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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

JIM O'CONNOR – CHAIRMAN
LEA MÁRQUEZ PETERSON
ANNA TOVAR
KEVIN THOMPSON
NICK MYERS

DOCKETED

JAN 24 2024

DOCKETED BY

[Signature]

IN THE MATTER OF THE APPLICATION OF SONOITA VALLEY WATER COMPANY, INC. FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-20435A-23-0156

IN THE MATTER OF THE APPLICATION OF SONOITA VALLEY WATER COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT.

DOCKET NO. W-20435A-23-0214

DECISION NO. 79267

ORDER

Open Meeting
January 9, 2024
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On June 1, 2023, Sonoita Valley Water Company, Inc. ("Sonoita Valley" or "Company") filed an application with the Commission for approval of a rate increase under Docket No. W-20435A-23-0156 ("Rate Docket").

2. On June 2, 2023, a Procedural Order regarding consent to email service was issued in the Rate Docket.

3. On June 13, 2023, Sonoita Valley filed an affidavit of Public Notice.

4. On June 14, 2023, the Company filed a Consent to Email Service.

5. On June 15, 2023, by Procedural Order, Sonoita Valley's consent to email service was approved.

1 6. On June 22, 2023, Sonoita Valley filed a Revised Application.

2 7. On July 3, 2023, the Commission's Utilities Division ("Staff") filed a Letter of
3 Sufficiency stating that Sonoita Valley's application met the sufficiency requirements outlined in
4 Arizona Administrative Code ("A.A.C") R14-2-103 and classified Sonoita Valley as a Class E utility.

5 8. On July 18, 2023, because the timing of a resolution of this matter conflicted with the
6 Commission's then-current Open Meeting schedule, a Procedural Order was issued extending the
7 deadline in this matter to November 30, 2023.

8 9. On the same date, Sonoita Valley filed an application with the Commission for authority
9 to incur long-term debt under Docket No. W-20435A-23-0214 ("Financing Docket").

10 10. On July 21, 2023, a Procedural Order regarding consent to email service was issued in
11 the Financing Docket.

12 11. On the same date, Sonoita Valley filed a Motion to Consolidate the two dockets.

13 12. On July 24, 2023, a procedural conference was held to discuss consolidation and the
14 extension of the deadline for Staff to file its Staff Report.

15 13. On July 28, 2023, by Procedural Order, Docket Nos. W-20435A-23-0156 and W-
16 20435A-23-0214 were consolidated. The Procedural Order also extended the time clock in these
17 matters to December 22, 2023.

18 14. On August 3, 2023, the Staff filed a Request for a Procedural Order, requesting a
19 deadline for the Staff Report of October 30, 2023.

20 15. On the same date, a Procedural Order was issued directing that the Staff Report should
21 be filed on or before October 30, 2023.

22 16. On August 9, 2023, Sonoita Valley filed a Filing of Mailing Public Notice of Financing
23 Application.

24 17. On October 19, 2023, by Procedural Order, because of the granted extensions, the time
25 clock deadline was extended to January 19, 2024, and other procedural deadlines were established.

26 18. On October 30, 2023, Staff filed its Staff Report, recommending approval of a rate
27 increase, and approval of the requested financing and associated surcharge mechanism with conditions.

28 19. On November 13, 2023, Sonoita Valley filed a Response to Staff Report.

1 20. A Recommended Order (“RO”) was docketed on December 19, 2023. No exceptions
2 were filed. The Commission considered the matter at its January 9, 2024, Open Meeting, at which time
3 a verbal amendment to phase in the base rate increase was adopted with the agreement of the Company
4 to the phase-in.

5 21. During the pendency of this matter, three consumer comments in opposition to the rate
6 application and three consumer comments in support of the rate application were filed.

7 **Company Background**

8 22. Sonoita Valley is a Class E for profit public service utility providing water service to
9 approximately 72 customers (58 residential and 14 non-residential) in Santa Cruz County,
10 approximately 40 miles southeast of Tucson, Arizona.¹

11 23. The Company’s Certificate of Convenience and Necessity (“CC&N”) was expanded to
12 its current area by Decision No. 69259 (January 19, 2007). The Commission approved Sonoita
13 Valley’s present permanent rates and charges in Decision No. 71830 (August 10, 2010). The
14 Commission approved an emergency surcharge with an emergency water augmentation surcharge tariff
15 in Decision No. 78577 (May 27, 2022).²

16 24. Sonoita Valley consists of two water systems, Sonoita South Public Water System
17 (“PWS”) No. 12-005 (“Sonoita South”) and Sonoita North PWS No. 12-308 (“Sonoita North”). The
18 Sonoita South system is the larger system and contains three wells, three storage tanks, and 59 customer
19 meters. Sonoita North contains one well, one storage tank, and 15 customer meters.³

20 25. According to Staff, during the test year (“TY”) ending December 31, 2022, Sonoita
21 South’s high customer consumption of 202 gallons per day (“gpd”) occurred in June and low customer
22 consumption of 76 gpd occurred in March, making for an average annual use of 131 gpd per connection.
23 Sonoita North’s high customer consumption of 242 gpd occurred in June and low customer
24 consumption of 89 gpd occurred in March, making for an average annual use of 154 gpd per
25 connection.⁴

26 _____
27 ¹ Staff Report at 1 and 3, Att. B at 9.

28 ² Staff Report, Att. B at 1.

³ *Id.*

⁴ Staff Report, Att. B at 3.

1 26. Staff reported that the Sonoita North and South water systems have adequate production
2 capacity and storage capacity to serve their existing customer bases as well as reasonable growth.⁵

3 27. According to Staff, during the TY Sonoita South experienced an average annual water
4 loss percentage of 27 percent and Sonoita North experienced an average annual water loss percentage
5 of 33 percent, which are outside the standard 10 percent recommended by the Commission. Staff
6 recommends that the Company continue to monitor and address water loss within each system. Staff
7 further recommends that the Company be required, as a compliance item in this docket, to file a separate
8 water loss report for each water system within one year of a Decision in this matter. If the water loss
9 reports indicate water loss in excess of 10 percent, Staff recommends that the Company submit either
10 a detailed Water Loss Reduction Plan or a cost-benefit analysis for each system showing the feasibility
11 of addressing the remaining water loss.⁶

12 28. Based on a compliance report sent to Staff on July 6, 2023, the Arizona Department of
13 Environment Quality (“ADEQ”) has determined that there are no major deficiencies and concluded
14 that the Company’s water system is currently delivering water that meets water quality standards
15 required by 40 Code of Federal Regulations (“CFR”) 141 (National Primary Drinking Water
16 Regulations) and A.A.C. Title 18, Chapter 4.⁷

17 29. According to an Arizona Department of Water Resources (“ADWR”) Water
18 Compliance Report dated June 28, 2023, both Sonoita North and Sonoita South’s water systems are
19 non-compliant with ADWR’s requirements governing water providers and/or community water
20 systems due to failure to file Annual Reports for the years 2021 and 2022. Staff recommends that the
21 Company submit the Annual Reports for 2021 and 2022 to ADWR for the Sonoita North and Sonoita
22 South’s systems within 90 days of a Decision in this matter.⁸

23 30. Staff stated that, as of June 22, 2023, the Commission’s Utilities Division compliance
24 database reported no delinquent items for Sonoita Valley.⁹

25 31. Staff’s Consumer Services database showed seven complaints from January 1, 2020, to

26 ⁵ Staff Report, Att. B at 5.

