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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

LEA MÁRQUEZ PETERSON– Chairwoman  
SANDRA D. KENNEDY  
JUSTIN OLSON  
ANNA TOVAR  
JIM O’CONNOR

Arizona Corporation Commission

**DOCKETED**

**JUL 28 2021**

DOCKETED BY

ew

IN THE MATTER OF THE APPLICATION OF  
BONITA CREEK LAND AND HOMEOWNER'S  
ASSOCIATION FOR APPROVAL OF A RATE  
INCREASE.

DOCKET NO. W-02195B-21-0014

IN THE MATTER OF THE APPLICATION OF  
BONITA CREEK LAND AND HOMEOWNER'S  
ASSOCIATION FOR APPROVAL OF FINANCING.

DOCKET NO. W-02195B-21-0015

DECISION NO. 78159

**ORDER**

Open Meeting  
July 13 and 14, 2021  
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 January 21, 2021, Bonita Creek Land and Homeowner's Association (“Bonita” or “Association”)<sup>1</sup> filed an application with the Commission, in Docket No. W-02195B-21-0014, for approval of a rate increase (“Rate Application Docket”).

2. On the same date, Bonita filed with the Commission, in Docket No. W-02195B-21-0015, an application for approval of financing (“Financing Application Docket”).

3. On January 26, 2021, a Procedural Order regarding Consent to Email was issued in both the Rate Application Docket and the Financing Application Docket.

<sup>1</sup> Through a filing dated June 22, 2021, Bonita indicated it was no longer a Homeowner’s Association but had become Bonita Water Company, a non-profit Utility cooperative 501(c)(12).

1           4.       On February 1, 2021, Bonita filed Verification of Mailing Customer Notice in the Rate  
2 Application Docket.

3           5.       On February 19, 2021, the Commission's Utilities Division ("Staff") filed a Sufficiency  
4 Letter in the Rate Application Docket, stating that the Association's application had met the sufficiency  
5 requirements of Arizona Administrative Code ("A.A.C.") R14-2-103, and that Bonita had been  
6 classified as a Class E utility.

7           6.       On the same date, Bonita filed an Amendment to its Financial Information in the Rate  
8 Application Docket.

9           7.       On February 22, 2021, Bonita filed a request to consolidate the Rate Application Docket  
10 and the Financing Application Docket for reporting purposes.

11          8.       On March 4, 2021, by Procedural Order, the Rate Application and Financing  
12 Application Dockets were consolidated.

13          9.       On April 20, 2021, Staff filed a Staff Report, recommending approval of the rate and  
14 financing applications.

15          10.      On April 23, 2021, Staff filed a Revised Staff Report, recommending approval of a rate  
16 increase in accordance with Staff's conditions and recommending approval of the financing application  
17 with conditions and modifications. The Revised Staff Report indicated that any party wishing to file  
18 comments to the Revised Staff Report should file them with the Commission's Docket Control by April  
19 30, 2021.

20          11.      On May 6, 2021, by Procedural Order, Bonita was directed to file a Response to the  
21 Revised Staff Report no later than May 13, 2021, and Staff was provided an opportunity to file a Reply  
22 by May 20, 2021. The timeclock was extended by 14 days.

23          12.      On May 13, 2021, Bonita filed a Request for an extension of time to file its Response,  
24 until May 17, 2021, stating that the Association did not receive a copy of the Staff Report until May  
25 10, 2021.

26          13.      Also on May 13, 2021, Bonita filed a Consent to Email Service.

27          14.      On the same date, by Procedural Order, Bonita was directed to file a Response, by June  
28 4, 2021, specific to Staff Recommendation No. 4 in the Revised Staff Report that recommended that

1 the Association be directed to file a financing application for \$45,166 of what appeared to be  
2 unauthorized long-term debt that appears in the balance sheet. Staff was directed to file a Reply, by  
3 June 11, 2021, indicating Staff's position on Bonita's comments and recommending how the  
4 Commission should treat the \$45,166. The timeclock was extended by an additional 28 days.

5 15. On May 18, 2021, Bonita filed a Response to the Revised Staff Report, as directed by  
6 the May 13, 2021, Procedural Order.

7 16. On June 15, 2021, Staff filed a Motion for Extension of Time, requesting until June 16,  
8 2021, to file its Reply. Staff's Motion stated that Staff had contacted Bonita about its request and while  
9 the Association expressed no objection to the request, Bonita questioned whether the decision in this  
10 matter would be delayed.

