1,000 gallons after all the service area customers are			
	served and upon availability of water.			
18	11. Applicant and Staff proposed the following charges:			
19		<u>Initial</u>	<u>Revised</u>	
20		<u>Applicant</u>	<u>Applicant</u>	<u>Staff</u>
		<u>Proposal</u>	<u>Proposal</u>	<u>Proposal</u>
21	<u>Service Line and Meter Installation Charges:</u>			
22	5/8" x 3/4" Meter	\$1,100	\$ 391	\$ 225
	3/4" Meter	\$2,100	\$ 429	\$ 270
23	1" Meter	\$1,400	\$ 551	\$ 300
	1-1/2" Meter	\$1,800	\$ 993	\$ 425
24	2" Meter	\$2,200	\$1,342	\$ 550
	3" Meter Turbo	\$3,000	\$2,604	\$ 750
25	4" Meter Turbo	N/A	\$3,951	\$1,375
	5" Meter Turbo	N/A	-	\$2,090
26	6" Meter Turbo	N/A	\$6,313	\$2,800
27	...			
28	...			

1 Service Charges:

2	Establishment (R14-2-403.D.1)	\$ 50.00	\$ 50.00
3	Establishment (After Hours) (R14-2-403.D.1)	\$ 75.00	\$ 75.00
4	Reconnection (Delinquent) (R14-2-403.D.1)	\$ 75.00	\$ 75.00
5	Meter Test (R14-2-408.F.1)	\$ 20.00	\$ 20.00
6	Security Deposit Security Deposit Interest (R14-2-403-B.3)	R14-2-403.B 7.5% yr.	R14-2-403.B 6.0% yr.
7	Re-Establishment Within 12-Months (R14-2-403.D.1)	No. of Mos. x Min. Chg.	No. of Mos. x Min. Chg.
8	NSF Check (R14-2-409.F.1)	\$ 15.00	\$ 15.00
9	Deferred Payment (R14-2-408.G.6)	1.5%	1.5%
10	Re-Read (R14-2-408.C.2)	\$ 20.00	\$ 20.00
11	Connection Fee	\$1,000.00	N/A
12	Late Penalty Fee	\$ 10.00	\$ 10.00

12. A performance bond in the amount of \$32,000 will enable Applicant to continue operating in the event of unforeseen circumstances.

13. The proceeds from the issuance and sale of 2,000,000 shares of preferred stock will be used to purchase the well, site easements, and to construct the initial distribution system.

14. The purpose for which Applicant seeks financing herein is not in whole or in part reasonably chargeable to operating expense or income.

15. The proposed issuance of common and preferred stock has been approved by Applicant's Board of Directors.

16. The proposed common and preferred stock issuance under the terms and conditions set forth herein is compatible with the public interest, sound financial practice, and with the proper performance by Applicant of service as a public service corporation and would not impair its ability to perform such service.