27 ⁶ Staff Report, Att. B at 6-8.

28 ⁷ Staff Report, Att. B at 9.

⁸ Staff Report, Att. B at 10.

⁹ *Id.*

1 October 20, 2023. In 2021, the Company received one billing complaint. In 2022, Sonoita Valley
 2 received three complaints related to quality of service. In 2023, Sonoita Valley received two billing
 3 complaints and one complaint related to quality of service. According to Staff, all complaints have
 4 been resolved and closed.¹⁰

5 32. Sonoita Valley has an approved Curtailment Plan Tariff that became effective on May
 6 8, 2002. Because Staff updated the Curtailment Plan Tariff template in 2009, Staff recommends that
 7 the Company file with Docket Control an updated Curtailment Plan Tariff within 90 days of a Decision
 8 in the matter.¹¹

9 33. Sonoita Valley filed an updated Backflow Prevention Tariff with the Commission on
 10 June 22, 2023.¹²

11 **Rate Application**

12 **Rate Base**

13 34. Sonoita Valley proposed, and Staff recommends, an Original Cost Rate Base (“OCRB”)
 14 of \$121,376.¹³

15 35. We find that the Company’s OCRB is reasonable and appropriate and will adopt it. As
 16 a result, and given that the Company requested that its Fair Value Rate Base (“FVRB”) be the same as
 17 its OCRB, we find that Sonoita Valley’s Fair Value Rate Base (“FVRB”) is equivalent to its OCRB of
 18 \$121,376.

19 **Operating Statement**

20 36. Sonoita Valley reported that for the TY, the Company had proposed operating revenues
 21 of \$60,711, operating expenses of \$102,456, and TY operating income of negative (\$41,745.)¹⁴ Staff
 22 made no adjustments to the Company’s proposed TY operating revenues and expenses and agrees with
 23 amounts reported in the Company’s application.

24 37. Sonoita Valley’s proposed, and Staff’s recommended operating revenue and operating
 25 expenses stated above are reasonable and should be adopted. Thus, we find that for the TY, Sonoita

26 ¹⁰ Staff Report at 3-4.

27 ¹¹ Staff Report, Att. B at 14.

28 ¹² *Id.*

¹³ Staff Report at 4, Staff Schedule LH-2.

¹⁴ Staff Report at 4, Staff Schedule LH-3.

1 Valley had total operating revenue of \$60,711 and total operating expenses of \$102,456, resulting in
2 TY operating loss of \$41,745.

3 **Revenue Requirement**

4 38. In its application, Sonoita Valley proposed total operating revenue of \$117,446, an
5 increase of \$56,735, or 93.45 percent, over its TY revenue of \$60,711. The Company's proposed
6 revenue produced operating income of \$13,959, an operating margin of 11.89%, a 11.50 percent rate
7 of return on FVRB ("FVROR"), and cash flow before debt service of \$29,576.¹⁵ In its Rate
8 Application, the Company also requested to recover rate case expense of \$15,000 over three years via
9 a surcharge.

10 39. Staff agrees with and recommends the Company's proposed revenue requirement of
11 \$117,446. Due to the Company's request to borrow \$396,142.80 from the Water Infrastructure Finance
12 Authority of Arizona ("WIFA"), Staff also recommends \$39,925 of additional revenues from an
13 estimated loan surcharge which would enable Sonoita Valley to meet WIFA's required minimum debt
14 service coverage ("DSC") of 1.20. Staff recommends that rate case expense of \$15,000 be recovered
15 over five years through a surcharge. Staff's recommended revenue requirement and loan surcharges
16 result in total revenues of \$157,370, operating income of \$24,907, a 20.52 percent FVROR, an
17 operating margin of 15.83%, and cash flow after debt service of \$22,704. Staff states that its
18 recommended revenue requirement provides sufficient cash flow to make and keep the system
19 operating in a safe and reliable manner and provide for contingencies.¹⁶

20 40. We find that Sonoita Valley and Staff's recommended base rate revenue requirement is
21 just and reasonable and should be adopted, however we find that due to the substantial base rate
22 increase in conjunction with the requested financing and expected debt service surcharge, and with the
23 Company's agreement to phase in rates and voluntarily waive a claim to recover the foregone revenue
24 requirement during Phase 1, that it is reasonable and in the public interest to phase in the base rates
25 with Phase 1 to be effective as of February 1, 2024, and Phase 2 to be effective as of February 1, 2025.
26 We further find that Phase 1 base rate revenues should achieve "breakeven" which we define as zero

27 _____
28 ¹⁵ Staff Report at 4, Staff Schedule LH-6.

¹⁶ Staff Report at 4 and 7, Staff Schedule LH-6.

operating income. Breakeven operating income provides a 1.39 DSC on a \$396,125 20-year, 19-year amortizing loan at 8.00% interest exceeding the 1.20 minimum DSC WIFA requirement. The Company did not object to Staff's recommendation to collect the rate case expense of \$15,000 over five years.¹⁷ We find that Staff's recommended treatment of the rate case expense in this matter is reasonable, and we adopt it.

Rate Design

41. The rates for Sonoita Valley at present, as proposed by Sonoita Valley, as recommended by Staff, and as adopted herein, are as follows:

	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>	<u>Order (Phase 2)</u>
<u>MONTHLY MINIMUM CHARGE:</u>				
5/8" x 3/4" Meter	\$30.00	\$57.00	\$57.00	\$57.00
3/4" Meter	45.00	85.50	85.50	85.50
1" Meter	75.00	142.50	142.50	142.50
1 1/2" Meter	150.00	285.00	285.00	285.00
2" Meter	240.00	456.00	456.00	456.00
3" Meter	480.00	912.00	912.00	912.00
4" Meter	750.00	1,425.00	1,425.00	1,425.00
6" Meter	1,500.00	2,850.00	2,850.00	2,850.00
<u>5/8" x 3/4" Meter</u>				
Gallons Included in Minimum	0	0	0	0
First 3,000 Gallons	\$7.23	\$14.82	\$14.61	
From 3,001 to 10,000 Gallons	10.85	22.24	21.92	
Over 10,000 Gallons	13.02	26.69	26.30	
First 3,000 Gallons				\$15.06
From 3,001 to 7,000 Gallons				22.59
Over 7,000 Gallons				27.11
<u>3/4" Meter</u>				
Gallons Included in Minimum	0	0	0	0
First 3,000 Gallons	\$7.23	\$14.82	\$14.61	
From 3,001 to 10,000 Gallons	10.85	22.24	21.92	
Over 10,000 Gallons	13.02	26.69	26.30	
First 3,000 Gallons				\$15.06
From 3,001 to 7,000 Gallons				22.59
Over 7,000 Gallons				27.11

¹⁷ Response to Staff Report at 1 states, "The Company has no issue with the Staff Report."