11 17. On the same date, by Procedural Order, Staff's Motion for Extension of Time was  
12 granted.

13 18. On June 16, 2021, Staff filed a Staff Report Addendum, making final recommendations  
14 on the applications.

15 19. On June 22, 2021, Bonita filed a response to the Staff Report Addendum, indicating its  
16 agreements and objections to specific Staff recommendations.

17 20. Also on June 22, 2021, Bonita made a filing indicating it was no longer a Homeowner's  
18 Association but had become Bonita Water Company, a non-profit Utility cooperative 501(c)(12).

19 21. No consumer comments were received in either the Rate Application Docket or the  
20 Financing Application Docket.

## 21 **Background**

22 22. Bonita is a public service corporation, Class E cooperative providing water service to  
23 53 metered customers in portions of Gila County, Arizona. The Commission approved the  
24 Association's present permanent rates and charges in Decision No. 66734 (January 20, 2004). Bonita's  
25 current rate application uses a test year ending December 31, 2019 ("TY").<sup>2</sup>

26 23. Bonita's customers are exclusively residential customers served by 5/8 x 3/4-inch  
27

28 <sup>2</sup> Revised Staff Report at page 1.

1 meters. Currently, the Association's rate structure provides for a monthly minimum charge and  
2 inverted three-tier commodity charges with breakover points at 2,000 and 8,000 gallons.<sup>3</sup>

3 24. Bonita's water system consists of water pumped from Bonita Creek, an aluminum  
4 sulfate mixing tank, a 500-gallon sand filter, two fine filters, an ultraviolet ("UV") lamp, a turbidity  
5 meter, a chlorination tank, three 10,000-gallon metal storage tanks,<sup>4</sup> and a distribution system.<sup>5</sup>

6 25. In its application, Bonita reported it had pumped 832,955 gallons of water, sold 832,050  
7 gallons of water, and estimated authorized use<sup>6</sup> of 48,900 gallons of water during the TY. The  
8 Association's water loss of 0.11 percent is within the acceptable level of 10 percent as recommended  
9 by Staff. However, Staff recommends that Bonita track the water used to backwash filters, flush storage  
10 tanks, and any usage from the turbidity meter, and report the amount in its Annual Report.<sup>7</sup>

11 26. Based on Staff's engineering analysis, Staff believes that the Association has adequate  
12 storage capacity and surface water production to serve the present customer base and reasonable  
13 growth.<sup>8</sup>

14 27. The Arizona Department of Environmental Quality ("ADEQ") issued a Compliance  
15 Status Report dated March 9, 2021, indicating that Bonita is a non-transient non-community water  
16 system and stating that the Association's drinking water system, Public Water System ("PWS") #04-  
17 024, was delivering water that meets water quality standards required by 40 Code of Federal  
18 Regulations ("CFR") 141 (National Primary Drinking Water Regulations) and A.A.C. Title 18, Chapter  
19 4.<sup>9</sup>

20 28. During the TY, Bonita reported water testing expense in the amount of \$300. Staff  
21 noted that, as a non-community water provider, Bonita is not subject to mandatory participation in the  
22 Monitoring Assistance Program ("MAP")<sup>10</sup> but recommended testing expense that included fees for

23 <sup>3</sup> Revised Staff Report at p. 1, 5.

24 <sup>4</sup> Only two storage tanks are in operation at a time to allow the one on stand-by to undergo maintenance. Revised Staff  
Report, Attachment A at p. 4.

25 <sup>5</sup> Revised Staff Report, Att. A at p 1.

26 <sup>6</sup> Estimated authorized use is metered or unmetered water used for the maintenance of the water system (flushing mains,  
tanks, filters), construction, firefighting, etc.

27 <sup>7</sup> Revised Staff Report, Att. A at p. 3.

28 <sup>8</sup> Revised Staff Report, Att. A at 4.

<sup>9</sup> Revised Staff Report, Att. A at 6.

<sup>10</sup> MAP helps small drinking water systems comply with the Safe Drinking Water Act by assisting with the collection,  
transportation, analysis, and reporting of regulated contaminants.

