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BEFORE THE ARIZONA CORPORATION COMMISSION

KEVIN THOMPSON
Chairman
NICK MYERS
Vice Chairman
LEA MÁRQUEZ PETERSON
Commissioner
RACHEL WALDEN
Commissioner
RENE LOPEZ
Commissioner

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

DOCKET NO. W-20435A-23-0156
DOCKET NO. W-02435A-23-0214

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

DECISION NO. 79726
ORDER

Arizona Corporation Commission

DOCKETED

FEB 19 2025

DOCKETED BY

[Signature]

Open Meeting
February 5, 2025
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

BACKGROUND

1. Sonoita Valley Water Company, Inc. ("Sonoita" or "Company") is a Class E Arizona public service utility that provides water service to approximately 71 customers in Santa Cruz County, Arizona.

2. On January 24, 2024, the Commission ("Commission") Decision No. 79267 approved the Company's current rates along with its financing application. Decision No. 79267 authorized the Company to incur long-term debt with the Water Infrastructure Finance Authority of Arizona ("WIFA") in the form of a 19.5-year amortizing loan, in an amount not to exceed \$396,124.80, at an interest rate not to exceed 8.0 percent. Based on this loan amount and interest rate, Staff estimated the total loan surcharge would be \$56.40 for a 5/8" x 3/4" meter customer.

3. On October 18, 2024, the Company provided notice of that and its WIFA loan closed and requested Commission approval to implement the approved loan surcharge mechanism. The WIFA loan repayment schedule indicated that Sonoita received a loan amount of \$396,124.80 with a forgivable principal amount of \$91,725, repayable over 20 years, at an interest rate of 4.372 percent.

STAFF ANALYSIS AND RECOMMENDATIONS

4. Staff's review of the WIFA documents indicates \$91,725 of the principal is forgivable, thus reducing the repayable portion of the WIFA loan from \$396,124.80 to \$304,399.80. Staff's calculation of the Debt Service using the Company's current customer count yields a monthly Debt Service surcharge of \$26.05 and a Debt Service Reserve surcharge of \$5.48, a total of \$31.53 for each 5/8" x 3/4" metered customer (See Schedule LKH-1 attached). Staff's calculated Debt Service and Debt Service Reserve surcharges by meter size are as follow:

DEBT SERVICE AND DEBT SERVICE RESERVE SURCHARGES			
Meter Size	Debt Service	Reserve	Total
5/8"x 3/4" Meter	\$26.05	\$5.48	\$31.53
3/4" Meter	39.08	8.22	47.30
1" Meter	65.14	13.71	78.85
1½" Meter	130.27	27.42	157.69
2" Meter	208.44	43.86	252.30

5. Staff recommends Commission approval of the Company's WIFA loan surcharges as calculated by Staff. Staff further recommends that the Commission authorize the Company to begin collecting the above surcharges beginning with the Company's next billing cycle after the effective date of a Decision in this proceeding. Staff continues to recommend, as outlined in Decision No.79267, that the Company shall collect the Debt Service Reserve portion of the surcharges for up to five years or until the effective date of a Commission decision in its next general

1 rate case, whichever occurs first, and that the Debt Service Reserve be recorded as a regulatory
2 liability.

3 6. Staff recommends that the Company bill the surcharge as a separate line item on each
4 customer’s monthly bill.

5 7. Staff recommends that Sonoita Valley Water Company, Inc. notify its customers of
6 the WIFA loan surcharges authorized herein and their effective date, in a form acceptable to Staff,
7 by means of a bill insert in its next regularly billing cycle or as a separate mailing.

8 CONCLUSIONS OF LAW

9 1. Sonoita Valley Water Company, Inc. is a public service corporation within the
10 meaning of Article XV of the Arizona Constitution and Arizona Revised Statutes (“A.R.S.”) §§ 40-
11 250, 40-285, 40-301, and 40-302.

12 2. The Commission has jurisdiction over Sonoita Valley Water Company, Inc. and the
13 subject matter of the application.

14 3. The surcharge is just and reasonable and in the public interest.

15 4. The financing is for lawful purposes which are within the corporate power of Sonoita
16 Valley Water Company, Inc. The financing is compatible with the public interest, within sound
17 financial practices and compatible with the proper performance by Sonoita Valley Water Company,
18 Inc. of providing service as a public service corporation. The financing will not impair Sonoita
19 Valley Water Company, Inc.’s ability to perform that service.

20 5. The recommendations stated herein are reasonable and should be adopted.

21 ORDER

22 IT IS THEREFORE ORDERED that Sonoita Valley Water Company’s WIFA loan
23 surcharge per meter-size as recommended by Staff is hereby approved.