1	<u>1" Meter</u>				
2	Gallons Included in Minimum	0	0	0	0
3	First 3,000 Gallons	\$7.23	\$14.82	\$14.61	
4	From 3,001 to 10,000 Gallons	10.85	22.24	21.92	
5	Over 10,000 Gallons	13.02	26.69	26.30	
6	From 1 to 15,000 Gallons				\$22.59
7	Over 15,000 Gallons				27.11
8	<u>1 1/2" Meter</u>				
9	Gallons Included in Minimum	0	0	0	0
10	First 3,000 Gallons	\$7.23	\$14.82	\$14.61	
11	From 3,001 to 10,000 Gallons	10.85	22.24	21.92	
12	Over 10,000 Gallons	13.02	26.69	26.30	
13	From 1 to 35,000 Gallons				\$22.59
14	Over 35,000 Gallons				27.11
15	<u>2" Meter</u>				
16	Gallons Included in Minimum	0	0	0	0
17	First 3,000 Gallons	\$7.23	\$14.82	\$14.61	
18	From 3,001 to 10,000 Gallons	10.85	22.24	21.92	
19	Over 10,000 Gallons	13.02	26.69	26.30	
20	From 1 to 60,000 Gallons				\$22.59
21	Over 60,000 Gallons				27.11
22	<u>3" Meter</u>				
23	Gallons Included in Minimum	0	0	0	0
24	First 3,000 Gallons	\$7.23	\$14.82	\$14.61	
25	From 3,001 to 10,000 Gallons	10.85	22.24	21.92	
26	Over 10,000 Gallons	13.02	26.69	26.30	
27	From 1 to 130,000 Gallons				\$22.59
28	Over 130,000 Gallons				27.11
29	<u>4" Meter</u>				
30	Gallons Included in Minimum	0	0	0	0
31	First 3,000 Gallons	\$7.23	\$14.82	\$14.61	
32	From 3,001 to 10,000 Gallons	10.85	22.24	21.92	
33	Over 10,000 Gallons	13.02	26.69	26.30	
34	From 1 to 210,000 Gallons				\$22.59
35	Over 210,000 Gallons				27.11
36	<u>6" Meter</u>				
37	Gallons Included in Minimum	0	0	0	0
38	First 3,000 Gallons	\$7.23	\$14.82	\$14.61	
39	From 3,001 to 10,000 Gallons	10.85	22.24	21.92	
40	Over 10,000 Gallons	13.02	26.69	26.30	
41	From 1 to 440,000 Gallons				\$22.59
42	Over 440,000 Gallons				27.11

1 42. Sonoita Valley's current rate design includes a monthly minimum charge that increases
2 by meter size and inverted three-tier commodity rates with break over points at 3,000 gallons and
3 10,000 gallons for 5/8 x 3/4-inch and 3/4-inch residential meter sizes. According to Staff, for the
4 typical 5/8 x 3/4-inch residential meter, Sonoita Valley's current rates generate 65.67 percent of the
5 Company's revenues from the first-tier commodity rate and monthly minimum charges, 23.52 percent
6 from the second tier, and 10.81 percent from the third tier. For the 5/8 x 3/4-inch meter size, Sonoita
7 Valley's proposed rates would generate 64.52 percent of the Company's revenues from the first-tier
8 commodity rate and monthly minimum charges, 24.31 percent from the second tier, and 11.17 percent
9 from the third tier.¹⁸

10 43. According to the Commission's water policy in Decision No. 75626 (July 25, 2016),
11 inverted three-tiered rates should be structured so that at least 50 percent of the total revenue
12 requirement is generated from the monthly minimum charge and first-tier commodity charge, and
13 between 10 and 20 percent of the revenue requirement is generated from the top-tier commodity charge.

14 44. Staff recommends accepting the Company's approach to structure rates that increase by
15 meter size and inverted three-tier commodity rates.¹⁹ After considering the guidelines in Decision No.
16 75626, Staff recommends break-over points at 3,000 gallons and 10,000 gallons for 5/8 x 3/4-inch and
17 all other residential meter sizes. Staff's recommended rates would generate 63.83 percent of the
18 Company's revenues from the first-tier commodity rate and monthly minimum charges, 23.51 percent
19 from the second tier, and 12.66 percent from the third tier.

20 45. The rate design adopted herein modifies the Company and Staff's recommended rate
21 structure. First, the Company and Staff's proposed rates fail to fully recover the revenue requirement.
22 Second, rather than using 10,000 gallons for the breakover point for all meter sizes, the breakover
23 points in the adopted rate design increase by meter size. Third, the breakover point for 5/8 x 3/4-inch
24 and 3/4-inch meters are set at 7,000 gallons rather than 10,000 gallons to establish a target usage for
25 higher users. Fourth, because 3,000 gallons is the recognized monthly usage required for basic needs
26 for a residential customer, it is not applicable to larger meters. Therefore, the adopted rate design

27 ¹⁸ Staff Report at 4-5, Staff Schedule LH-7.

28 ¹⁹ In its Staff Report, Staff states that it adopts the Company's proposed rates. Staff, however, used the commodity rates from the Company's initial application instead of the amended application.

1 eliminates the first tier for 1-inch and larger meters.

2 46. The final Phase 2 rates adopted rates would generate 62.09 percent of the Company's
 3 base rate revenues from the first-tier commodity rate and monthly minimum charges, 18.48 percent
 4 from the second tier, and 19.44 percent from the third tier.