1 MAP and other monitoring requirements based on ADEQ's decision to reclassify Bonita as a  
2 community water system.<sup>11</sup>

3 29. Arizona Department of Water Resources ("ADWR") does not regulate non-community  
4 water systems such as Bonita.<sup>12</sup>

5 30. Staff stated that the Commission's Utilities Division compliance database reported no  
6 delinquent compliance items for Bonita.<sup>13</sup>

7 31. Staff's Consumer Services database showed no formal complaints had been filed against  
8 the Association from January 1, 2018, to March 17, 2021.<sup>14</sup>

9 32. Bonita uses, and Staff recommends continued use of, Staff's typical and customary  
10 depreciation rates as shown in Attachment 4 of the Engineering Report attached to the Revised Staff  
11 Report.<sup>15</sup>

## 12 **Rate Application**

### 13 **Adjustments to Rate Base**

14 33. Bonita proposed Original Cost Rate Base ("OCRB") of \$73,469.<sup>16</sup>

15 34. Staff determined the OCRB to be \$72,996 due to Staff's adjustments to plant advances,  
16 gross contributions, amortization of contributions in aid of construction ("CIAC"), and working capital.  
17 Staff recommended decreasing plant advances by \$1,097 and reclassifying that amount to gross  
18 contributions. Staff also recommended increasing amortization of CIAC by \$352 to reflect Staff's  
19 recommended CIAC balances and decreasing working capital by \$825 to reflect Staff's recommended  
20 operation and maintenance expenses. Staff noted that its amortization of CIAC and working capital  
21 adjustments were immaterial pursuant to Commission policy but recommended each as companion  
22 adjustments to Staff recommended adjustments to expenses.<sup>17</sup>

23 35. In its response to the Revised Staff Report, Bonita indicated that the \$45,166 included  
24 on its balance sheet as long-term debt represents the value of plant received from 11 property owners

25 <sup>11</sup> Revised Staff Report, Att. A at 6.

26 <sup>12</sup> Revised Staff Report, Att. A at 8.

27 <sup>13</sup> Revised Staff Report at p. 3.

27 <sup>14</sup> Revised Staff Report at p. 3.

27 <sup>15</sup> Revised Staff Report, Att. A at 8.

28 <sup>16</sup> The Association did not propose a Fair Value Rate Base that differed from its OCRB. Staff Report at p. 2.

28 <sup>17</sup> Revised Staff Report at p. 3-4.

1 of new homes installing infrastructure at their own expense “[t]en to 15 years ago” to receive water  
2 service and turning the infrastructure over to the Association.

3 36. In reply, Staff recommended that the \$45,166 be treated as plant advances, which  
4 reduced the Association’s OCRB to \$27,830. Bonita accepted Staff’s treatment of the \$45,166.

5 37. We find Staff’s recommendation to reclassify the \$45,166 from long-term debt to plant  
6 advances to be appropriate. However, because more than 10 years have passed since the plant was  
7 conveyed to the Association, the advances should be converted to CIAC, amortized against  
8 depreciation expense, and any refunds discontinued. Consequently, we find the adjusted balance of  
9 plant advances to be \$829, CIAC to be \$59,053, accumulated CIAC to be \$13,142, and working capital  
10 to be \$4,737, resulting in a Fair Value Rate Base (“FVRB”) of \$28,588.

#### 11 **Statement of Operating Income**

12 38. Bonita reported TY operating revenue of \$27,320.

13 39. Staff did not make any adjustments to Bonita’s TY operating revenue.

14 40. We find that the Association’s TY operating revenue is reasonable and appropriate, and  
15 adopt test year operating revenue of \$27,320.

16 41. Staff made several adjustments to Bonita’s test year operating expenses of \$43,419,  
17 resulting in a net decrease of \$5,239, to account for decreases to outside services and income tax, and  
18 an increase to depreciation expense. Staff reduced outside services expense by \$6,600 citing lack of  
19 supporting evidence; increased depreciation expense by \$1,521 to reflect Staff’s recommended  
20 depreciable plant balances as reduced by the amortization of CIAC; and reduced income tax expense  
21 by \$160 because the Association is no longer a taxable entity and should not collect income tax in  
22 rates.<sup>18</sup>

23 42. Bonita disputed Staff’s adjustment to outside services, stating that the Association had  
24 provided “all of the necessary supporting documentation for the test year expenses” and asserting that  
25 adoption of the adjustment would place Bonita at financial risk of insolvency.<sup>19</sup> Staff continued to  
26 support its adjustment.

27 \_\_\_\_\_  
28 <sup>18</sup> Revised Staff Report at p. 4.

<sup>19</sup> Bonita’s Response dated May 18, 2021 at p. 2.

1           43.     We find that Bonita provided adequate support for accounting services and, therefore,  
2 do not adopt Staff's adjustments to outside services. As a result, we adopt test year operating expenses  
3 of \$42,622.