24 IT IS FURTHER ORDERED that Sonoita Valley Water Company shall begin to collect its
25 authorized WIFA loan surcharge beginning with the next billing cycle after the effective date of this
26 Decision, based on the following surcharge by meter size:

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DEBT SERVICE AND DEBT SERVICE RESERVE SURCHARGES			
Meter Size	Debt Service	Reserve	Total
5/8"x 3/4" Meter	\$26.05	\$5.48	\$31.53
3/4" Meter	39.08	8.22	47.30
1" Meter	65.14	13.71	78.85
1½" Meter	130.27	27.42	157.69
2" Meter	208.44	43.86	256.80

IT IS FURTHER ORDERED that Sonoita Valley Water Company shall collect the debt service reserve fund portion of the WIFA loan surcharge for up to five years, or until the effective date of rates adopted in the next general rate case, whichever occurs first, and that the debt service reserve fund shall be recorded as a regulatory liability.

IT IS FURTHER ORDERED that Sonoita Valley Water Company shall bill the WIFA loan surcharge per meter-size as a separate line item on each customer's monthly bill.

1 IT IS FURTHER ORDERED that Sonoita Valley Water Company shall notify its customers
2 of the WIFA loan surcharges authorized herein and their effective date, in a form acceptable to Staff,
3 by means of an insert in its next regularly scheduled billing or as a separate mailing.

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

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BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

Ken Thompson

CHAIR THOMPSON

W. Myers

VICE CHAIR MYERS

Lea Marquez Peterson

COMMISSIONER MARQUEZ PETERSON

Rachel Walden

COMMISSIONER WALDEN

Juan Rene Lopez

COMMISSIONER LOPEZ



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 this
Commission to be affixed at the Capitol, in the City of
Phoenix, this 19th day of February, 2025.

Douglas R. Clark

DOUGLAS R. CLARK
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

RSP BAB:LKH:nr NML/

1 Sonoita Valley Water Company
2 Docket Nos. W-20435A-23-0214 and W-20435A-23-0156

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7 **Consented to Service by Email**

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LOAN SURCHARGE CALCULATION - STAFF RECOMMENDED

Loan Amount: \$396,125
Forgiveable Principal Amount \$91,725
Amount Financed \$304,399
Term (In Years): 19.5
Interest & Fee Rate 4.375%

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

\$10,114.98 Principal (From Loan Amortization Schedule) plus Debt Service Reserve Fund
13,116.23 Plus: Interest (From Loan Amortization Schedule)
\$23,231.21 Debt Service Component of the Annual Surcharge Revenue

Step 2 - Find the Gross Revenue Conversion Factor

1.0267 From workpapers

Step 3 - Find the Incremental Income Tax Factor

1.0267 minus 1 = 0.0267

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

0.0267 Incremental Income Tax Factor (From Step 3)
\$10,114.98 Multiplied by: Annual Principal Payment on Loan from Step 1 (Note: Interest Expense is tax deductible)
\$270.07 Annual Income Tax Component Related to the Principal

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

0.0267 Incremental Income Tax Factor (From Step 3)
\$31,214.65 Depreciation Expense on WIFA Loan Funded Plant (\$304,399 x 7.88%)
\$833.43 Annual Income Tax Component of Surcharge Related to Depreciation Expense

Step 6 - Find the Debt Reserve Component of the Annual Surcharge Revenue

\$23,231.21 Annual Interest and Principal Payments on the Loan (From Step 1)
20% Multiplied by: One-fifth of Annual Principal and Interest Payment
\$4,646.24 Debt Reserve Component of the Annual Surcharge Revenue for first five years

Step 7 - Find the Annual Income Tax Component of Surcharge Related to Debt Reserve Component of the Annual Surcharge Revenue

0.0267 Incremental Income Tax Factor (From Step 3)
\$4,646.24 Debt Reserve Component of the Annual Surcharge Revenue for first five years (From Step 6)
\$124.05 Annual Income Tax Component of Surcharge Related to Debt Reserve

Step 8 - Find the Net Annual Income Tax Component of Surcharge

\$270.07 Annual Income Tax Component Related to the Principal (From Step 4)
(833.43) Less: Annual Income Tax Component of Surcharge Related to Depreciation Expense (From Step 5)
124.05 Annual Income Tax Component of Surcharge Related to Debt Reserve (From Step 7)
(\$439.31) Net Annual Income Tax Component of Surcharge Revenue

Step 9 - Find the Annual Surcharge Revenue Requirement Needed for the Loan Including Reserve Fund