5 **Service Charges**

6 47. The Service Charges and Service Line and Meter Installation Charges for Sonoita Valley at
 7 present, as proposed by Sonoita Valley, as recommended by Staff, and as adopted herein, are as
 8 follows:

9 **SERVICE LINE AND METER INSTALLATION CHARGE**
 10 **(Refundable Pursuant to A.A.C. R14-2-405)**

	<u>Present Rates</u>			<u>Company Proposed/Staff Recommended/Order</u>		
	<u>Service Line</u>	<u>Meter Charge</u>	<u>Total Charge</u>	<u>Service Line</u>	<u>Meter Charge</u>	<u>Total Charge</u>
11 5/8" x 3/4" Meter	\$430.00	\$130.00	\$560.00	\$565.00	\$158.00	\$723.00
12 3/4" Meter	430.00	230.00	660.00	565.00	260.00	825.00
13 1" Meter	480.00	290.00	770.00	629.00	321.00	950.00
14 1 1/2" Meter	535.00	500.00	1,035.00	699.00	536.00	1,235.00
15 2" Turbine Meter	815.00	1,020.00	1,835.00	1,054.00	1,066.00	2,120.00
16 2" Compound Meter	815.00	1,865.00	2,680.00	1,054.00	1,928.00	2,982.00
17 3" Turbine Meter	1,030.00	1,645.00	2,675.00	1,327.00	1,703.00	3,030.00
18 3" Compound Meter	1,150.00	2,520.00	3,670.00	1,480.00	2,596.00	4,076.00
19 4" Turbine Meter	1,460.00	2,630.00	4,090.00	1,892.00	2,723.00	4,615.00
20 4" Compound Meter	1,640.00	3,595.00	5,235.00	2,121.00	3,718.00	5,839.00
21 6" Turbine Meter	2,180.00	4,975.00	7,155.00	2,807.00	5,126.00	7,933.00
22 6" Compound Meter	2,300.00	6,870.00	9,170.00	2,959.00	7,058.00	10,017.00

<u>SERVICE CHARGES:</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended/Order</u>
23 Establishment	\$30.00	\$40.00	\$40.00
24 Establishment (After Hours)	\$50.00	N/T	N/T
25 After Hours (At Customer's Request)	N/T	50.00	50.00
26 Reconnection (Delinquent)	40.00	40.00	40.00
27 Meter Test (If Correct)	40.00	40.00	40.00
28 Deposit	*	*	*
Deposit Interest	*	*	**
Re-Establishment (Within 12 Months)	***	***	***

1 Meter Installation Charges.²²

2 51. We find that the Company's and Staff's recommended changes to its Service Charges
3 and Service Line and Meter Installation Charges are reasonable and appropriate and should be adopted.

4 **Financing Application**

5 52. Sonoita Valley seeks approval to borrow \$396,142.80 in long-term debt from WIFA,
6 repayable over a term no longer than 20 years at an interest rate no greater than 8.0 percent, for the
7 purpose of drilling a new well, adding storage, replacing aging meters, and improving the booster
8 station. A breakdown of the requested financing is shown below:²³

Project Description	Quantity	Cost/Unit (\$)	Company Proposed/ Staff Recommended Cost Estimation (\$)
Meter Replacements			
5/8" BLMJ ²⁴ Meters w/ DS ²⁵ Register	80	\$488.80	\$39,104.00
Installation, project management and administration			7,820.00
Subtotal			\$46,924.80
Papago System New Well Site			
Land, fencing, construct site prep., mobilize, site equip.	1	\$10,000.00	\$10,000.00
6-inch, 1,200 foot well	1	160,000.00	160,000.00
Electric panels (well & booster)	1	15,000.00	15,000.00
Engineering		10%	18,500.00
Project management, administration, contingency		10%	18,500.00
Subtotal			\$222,000.00
Los Encinos Well Site & Downtown System			
10,000-Gal storage tank, construction site prep., mobilize, temp. fence	1	\$40,000.00	\$40,000.00
VFD ²⁶ 2 5-hp booster pump & shade structures	1	26,000.00	26,000.00
Rehabilitate the well & replace pump and motor at Downtown Well	1	25,000.00	25,000.00
Well electric panel at Downtown System	1	15,000.00	15,000.00
Engineering		10%	10,600.00
Project management, administration, legal		10%	10,600.00
Subtotal			\$127,200.00
Total			\$396,124.80

25 53. Staff reviewed the Company's proposed capital improvement projects and concluded

26 ²² Staff Report at 6.

27 ²³ Staff Report at 6, Att. B at 13.

28 ²⁴ Bottom Load Multi-Jet.

²⁵ Date Segment.

²⁶ Variable Frequency Drive.

1 that the projects are appropriate and the related cost estimates are reasonable. However, Staff states
2 that no used and useful determination of the proposed additions and improvements was made, and no
3 particular future treatment should be inferred for ratemaking or rate base purposes.²⁷

4 54. We find that the proposed capital improvement projects and requested WIFA loan to
5 finance the improvements are appropriate and reasonable and should be approved.

6 55. Staff recommends approval of the requested financing in an amount not to exceed
7 \$396,124.80 for the Company's proposed capital improvement projects. Staff recommends
8 authorization to incur the long-term debt from WIFA for a term of 19.5 years and at an interest rate not
9 to exceed 8.0%.²⁸

10 56. Staff determined that its recommended operating revenue increase would not provide
11 Sonoita Valley with adequate cash flow to service the requested financing. In calculating the additional
12 annual funds needed by Sonoita Valley to service the recommended debt of \$396,124.80 over 19.5
13 years at an 8.0% interest rate, Staff determined that an annual surcharge of \$39,925 would be required,
14 plus \$8,184 for the debt service reserve fund component, for total loan surcharge collections of
15 \$48,109.²⁹

16 57. Staff recommends that Sonoita Valley record the ratepayer supplied debt service reserve
17 funding associated with this loan surcharge as a regulatory liability. The surcharge mechanism
18 establishes the methodology for calculating the surcharge amount but does not determine the final
19 surcharge to be applied. After Sonoita Valley has closed on the loan, it must submit an application in
20 the financing docket requesting implementation of the loan surcharge. Staff will then calculate the
21 appropriate final surcharge and prepare a recommended order for the Commission's consideration.³⁰

22 ...

23 ...

24 58. Based on a \$396,124.80 loan at an interest rate of 8.0% and a term of 19.5 years, Staff
25 recommends that the Commission approve a surcharge mechanism that, based on the expected loan
26

27 ²⁷ Staff Report, Att. B at 13.

28 ²⁸ Staff Report at 7. We note that WIFA loans have a 20-year term with payments amortized over 19.5 years.

29 ²⁹ Staff Report at 7, Staff Schedules LH-6 and LH-8.

30 ³⁰ Staff Report at 7.

1 terms, may result in a monthly surcharge up to the amount per customer as follows:³¹

2	<u>Meter Size</u>	<u>Debt Service</u>	<u>Debt Service</u>	<u>Total Monthly</u>
3			<u>Reserve Fund</u>	<u>Surcharge</u>
4	5/8 x 3/4-inch Meter	\$46.81	\$9.59	\$56.40
5	3/4-inch Meter	70.21	14.39	84.60
6	1-inch Meter	117.01	23.99	141.00
7	1 1/2-inch Meter	234.03	47.97	282.00
8	2-inch Meter	374.44	76.76	451.20
9	3-inch Meter	702.08	143.92	846.00
10	4-inch Meter	1,170.14	239.86	1,410.00
11	6-inch Meter	2,340.28	479.73	2,820.01

12 59. Staff analyzed the impact of the recommended \$396,124.80 loan on the Company's
 13 DSC ratio and determined that Staff's recommended operating revenue and estimated surcharge
 14 revenue would result in a DSC of 1.57, which would meet the minimum 1.20 DSC required by WIFA.
 15 According to Staff's analysis, its total recommended revenue of \$157,371 will provide the Company
 16 with cash flow after debt service of \$22,704.³²

17 60. Staff's calculations understate the estimated loan surcharge by including income tax
 18 provisions. Since Sonoita Valley is not requesting to include recovery of income taxes in its revenue
 19 requirement, no income tax benefit can be achieved via an increase in depreciation expense in income
 20 tax filings. Thus, no income tax savings from depreciation on the assets to be acquired with the loan
 21 proceeds should be a component of the loan surcharge calculation. Further, we find that the loan
 22 surcharge should include a provision for incremental property taxes.