4           44.     Based on the foregoing, Bonita's present rates and charges resulted in a test year  
5 operating loss of \$15,302.

#### 6 **Revenue Requirement**

7           45.     Bonita proposed permanent rates that would produce annual operating revenue of  
8 \$50,320, which would be an increase of \$23,000, or 54.3 percent, over adjusted test year revenue of  
9 \$27,320, to provide operating income of \$6,587, for an operating margin of 13.09 percent.

10          46.     Staff recommended utilizing a cash flow analysis to determine Bonita's appropriate  
11 revenue requirement rather than a rate of return on rate base methodology, reasoning that Bonita has  
12 an insufficient rate base to develop fair and reasonable rates.<sup>20</sup>

13          47.     Staff recommended approval of permanent rates that would produce annual operating  
14 revenue of \$42,851, and that with Staff's recommended surcharge for a Water Infrastructure Financing  
15 Authority of Arizona ("WIFA") loan (discussed later), the Association would receive additional  
16 revenues of \$25,466 for total annual revenues of \$68,317.<sup>21</sup> The total recommended revenue, including  
17 estimated surcharge revenues, would be an increase of \$40,997, or 150.06 percent, over adjusted test  
18 year revenue of \$27,320, and would provide operating income of \$29,581, for a 106.29 percent rate of  
19 return on the Association's FVRB of \$27,830.<sup>22</sup>

20          48.     According to Staff, its recommended revenue requirement will provide the Association  
21 with sufficient cash flow to pay normal operating expenses and manage contingencies.

22          49.     We find that it is the Association's status of a non-profit utility that warrants the use of  
23 cash flow instead of the rate of return on rate base to be the appropriate means for establishing the  
24 revenue requirement in this case.

25          50.     Based on our findings, we adopt permanent rates to produce annual operating revenue  
26 of \$47,355, which with a WIFA loan surcharge that would produce additional revenue of \$21,526,

27 <sup>20</sup> Revised Staff Report at p. 5.

28 <sup>21</sup> Staff Report Addendum at p. 2.

<sup>22</sup> Staff Report Addendum at Revised Sched. HM-1.

would result in total revenues of \$68,881. The total recommended revenue would be an increase of \$41,561, or 152.13 percent, over adjusted test year revenue of \$27,320, to provide operating income of \$16,225, and cash flow after debt service of \$6,757.<sup>23</sup> We find that the approved revenue requirement is sufficient to cover the Association’s operating costs and provide funds for contingencies. We acknowledge that the increase is substantial on a percentage basis, but recognize that the Association is a non-profit cooperative with no other source of capital than its members or debt, requires substantial capital improvements, and has not had a rate case in over 16 years.

**Rate Design**

51. Bonita proposed a rate structure with a monthly minimum charge that increases by meter size, and inverted three-tier commodity rates with breakover points at 2,000 and 4,000 gallons for 5/8 x 3/4 residential meter sizes.

52. Staff accepted the Association’s rate design approach but relied on the guidelines set forth in the Commission’s water policy in Decision No. 75626 (July 25, 2016) to develop its recommended rate design that included breakover points at 1,000 and 2,000 gallons.

53. Staff’s reliance on Decision No. 75626, while understandable, is unnecessary when, as here, the system’s low usage compels deviation from the guidelines as nearly all of the revenue will need to be generated from the monthly minimum charge to provide revenue stability. While we adopt Bonita’s and Staff’s approach to structure rates, we modify the breakover points to better align with rate design principles. The rates we adopt are presented in the table below.

54. The rates for Bonita at present, as proposed by Bonita, 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</u>
<b><u>MONTHLY MINIMUM CHARGE:</u></b>				
5/8” x 3/4” Meter	\$35.00	\$70.00	\$54.00	\$64.15
3/4” Meter	60.00	105.00	81.00	96.22
1” Meter	100.00	175.00	135.00	160.37
1 1/2” Meter	200.00	350.00	270.00	320.74
2” Meter	320.00	560.00	432.00	513.18
3” Meter	600.00	1,120.00	810.00	1,026.37
4” Meter	1,000.00	1,750.00	1,350.00	1,603.70

<sup>23</sup> The total recommended revenue would result in a 15.62 percent rate of return on the Association’s FVRB of \$28,588.