24 CONCLUSIONS OF LAW

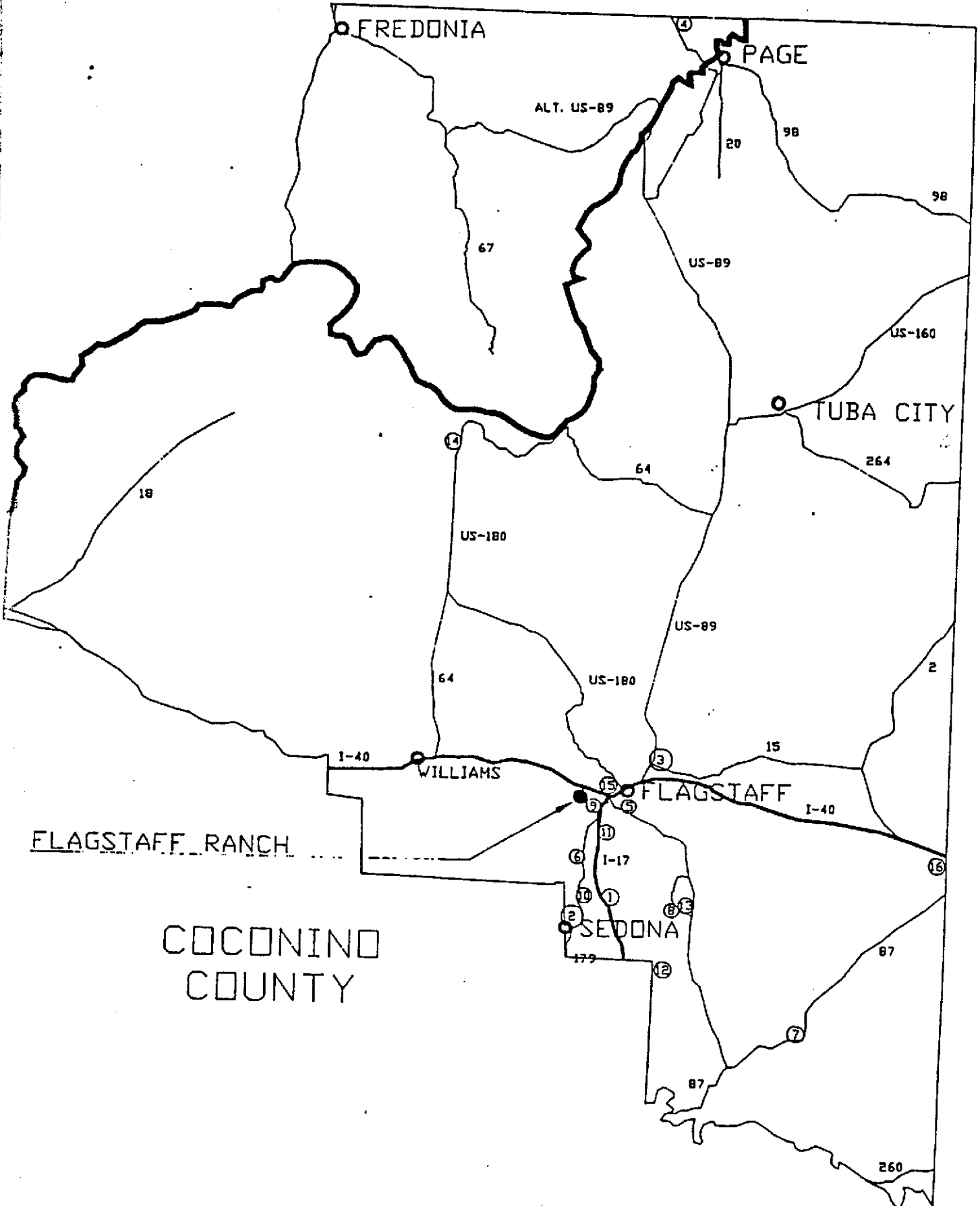
25 1. Applicant, upon commencing operations, will be a public service
26 corporation within the meaning of Article XV of the Arizona Constitution and
27 A.R.S. §§ 40-281 and 40-282.

28 2. The Commission has jurisdiction over Applicant and of the subject

AREA MAP

Schedule RDS- 7

Company : Flagstaff Ranch Water Company
Docket No. : U-2502-87-206
Year Ended : December 31, 1992



1 matter of the application.

2 3. The Commission concludes that there is a public need and necessity
3 for the operation of a water utility.

4 4. Applicant is a fit and proper entity to receive a CC&N for the
5 operation of a water utility.

6 5. The rates and charges established herein are just and reasonable.

7 6. A performance bond in the amount of \$32,000 is reasonably necessary
8 to protect the interests of Applicant's prospective customers.

9 7. The Applicant's proposed financing as set forth hereinabove is for
10 lawful purposes within its corporate powers.

11 8. The application as set forth herein should be granted.

12 9. Applicant withdrew its request for a PPAM.

13 ORDER

14 IT IS THEREFORE ORDERED that the application of Flagstaff Ranch Water
15 Company, Inc. for a Certificate of Convenience and Necessity for the operation
16 of a water utility in the area described in Attachment No. 1 (except as noted
17 below) be, and the same is, hereby granted.

18 IT IS FURTHER ORDERED that the following described area is excluded from
19 the aforementioned certificated area:

20 The Southwest 1/4 of Southwest 1/4 of the Southeast
21 1/4 AND the South 1/2 of the Northwest 1/4 of the
22 Southwest 1/4 of the Southeast 1/4 of Section 23,
Township 21 North, Range 6 East of the Gila and Salt
River Basin Meridian, Coconino County, Arizona.

23 IT IS FURTHER ORDERED that the approval of Flagstaff Ranch Water
24 Company's application for a Certificate of Convenience and Necessity shall be
25 expressly contingent upon Applicant's posting of a form of performance bond in
26 the amount of \$32,000 (cash deposit, surety bond, or similar alternative,

27 . . .