23 61. In calculating the additional annual funds needed by Sonoita Valley to service the
 24 recommended debt of \$396,124.80 over 19.5 years at an 8.0% interest rate, we find that an annual
 25 surcharge revenue of \$40,866 would be required, plus \$8,177 for the debt service reserve fund liability
 26 component, for total annual loan surcharge collections of \$49,043 for the authorized term.

27 _____
 28 ³¹ *Id.*

³² *Id.*

62. Consequently, based on a \$396,124.80 loan at an interest rate of 8.0% and a term of 19.5 years, we approve a surcharge mechanism that, based on the expected loan terms, may result in a monthly surcharge up to the amount per customer as follows:

<u>Meter Size</u>	<u>Debt Service</u>	<u>Debt Service Reserve Fund</u>	<u>Total Monthly Surcharge</u>
5/8 x 3/4-inch Meter	\$47.91	\$9.59	\$57.49
3/4-inch Meter	71.86	14.38	86.24
1-inch Meter	119.77	23.97	143.74
1 1/2-inch Meter	239.54	47.93	287.47
2-inch Meter	383.27	76.69	459.96
3-inch Meter	718.63	143.79	862.42
4-inch Meter	1,197.71	239.65	1,437.37
6-inch Meter	2,395.43	479.31	2,874.74

63. The Phase 1 base rate revenue of \$103,299 plus the estimated surcharge collections of \$49,043 (\$40,866 as operating revenues and \$8,177 as a debt service reserve fund regulatory liability), results in a DSC of 1.39, total collections of \$152,272, base rate operating income of \$0, a 0.0 percent FVROR, operating margin of 0.0 percent, and cash flow of \$15,618, after debt serve and debt serve reserve fund collections and obligations. The Phase 1 base rate revenues and surcharge collections are sufficient for the Company to pay operating expenses and debt service on the proposed loan and to meet the minimum 1.2 DSC ratio required by WIFA.

64. The adopted Phase 2 base rate revenue of \$117,446 plus estimated surcharge revenue of \$40,866 results in a DSC of 1.74, total revenues of \$158,312, operating income of \$31,794, a 26.19 percent FVROR, an operating margin of 20.08%, and cash flow of \$29,576 after debt service and \$8,177 of debt service reserve fund collections and obligations. The adopted base rate revenues and surcharge collections are sufficient for the Company to pay for operating expenses, contingencies, principal and interest on the proposed loan, and to meet the minimum 1.20 DSC ratio required by WIFA.

1 **Rate Case Expense**

2 65. Staff recommends that the Commission approve a total rate case expense of \$15,000 to
3 be recovered over five years through a surcharge. Staff recommends a monthly rate case expense
4 surcharge of \$3.43 for each customer.

5 66. We find Staff's recommendation reasonable.

6 **Bill Impacts**

7 67. Under present base rates, the monthly bill for the typical residential customer with a 5/8
8 x 3/4-inch meter with a median usage of 2,500 gallons is \$48.08. Under Sonoita Valley's proposed
9 base rates, the median usage residential 5/8 x 3/4-inch meter bill, exclusive of any surcharge would
10 increase by \$45.98, from \$48.08 to \$94.06, an increase of 95.63 percent.³³ Sonoita Valley agrees with
11 the Staff recommendation for \$48,109 in annual loan surcharge collections comprised of \$39,926 in
12 revenues for debt service and \$8,184 in collections for a debt service reserve fund, which results in a
13 Debt Service Surcharge of \$46.81 and a Debt Service Reserve Fund Surcharge of \$9.59 for a combined
14 surcharge of \$56.40 for a 5/8 x 3/4-inch residential meter customer per month.³⁴ Sonoita Valley also
15 agrees with the Staff recommendation for a \$3.43 monthly per customer Rate Case Expense
16 Surcharge.³⁵ The combination of the proposed increase in base rates plus surcharges would increase
17 the monthly bill for the median usage residential customer by \$105.26, from \$48.08 to \$153.34, an
18 increase of 218.93 percent.

19 68. Staff's recommended rates, exclusive of any surcharges, would increase the monthly
20 bill for the typical residential customer with a 5/8 x 3/4-inch meter with a median usage of 2,500 gallons
21 by \$45.43, from \$48.08 to \$93.51, an increase of 94.49 percent. Staff recommends \$48,109 in annual
22 loan surcharge collections comprised of \$39,926 in revenues for debt service and \$8,184 in collections
23 for a debt service reserve fund, which results in a Debt Service Surcharge of \$46.81 and a Debt Service
24 Reserve Fund Surcharge of \$ 9.59 for a combine surcharge of \$56.40 for a 5/8 x 3/4-inch residential
25 meter customer per month. The combination of the proposed changes in the base rates and surcharges

26 ³³ Response to Staff Report at 1 states, "The Company has no issue with the Staff Report." However, the Staff Report
27 recommends the rates in the Company's initial Application. Those rates do not fully generate the Staff and Company
proposed revenue requirement. These typical bill impacts reflect the rates in the Company's Amended Application.

28 ³⁴ Response to Staff Report at 1 states, "The Company has no issue with the Staff Report."

³⁵ *Id.* \$15,000 amortized over 5 years at \$3,000 annually.

1 (including \$3.43 Rate Case Surcharge) would increase the monthly bill for the median usage residential
2 customer by \$105.26, from \$48.08 to \$153.34, an increase of 218.93 percent.

3 69. The Phase 1 rates adopted herein, exclusive of any surcharges, would increase the
4 monthly bill for the typical residential customer with a 5/8 x 3/4-inch meter with a median usage of
5 2,500 gallons by \$35.06, from \$48.08 to \$83.14, an increase of 72.92 percent. The Phase 1 base rates
6 adopted herein plus annual loan surcharge collections of \$49,043, comprised of \$40,866 for Debt
7 Service and \$8,177 for the Debt Service Reserve Fund and a rate case expense surcharge of \$3.43 to
8 collect \$3,000 annually, would increase the current monthly bill for the same residential customer by
9 \$95.98, from \$48.08 to \$144.06, for an increase of 199.63 percent.