1	6" Meter	0.00	3,500.00	2,700.00	3,207.40
2	<b><u>5/8" x 3/4" Meter</u></b>				
3	Gallons Included in Minimum	0	0	0	0
4	First 2,000 Gallons	\$6.25			
5	From 2,001 to 8,000 Gallons	7.00			
6	Over 8,000 Gallons	7.75			
7	First 2,000 Gallons		\$6.25		
8	From 2,001 to 4,000 Gallons		8.25		
9	Over 4,000 Gallons		12.25		
10	First 1,000 Gallons			\$6.00	
11	From 1,001 to 2,000 Gallons			12.00	
12	Over 2,000 Gallons			16.80	
13	First 2,000 Gallons				\$6.91
14	From 2,001 to 7,000 Gallons				10.37
15	Over 7,000 Gallons				12.44
16	<b><u>3/4" Meter</u></b>				
17	Gallons Included in Minimum For Larger	0	0	0	0
18	Meter Sizes – Two Tiers Only				
19	First 20,000 Gallons	\$0.00		\$12.00	
20	Over 20,000 Gallons	0.00		16.80	
21	First 2,000 Gallons		\$6.25		
22	From 2,001 to 20,000 Gallons		8.25		
23	Over 20,000 Gallons		12.25		
24	First 2,000 Gallons				\$6.91
25	From 2,001 to 7,000 Gallons				10.37
26	Over 7,000 Gallons				12.44
27	<b><u>1" Meter</u></b>				
28	Gallons Included in Minimum For Larger	0	0	0	0
29	Meter Sizes – Two Tiers Only				
30	First 50,000 Gallons	\$0.00	\$8.25	\$12.00	
31	Over 50,000 Gallons	0.00	12.25	16.80	
32	First 25,000 Gallons				\$10.37
33	Over 25,000 Gallons				12.44
34	<b><u>1 1/2" Meter</u></b>				
35	Gallons Included in Minimum For Larger	0	0	0	0
36	Meter Sizes – Two Tiers Only				
37	First 80,000 Gallons	\$0.00	\$8.25	\$12.00	\$10.37
38	Over 80,000 Gallons	0.00	12.25	16.80	12.44

**2" Meter**

1	Gallons Included in Minimum For Larger	0	0	0	0
2	Meter Sizes – Two Tiers Only				
	First 150,000 Gallons	\$0.00	\$8.25	\$12.00	
3	Over 150,000 Gallons	0.00	12.25	16.80	
4	First 135,000 Gallons				\$10.37
	Over 135,000 Gallons				12.44

**3" Meter**

5					
6	Gallons Included in Minimum For Larger	0	0	0	0
	Meter Sizes – Two Tiers Only				
7	First 300,000 Gallons	\$0.00	\$8.25	\$12.00	
8	Over 300,000 Gallons	0.00	12.25	16.80	
9	First 320,000 Gallons				\$10.37
	Over 320,000 Gallons				12.44

**4" Meter**

10	Gallons Included in Minimum For Larger	0	0	0	0
11	Meter Sizes – Two Tiers Only				
	First 500,000 Gallons	\$0.00	\$8.25	\$12.00	\$10.37
12	Over 500,000 Gallons	0.00	12.25	16.80	12.44

**6" Meter**

13					
14	Gallons Included in Minimum For Larger	0	0	0	0
	Meter Sizes – Two Tiers Only				
15	First 750,000 Gallons	\$0.00	\$8.25	\$12.00	
16	Over 750,000 Gallons	0.00	12.25	16.80	
17	First 1,000,000 Gallons				\$10.37
	Over 1,000,000 Gallons				12.44

18         55. Bonita’s recommended rates would increase the current monthly bill for the typical  
 19 residential bill with an average usage of 1,161 gallons by \$35.00, from \$42.26 to \$77.26, for an increase  
 20 of 82.8 percent.

21         56. Staff’s recommended rates without the estimated loan surcharge would increase the  
 22 current monthly bill for the typical residential bill with an average usage of 1,161 gallons by \$19.68,  
 23 from \$42.26 to \$61.93, for an increase of 46.6 percent. Staff’s recommended rates inclusive of the  
 24 estimated loan surcharge of \$39.73, would increase the current monthly bill for the same residential  
 25 customer by \$59.41, from \$42.26 to \$101.66, for an increase of 140.6 percent.<sup>24</sup>

26         57. The rates adopted herein without the estimated loan surcharge would increase the  
 27 current monthly bill for the typical residential bill with an average usage of 1,161 gallons by \$29.91,

28 <sup>24</sup> Staff Report Addendum at Revised Schedule HM-5.