28 . . .

1 i.e., certificate of deposit) with the Commission to ensure that Applicant
 2 shall meet its obligations arising under its Certificate; that in the event
 3 Applicant chooses to make a cash deposit, said amount shall be deposited with
 4 a federally insured financial institution and bear interest at a commercially
 5 acceptable rate; and that the performance bond shall be maintained until
 6 Flagstaff Ranch Water Company, Inc. achieves viable operations, is sold to
 7 another company, or ten years have passed, whichever is sooner, at which time
 8 the bond will be returned to Flagstaff Ranch Water Company, Inc. upon approval
 9 of its application for same.

10 IT IS FURTHER ORDERED that prior to commencing service, Flagstaff Ranch
 11 Water Company, Inc., shall file with the Commission the final Department of
 12 Water Resources Adequacy Statement.

13 IT IS FURTHER ORDERED that prior to commencing service, Flagstaff Ranch
 14 Water Company, Inc., shall install a flow meter at the wellhead.

15 IT IS FURTHER ORDERED that Flagstaff Ranch Water Co., Inc. be, and the
 16 same is, hereby authorized and directed to file with the Commission on or
 17 before March 1, 1988 the following schedule of rates and charges:

18 Monthly Usage Charge:

19	5/8" x 3/4" Meter (Includes 1,000 Gallons)	\$ 18.00
	3/4" Meter	\$ 27.00
20	1" Meter	\$ 45.00
	1-1/2" Meter	\$ 90.00
21	2" Meter	\$144.00
	3" Meter	\$270.00
22	4" Meter	\$450.00
	6" Meter	\$900.00
23	Excess of Minimum - Per 1,000 Gallons	\$ 2.95
24	Per Stand Pipe Per Month/Fire Hydrant - 2"	
	(Flat Rate)	\$ 10.00
25	Per Stand Pipe Per Month/Fire Hydrant - 4"	
	(Flat Rate)	\$ 15.00
26	Per Stand Pipe Per Month/Fire Hydrant - 6"	
	(Flat Rate)	\$ 30.00
27		
28		

1	Bulk Haulers - Per 1,000 Gallons	\$ 5.30
2	<u>Service Line and Meter Installation Charges:</u>	
	(Refundable Pursuant to A.A.C. R14-2-405)	
3	5/8" x 3/4" Meter	\$ 300
4	3/4" Meter	\$ 350
	1" Meter	\$ 475
5	1-1/2" Meter	\$ 900
	2" Meter	\$ 1,200
6	3" Meter Turbo	\$ 2,500
	4" Meter Turbo	\$ 3,750
7	6" Meter Turbo	\$ 5,000
	<u>Service Charges:</u>	
8	Establishment	\$ 50.00
9	Establishment (After Hours)	\$ 75.00
	Reconnection (Delinquent)	\$ 75.00
10	Meter Test (If Correct)	\$ 20.00
	Security Deposit	R14-2-403.B
11	Security Deposit Interest	6.0% per year
	Re-Establishment (Within 12 Months)	No. of Mos. off System x Min. Chg.
12	NSF Check	\$ 15.00
13	Deferred Payment	1.5% per month
	Re-Read (If Correct)	\$ 20.00
14	Late Penalty Fee	\$ 10.00

15 IT IS FURTHER ORDERED that within thirty months from commencing
16 operations Flagstaff Ranch Water Company, Inc. shall file for rate review.

17 IT IS FURTHER ORDERED that Flagstaff Ranch Water Company, Inc. file a
18 schedule for the collection of any proportionate share of any privilege,
19 sales, or use tax pursuant to A.A.C. R14-2-409(D)(5).

20 IT IS FURTHER ORDERED that Flagstaff Ranch Water Company, Inc. shall
21 maintain its books and records in conformity with the NARUC Uniform System of
22 Accounts for Class B Water Utilities.

23 IT IS FURTHER ORDERED that Flagstaff Ranch Water Company, Inc. be, and the
24 same is, hereby authorized to issue and sell up to 20,000 shares of common
25 stock, \$1.00 par value, and 4,000,000 shares of preferred stock, \$1.00 par
26 value, in accordance with the terms and conditions and for the purposes set
27 forth hereinabove.

28