10 70. The Phase 2 rates adopted herein, exclusive of any surcharges, would increase the
11 monthly bill for the typical residential customer with a 5/8 x 3/4-inch meter with a median usage of
12 2,500 gallons by \$46.57, from \$48.08 to \$94.65, an increase of 96.86 percent. The base rates adopted
13 herein plus annual loan surcharge collections of \$49,043, comprised of \$40,866 for Debt Service and
14 \$8,177 for the Debt Service Reserve Fund and a rate case expense surcharge of \$3.43 to collect \$3,000
15 annually, would increase the current monthly bill for the same residential customer by \$107.49, from
16 \$48.08 to \$155.57, for an increase of 223.56 percent.

17 **Staff Recommendations**

18 71. Staff recommends the following:

19 (a) Commission approval of Staff's recommended rates and charges as shown on
20 Amended Schedule LH-4 of the Staff Report.

21 (b) That the Company docket a schedule of its approved rates and charges within 30
22 days after the date the Decision in this matter is issued.

23 (c) That in addition to collection of its regular rates and charges, the Company may
24 collect from its customers a proportionate share of any privilege, sales or use tax, per A.A.C. R14-2-
25 409(D)(5).

26 (d) That the Company continue to utilize Staff's typical and customary depreciation
27 rates, as delineated in the Engineering Report (Attachment B).

28 (e) That the Commission approve the Company's application for authorization to incur

1 long-term debt with WIFA in an amount not to exceed \$396,124.80.

2 (f) That the Commission approve Staff's recommended surcharge mechanism
3 associated with the WIFA loan, not to exceed the amount per customer as described in the financing
4 section of the Staff Report.

5 (g) That the Company be required to account for the monies collected for the debt
6 service and debt service reserve fund separately, including recording the debt service reserve fund as a
7 regulatory liability.

8 (h) That the Company, as a compliance item in this Docket, notify its customers of the
9 authorized rates and charges approved in this proceeding, and the effective date, in a form acceptable
10 to Staff by means of an insert in its next regularly scheduled billing, and file copies of the notice with
11 Docket Control within 10 days of the date the notice is sent to customers.

12 (i) That, upon filing of the loan closing notice, the Company shall file in this Docket
13 an application requesting implementation of the associated loan surcharge.

14 (j) That upon approval of the loan surcharge, the Company open a separate interest-
15 bearing account in which all surcharge monies collected from customers will be deposited. The only
16 disbursement of funds from this account will be to make debt service payments to WIFA.

17 (k) That should there be any modification to the terms of the loan after Commission
18 approval of the surcharge mechanism, the Company file for an adjustment of the surcharge mechanism
19 as appropriate.

20 (l) That the approval of the loan and surcharge be rescinded if the Company has not
21 drawn funds from the loan within two years of the date of the Decision resulting from this proceeding.

22 (m) That the Company be required to file a rate application within five years of the
23 Decision in this Docket.

24 (n) That the Company be required to file with Docket Control, as a compliance item in
25 this docket, an updated Curtailment Tariff within 90 days of the effective date of a Decision in this
26 matter.

27 (o) That the Company continue to monitor and address water loss within each system.

28 (p) That the Company be required, as a compliance item in this docket, to file a separate

1 water loss report for each water system within one year of a Decision in this matter. If the results of
 2 the water loss reports indicate that the Company's water loss still exceeds 10 percent, Staff recommends
 3 that the Company submit either a detailed Water Loss Reduction Plan or a cost-benefit analysis for
 4 each system showing the feasibility of addressing the remaining water loss.

5 (q) That the Company file with Docket Control, as a compliance item in this docket,
 6 documentation showing it has filed the Annual Reports for 2021 and 2022 with ADWR for both
 7 systems within six months of the effective date of a Decision in this matter.³⁶

8 72. We find that except for subparagraphs (a), (f), (j), and (l) above, Staff recommendations
 9 are reasonable and in the public interest and we adopt them. Because we adopt rates and a debt
 10 authorization different than those proposed by Staff, we decline to adopt Staff recommendations (a)
 11 and (f). We find it reasonable and in the public interest to modify Staff recommendation (j) to read
 12 "That the Company file in this Docket an application requesting implementation of the separate
 13 associated debt service and debt service reserve fund surcharges. Disbursements from the debt service
 14 fund are authorized only for payment of principal and interest on the loan authorized herein and
 15 property taxes on the debt service surcharge collections on this loan unless otherwise directed by the
 16 Commission. Disbursements from the debt service reserve fund account shall be restricted to the debt
 17 service reserve fund provisions of the loan agreement and for payment of the property taxes on the debt
 18 service reserve fund surcharge collections of the loan authorized herein unless otherwise directed by
 19 the Commission." We further find it reasonable and in the public interest to modify Staff
 20 recommendation (l) to read "That the financing authorized herein shall be rescinded without further
 21 order of the Commission for any funds not drawn on the loan within 30 months of the effective date of
 22 this Decision."

CONCLUSIONS OF LAW

24 1. Sonoita Valley is a public service corporation within the meaning of Article XV of the
 25 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-285, 40-301, and 40-302.

26 2. The Commission has jurisdiction over Sonoita Valley and the subject matter in the
 27

28 ³⁶ Staff Report at 8-9.

1 applications.

2 3. Sonoita Valley gave notice of the applications in accordance with Arizona law.

3 4. Sonoita Valley's FVRB is \$121,376.

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

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

10 7. The financing approved herein is for the purposes stated in the Financing Application,
11 is reasonably necessary for those purposes, and is not reasonably chargeable to Operating Expenses or
12 to Income.

13 8. Approval of the financing does not constitute or imply approval or disapproval by the
14 Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing
15 just and reasonable rates.

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 Sonoita Valley Water System, Inc. is hereby directed to
20 file with Docket Control, as a compliance item in this docket, by January 31, 2024, revised schedules
21 setting forth the following rates and charges:

22 **Phase 1**

23 **Monthly Minimum Charge**

23	5/8" x 3/4" Meter	\$50.06
24	3/4" Meter	75.09
	1" Meter	125.15
25	1 1/2" Meter	250.30
	2" Meter	400.48
26	3" Meter	800.96
27	4" Meter	1,251.00
	6" Meter	2,503.00

28

Commodity Rates (per 1,000 gallons)**5/8" x 3/4" Meter**

First 3,000 Gallons	\$13.23
From 3,001 to 7,000 Gallons	19.85
Over 7,000 Gallons	23.81

3/4" Meter

First 3,000 Gallons	\$13.23
From 3,001 to 7,000 Gallons	19.85
Over 7,000 Gallons	23.81