(\$439.31) Net Annual Income Tax Component of the Annual Surcharge Revenue (From Step 8)
23,231.21 Plus: Debt Service Component of the Annual Surcharge Revenue (From Step 1)
4,646.24 Plus: Annual Reserve Fund Deposit (From Step 6)
\$27,438.14 Total Annual Surcharge Revenue Requirement for the Loan

WIFA LOAN SURCHARGE CALCULATION - STAFF RECOMMENDED

Step 10 - Find the Equivalent Bills

Col A	Col B		Col C		Col D		Col E
Meter Size	NARUC Multiplier		Number of Customers ¹		Number of Months in Year		Equivalent Bills Col B x C x D
5/8"x 3/4" Meter	1	x	70	x	12	=	840
3/4" Meter	1.5	x	0	x	12	=	0
1" Meter	2.5	x	1	x	12	=	30
1½" Meter	5	x	0	x	12	=	0
2" Meter	8	x	0	x	12	=	0
			<u>71</u>				<u>870</u>

Step 11a - Find the Monthly Debt Service Surcharge for the 5/8"- Inch Meter Size Customers

\$22,667.85 Total Annual Surcharge Revenue Requirement for the Loan (From Step 8 and Step 9)
870 Divided by: Total Number of Equivalent Bills (From Step 9)
\$26.05 Monthly Surcharge for 5/8x 3/4 Customers

Step 11b - Find the Monthly Debt Service Reserve Surcharge for the 5/8"- Inch Meter Size Customers

\$4,770.30 Total Annual Surcharge Revenue Requirement for the Loan (From Step 8 and Step 9)
870 Divided by: Total Number of Equivalent Bills (From Step 9)
\$5.48 Monthly Surcharge for 5/8"x 3/4" Customers

Step 12a - Find the Monthly Debt Service Surcharge for the Remaining Meter Size Customers

Col A	Col B		Col C		Col D
Meter Size	NARUC Multiplier		5/8"x 3/4" Customers' Surcharge		Surcharge by Meter Size Col B x C
5/8"x 3/4" Meter	1	x	\$26.05	=	\$26.05
3/4" Meter	1.5	x	26.05	=	39.08
1" Meter	2.5	x	26.05	=	65.14
1½" Meter	5	x	26.05	=	130.27
2" Meter	8	x	26.05	=	208.44

Step 12b - Find the Monthly Debt Service Reserve Surcharge for the Remaining Meter Size Customers

Col A	Col B		Col C		Col D	Total charge
Meter Size	NARUC Multiplier		5/8"x 3/4" Customers' Surcharge		Surcharge by Meter Size Col B x C	
5/8"x 3/4" Meter	1	x	\$5.48	=	\$5.48	\$31.53
3/4" Meter	1.5	x	5.48	=	8.22	\$47.30
1" Meter	2.5	x	5.48	=	13.71	\$78.85
1½" Meter	5	x	5.48	=	27.42	\$157.69
2" Meter	8	x	5.48	=	43.86	\$256.80

Note 1: The number of customers in the test year was 71 as the Company reported in its application, and is still 71 per Company's request to implement the surcharge.

LOAN SURCHARGE AMORTIZATION - STAFF RECOMMENDED

Line No.					
1	Loan Amount Requested	\$304,399			
2	Down Payment:	\$0			
3	Amount Financed:	\$304,399			
4	Number of years:	19.5	Compounding Periods	12	
5	Interest & Fee Rate	4.4%			
6	Subsidy Rate:	1.00			
7	Interest Rate (r) (Line 5 x Line 6)	4.375%	APR:	4.46%	

LOAN AMORTIZATION SCHEDULE

Line No.	Period	Loan payment (1)	Beginning-of-month principal (2)	Payments		End-of-month principal (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
				Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
17	1	\$1,935.93	\$304,399.00	\$1,109.79	\$826.15	\$303,572.85			
18	2	1,935.93	303,572.85	1,106.78	829.16	302,743.70			
19	3	1,935.93	302,743.70	1,103.75	832.18	301,911.51			
20	4	1,935.93	301,911.51	1,100.72	835.22	301,076.30			
21	5	1,935.93	301,076.30	1,097.67	838.26	300,238.04			
22	6	1,935.93	300,238.04	1,094.62	841.32	299,396.72			
23	7	1,935.93	299,396.72	1,091.55	844.38	298,552.34			
24	8	1,935.93	298,552.34	1,088.47	847.46	297,704.88			
25	9	1,935.93	297,704.88	1,085.38	850.55	296,854.33			
26	10	1,935.93	296,854.33	1,082.28	853.65	296,000.67			
27	11	1,935.93	296,000.67	1,079.17	856.76	295,143.91			
28	12	1,935.93	295,143.91	1,076.05	859.89	294,284.02	13,116.23	10,114.98	23,231.21