1" Meter

From 1 to 15,000 Gallons	\$19.85
Over 15,000 Gallons	23.81

1 1/2" Meter

From 1 to 35,000 Gallons	\$19.85
Over 35,000 Gallons	23.81

2" Meter

From 1 to 60,000 Gallons	\$19.85
Over 60,000 Gallons	23.81

3" Meter

From 1 to 130,000 Gallons	\$19.85
Over 130,000 Gallons	23.81

4" Meter

From 1 to 210,000 Gallons	\$19.85
Over 210,000 Gallons	23.81

6" Meter

From 1 to 440,000 Gallons	\$19.85
Over 440,000 Gallons	23.81

**SERVICE LINE AND METER INSTALLATION CHARGES
(Refundable Pursuant to A.A. C. R14-2-405)**

	Service Line	Meter Charge	Total Charge
5/8" x 3/4" Meter	\$565.00	\$158.00	\$723.00
3/4" Meter	565.00	260.00	825.00
1" Meter	629.00	321.00	950.00
1 1/2" Meter	699.00	536.00	1,235.00

1	2" Turbine Meter	1,054.00	1,066.00	2,120.00
2	2" Compound Meter	1,054.00	1,928.00	2,982.00
3	3" Turbine Meter	1,327.00	1,703.00	3,030.00
4	3" Compound Meter	1,480.00	2,596.00	4,076.00
5	4" Turbine Meter	1,892.00	2,723.00	4,615.00
6	4" Compound Meter	2,121.00	3,718.00	5,839.00
7	6" Turbine Meter	2,807.00	5,126.00	7,933.00
8	6" Compound Meter	2,959.00	7,058.00	10,017.00

SERVICE CHARGES:

9	Establishment		\$40.00
10	After Hours Service Charge (At Customer's Request)		\$50.00
11	Reconnection (Delinquent)		\$40.00
12	Meter Test (If Correct)		\$40.00
13	Deposit		*
14	Deposit Interest		**
15	Re-Establishment (Within 12 Months)		***
16	Deferred Payment (Per Month)		****
17	Late Fee (Per Month)		*****
18	NSF Check		\$35.00
19	Meter Re-Read (If Correct)		\$35.00

Monthly Service Charge for Fire Sprinkler

20	4" or Smaller	*****
21	6"	*****
22	8"	*****
23	10"	*****
24	Larger than 10"	*****

* Per A.A.C. R14-2-403(B)(7).
 ** Per A.A.C. R14-2-403(B)(3).
 *** Months off system times the monthly minimum per A.A.C. R14-2-403(D).
 **** 1.5% per A.A.C. R14-2-409(G)(6).
 ***** 1.5% of the past due amount or \$5.00 whichever is greater.
 ***** 2% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable to service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, or use tax. Per A.A.C. R14-2-409(D)(5).

...
 28

1		Phase 2	
2	<u>Monthly Minimum Charge</u>		
3	5/8" x 3/4" Meter		\$57.00
4	3/4" Meter		85.50
5	1" Meter		142.50
6	1 1/2" Meter		285.00
7	2" Meter		456.00
8	3" Meter		912.00
9	4" Meter		1,425.00
10	6" Meter		2,850.00
11			
12	<u>Commodity Rates (per 1,000 gallons)</u>		
13			
14	<u>5/8" x 3/4" Meter</u>		
15	First 3,000 Gallons		\$15.06
16	From 3,001 to 7,000 Gallons		22.59
17	Over 7,000 Gallons		27.11
18			
19	<u>3/4" Meter</u>		
20	First 3,000 Gallons		\$15.06
21	From 3,001 to 7,000 Gallons		22.59
22	Over 7,000 Gallons		27.11
23			
24	<u>1" Meter</u>		
25	From 1 to 15,000 Gallons		\$22.59
26	Over 15,000 Gallons		27.11
27			
28	<u>1 1/2" Meter</u>		
29	From 1 to 35,000 Gallons		\$22.59
30	Over 35,000 Gallons		27.11
31			
32	<u>2" Meter</u>		
33	From 1 to 60,000 Gallons		\$22.59
34	Over 60,000 Gallons		27.11
35			
36	<u>3" Meter</u>		
37	From 1 to 130,000 Gallons		\$22.59
38	Over 130,000 Gallons		27.11
39			
40	<u>4" Meter</u>		
41	From 1 to 210,000 Gallons		\$22.59
42	Over 210,000 Gallons		27.11
43			
44	<u>6" Meter</u>		
45	From 1 to 440,000 Gallons		\$22.59
46	Over 440,000 Gallons		27.11

SERVICE LINE AND METER INSTALLATION CHARGES
(Refundable Pursuant to A.A. C. R14-2-405)

	Service Line	Meter Charge	Total Charge
5/8" x 3/4" Meter	\$565.00	\$158.00	\$723.00
3/4" Meter	565.00	260.00	825.00
1" Meter	629.00	321.00	950.00
1½" Meter	699.00	536.00	1,235.00
2" Turbine Meter	1,054.00	1,066.00	2,120.00
2" Compound Meter	1,054.00	1,928.00	2,982.00
3" Turbine Meter	1,327.00	1,703.00	3,030.00
3" Compound Meter	1,480.00	2,596.00	4,076.00
4" Turbine Meter	1,892.00	2,723.00	4,615.00
4" Compound Meter	2,121.00	3,718.00	5,839.00
6" Turbine Meter	2,807.00	5,126.00	7,933.00
6" Compound Meter	2,959.00	7,058.00	10,017.00

SERVICE CHARGES:

Establishment	\$40.00
After Hours Service Charge (At Customer's Request)	\$50.00
Reconnection (Delinquent)	\$40.00
Meter Test (If Correct)	\$40.00
Deposit	*
Deposit Interest	**
Re-Establishment (Within 12 Months)	***
Deferred Payment (Per Month)	****
Late Fee (Per Month)	*****
NSF Check	\$35.00
Meter Re-Read (If Correct)	\$35.00

Monthly Service Charge for Fire Sprinkler

4" or Smaller	*****
6"	*****
8"	*****
10"	*****
Larger than 10"	*****

*	Per A.A.C. R14-2-403(B)(7).
**	Per A.A.C. R14-2-403(B)(3).
***	Months off system times the monthly minimum per A.A.C. R14-2-403(D).
****	1.5% per A.A.C. R14-2-409(G)(6).

1 ***** 1.5% of the past due amount or \$5.00 whichever is greater.
2 ***** 2% of Monthly Minimum for a Comparable Sized Meter Connection, but no less
3 than \$10.00 per month. The Service Charge for Fire Sprinklers is only
4 applicable to service lines separate and distinct from the primary water service
5 line.

6 In addition to the collection of regular rates, the utility will collect from its
7 customers a proportionate share of any privilege, sales, or use tax. Per A.A.C.
8 R14-2-409(D)(5).

9 IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges,
10 Sonoita Valley Water System, Inc. may collect from its customers a proportionate share of any
11 privilege, sales or use tax, per A.A.C. Rule 14-2-409(D)(5).

12 IT IS FURTHER ORDERED that the Phase 1 rates and charges approved herein shall be
13 effective for all service provided on and after February 1, 2024.

14 IT IS FURTHER ORDERED that the Phase 2 rates and charges approved herein shall be
15 effective for all service provided on and after February 1, 2025.

16 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. is authorized to
17 implement a rate case surcharge of no more than \$3.43 per customer, per month, which surcharge shall
18 terminate without further order of the Commission five years from the effective date of this Decision
19 or once a total of \$15,000 has been recovered, whichever occurs first.

20 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. is hereby authorized to
21 borrow from the Water Infrastructure Finance Authority up to \$396,124.80 for a term of 20 years (19.5
22 year amortization) at an interest rate not to exceed 8.0 percent annually to finance the water system
23 improvement projects described herein.

24 IT IS FURTHER ORDERED that the financing authorized herein is expressly contingent on
25 Sonoita Valley Water System, Inc.'s use of the proceeds for the purposes set forth in its financing
26 application and as discussed herein.

27 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. is authorized to engage
28 in any transactions and to execute any documents necessary to effectuate the financing authorizations
29 granted herein.

30 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. is authorized to pledge,
31 mortgage, lien or otherwise encumber its assets in the State of Arizona pursuant to A.R.S. § 40-285

1 and A.A.C. R18-15-104 in connection with the indebtedness authorized herein.

2 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall provide to the
3 Commission's Utilities Division, upon request, a copy of any loan documents executed pursuant to the
4 authorizations granted herein.

5 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall file with Docket
6 Control, as a compliance item in this docket, within 30 days of the execution of any financing
7 transaction authorized herein, a notice confirming that such execution has occurred and a certification
8 by an authorized Company representative that the terms of the financing fully comply with the
9 authorizations granted herein.

10 IT IS FURTHER ORDERED that the financing authorized herein shall be rescinded without
11 further order of the Commission for any funds not drawn on the loan within 30 months of the effective
12 date of this Decision.

13 IT IS FURTHER ORDERED that a debt service surcharge mechanism is authorized to meet
14 Sonoita Valley Water System, Inc.'s principal and interest obligations to the Water Infrastructure
15 Finance Authority on the capital improvement loan described herein.

16 IT IS FURTHER ORDERED that a debt service reserve fund surcharge mechanism is
17 authorized to meet Sonoita Valley Water System, Inc.'s debt service reserve fund obligations to the
18 Water Infrastructure Finance Authority on the capital improvement loan described and approved
19 herein.

20 IT IS FURTHER ORDERED that upon filing of the loan closing notice, Sonoita Valley Water
21 System, Inc. shall file in this Docket an application requesting implementation of the associated debt
22 service and debt service reserve fund surcharges.

23 IT IS FURTHER ORDERED that within 30 days of the filing of a surcharge implementation
24 request, Staff shall calculate the appropriate Water Infrastructure Finance Authority surcharge and
25 prepare and file a recommended order for Commission consideration.

26 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall account for the
27 monies collected for the debt service and debt service reserve fund separately, including recording the
28 debt service reserve fund collections as a regulatory liability. Disbursements from the debt service

1 fund are authorized only for payment of principal and interest on the loan authorized herein and
2 property taxes on the debt service surcharge collections on this loan unless otherwise directed by the
3 Commission. Disbursements from the debt service reserve fund account shall be restricted to the debt
4 service reserve fund provisions of the loan agreement and for payment of the property taxes on the debt
5 service reserve fund surcharge collections of the loan authorized herein unless otherwise directed by
6 the Commission.

7 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. is authorized to collect
8 the debt service reserve fund surcharge for up to five years or until the effective date of rates adopted
9 in its next general rate case, whichever comes first.

10 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall file for an
11 adjustment of the surcharge mechanism as appropriate should there be any modification to the terms
12 of the loan subsequent to Commission approval of the surcharge mechanism.

13 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall file a rate application
14 no later than January 31, 2029, using a test year that is acceptable to the Commission's Utilities
15 Division Staff.

16 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall notify its customers
17 of the authorized rates and charges approved in this proceeding, and their effective date, as well as
18 information generally explaining the loan surcharge, the approximate date the surcharge is expected to
19 go into effect, and the estimated surcharge amount adopted herein in a form acceptable to Staff by
20 means of an insert in its next regularly scheduled billing after a Decision is rendered, and file copies of
21 the notice with Docket Control within 10 days of the date the notice is sent to customers.

22 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall file with Docket
23 Control as a compliance item in this Docket, an updated Curtailment Tariff within 90 days of the
24 effective date of this Decision.

25 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall continue to monitor
26 and address water loss within each system.

27 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall file with Docket
28 Control as a compliance item in this Docket, a separate water loss report for each water system within

1 one year of the effective date of this Decision. If the results of the water loss reports indicate that
2 Sonoita Valley Water System, Inc.'s water loss still exceeds 10 percent, Sonoita Valley Water System,
3 Inc. shall submit either a detailed Water Loss Reduction Plan or a cost-benefit analysis for each system
4 showing the feasibility of addressing the remaining water loss.

5 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall utilize Staff's typical
6 and customary depreciation rates as delineated in Attachment 3 of the Staff Engineering Report
7 (Attachment B).

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28 IT IS FURTHER ORDERED that Sonoita Valley Water System, Inc. shall file with Docket

Control, as a compliance item in this docket, documentation demonstrating that it has filed the Annual Reports for 2021 and 2022 with the Arizona Department of Water Resources for both systems within six months of the effective date of this Decision.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

James W. O'Connor
CHAIRMAN O'CONNOR

Lea Marquez Peterson
COMMISSIONER MARQUEZ PETERSON

Anna Tovar
COMMISSIONER TOVAR

Ken Thompson
COMMISSIONER THOMPSON

Neil Myers
COMMISSIONER MYERS



IN WITNESS WHEREOF, I, DOUGLAS R. CLARK, 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 24th day of January 2024.

Douglas R. Clark
DOUGLAS R. CLARK
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
BDS/(gb)

1 SERVICE LIST FOR:

SONOITA VALLEY WATER COMPANY, INC.

2 DOCKET NO.:

W-20435A-23-0156 AND W-20435A-23-0214

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4 MOYES SELLERS & HENDRICKS
5 1850 N. Central Ave., Suite 1100
6 Phoenix, AZ 85004
7 *Attorneys for Sonoita Valley Water Company, Inc.*
8 swene@law-msh.com

9 **Consented to Service by Email**

10 Robin Mitchell, Director
11 Legal Division
12 ARIZONA CORPORATION COMMISSION
13 1200 West Washington Street
14 Phoenix, AZ 85007

15 LegalDiv@azcc.gov
16 utildivservicebyemail@azcc.gov

17 **Consented to Service by Email**

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