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BEFORE THE ARIZONA CORPORAT

JIM O'CONNOR
Chairman
LEA MÁRQUEZ PETERSON
Commissioner
ANNA TOVAR
Commissioner
KEVIN THOMPSON
Commissioner
NICK MYERS
Commissioner

Arizona Corporation Commission

DOCKETED

MAR 15 2024

DOCKETED BY

(Signature)

IN THE MATTER OF THE APPLICATION
OF CAYETANO, INC. DBA LAKEWOOD
WATER COMPANY FOR APPROVAL OF
A RATE INCREASE.

DOCKET NOS. W-01809A-22-0248
W-01809A-22-0285

DECISION NO. 79309

IN THE MATTER OF THE APPLICATION
OF CAYETANO, INC. DBA LAKEWOOD
WATER COMPANY FOR AUTHORITY TO
INCUR LONG-TERM DEBT.

ORDER

**CAYETANO, INC.'S REQUEST TO
IMPLEMENT A FINANCE SUR-
CHARGE**

Open Meeting
March 12, 2024
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Background

1. Cayetano, Inc. dba Lakewood Water Company ("Lakewood Water" or "Company") is a for-profit C corporation and Class E water utility providing water service to 316 customers in Amado, Arizona.

2. On April 17, 2023, the Arizona Corporation Commission ("Commission"), in Decision No. 78912, approved the Company's rate and financing applications. This Decision authorized the Company to incur long-term debt with the Water Infrastructure Finance Authority of Arizona ("WIFA") to finance the water system improvement projects, in an amount not to exceed \$1,218,750, at an interest rate not to exceed that available at the time the loan is executed.

3. On December 22, 2023, Lakewood Water provided the loan documents to Commission Utilities Division Staff ("Staff") and requested implementation of the approved loan

1 surcharge mechanism. The WIFA loan documents indicated that a portion of the loan is forgivable
2 and that the loan is repayable over 20 years, at an interest rate of 5.498 percent.

3 **Staff Analysis and Recommendations**

4 4. Staff has confirmed that approximately 58.07 percent or \$707,813 of the Company's
5 WIFA loan principal has been forgiven, thus reducing the repayable portion of the WIFA loan from
6 \$1,218,750 to \$510,937. Staff's recommended WIFA loan surcharge reflects this updated number.
7 Staff's calculation of the debt service yields a monthly Debt Service Surcharge of \$6.64 and a Debt
8 Service Reserve Surcharge of \$2.87, a total of \$9.51 for each 5/8 x 3/4-inch metered customer (See
9 Schedule HB-1). In Decision No. 78912, the loan surcharge was estimated to be \$32.17 for 5/8 x
10 3/4-inch metered customers using the full loan amount of \$1,218,750 and an interest rate of 6.5
11 percent. Staff's recommended Debt Service and Debt Service Reserve Surcharge by meter size are
12 as follow:

Meter Size	Debt Service	Debt Service Reserve Fund	Total Monthly Surcharge
5/8"x 3/4" Meter	\$6.64	\$2.87	\$9.51
3/4" Meter	9.96	4.30	14.26
1" Meter	16.61	7.17	23.78
1½" Meter	33.21	14.34	47.55
2" Meter	53.14	22.94	76.08
3" Meter	99.64	43.01	142.65
4" Meter	166.07	71.68	237.75
6" Meter	332.13	143.36	475.49

21 *Debt Service Coverage*

22 5. As a loan covenant, WIFA requires a Debt Service Coverage ("DSC") of 1.20, to
23 ensure sufficient cash flow is available from operations to cover operating expenses and the debt
24 service obligations. The rates approved by the Commission in Decision No. 78912, inclusive of the
25 surcharge recommended herein, will result in a DSC of 1.30, which is sufficient to meet WIFA's
26 DSC requirement (See Schedule HB-2).

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1 *Staff Recommendations*

2 6. Staff recommends Commission approval of the above loan surcharges. Staff further
3 recommends that the Commission authorize Lakewood Water to begin collecting Staff’s
4 recommended surcharges, beginning with the first billing cycle after the effective date of a
5 Commission Decision in this proceeding. Staff recommends that the Company be authorized to
6 collect the Debt Service Reserve portion of its loan surcharges for up to five years as required by the
7 debt covenant or until the effective date of new rates approved in its next general rate case, whichever
8 occurs first. Staff further recommends that the Commission order Lakewood Water to record its
9 authorized Debt Service Reserve as a regulatory liability.

10 7. Staff recommends that Lakewood Water bill the surcharge as a separate line item on
11 each customers’ monthly bill.

12 8. Staff also recommends that Lakewood Water notify its customers of the surcharges
13 authorized herein and their effective date, in a form acceptable to Staff, by means of a bill insert in
14 its next regularly scheduled billing or as a separate mailing, within 30 days of the effective date of a
15 Commission Decision in this proceeding.

16 CONCLUSIONS OF LAW

17 1. Cayetano, Inc. dba Lakewood Water Company is a public service corporation within
18 the meaning of Article XV of the Arizona Constitution and Arizona Revised Statutes §§40-250, 40-
19 251, 40-301, and 40-302.

20 2. The Commission has jurisdiction over Cayetano Inc. dba Lakewood Water Company
21 and the subject matter of the application.

22 3. The Water Infrastructure Finance Authority of Arizona loan surcharge is just and
23 reasonable and in the public interest.

24 4. The financing is for lawful purposes which are within the corporate power of
25 Cayetano Inc. dba Lakewood Water Company. The financing is compatible with the public interest,
26 within sound financial practices and compatible with the proper performance by Cayetano Inc. dba
27 Lakewood Water Company of providing service as a public service corporation. The financing will
28 not impair Cayetano Inc. dba Lakewood Water Company’s ability to perform that service.

5. The recommendations stated herein are reasonable and in the public interest.

ORDER

IT IS THEREFORE ORDERED that Cayetano, Inc. dba Lakewood Water Company's Water Infrastructure Finance Authority of Arizona loan surcharge per meter size as recommended by Staff is hereby approved.

IT IS FURTHER ORDERED that Cayetano, Inc. dba Lakewood Water Company, shall begin to collect its authorized Water Infrastructure Finance Authority of Arizona loan surcharge beginning with next billing cycle after the effective date of this Decision, based on the following surcharge by meter size:

Meter Size	Debt Service	Debt Service Reserve Fund	Total Monthly Surcharge
5/8"x 3/4" Meter	\$6.64	\$2.87	\$9.51
3/4" Meter	9.96	4.30	14.26
1" Meter	16.61	7.17	23.78
1½" Meter	33.21	14.34	47.55
2" Meter	53.14	22.94	76.08
3" Meter	99.64	43.01	142.65
4" Meter	166.07	71.68	237.75
6" Meter	332.13	143.36	475.49

IT IS FURTHER ORDERED that Cayetano, Inc. dba Lakewood Water Company shall collect the Debt Service Reserve fund portion of the surcharge for up to five years, or until the effective date of rates approved 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 Cayetano, Inc. dba Lakewood Water Company shall bill the surcharge as a separate line item on each customers' monthly bill.

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1 IT IS FURTHER ORDERED that Cayetano, Inc. dba Lakewood Water Company shall notify
2 its customers of the surcharges authorized herein and their effective date, in a form acceptable to
3 Staff, by means of an insert in its next regularly scheduled billing or as a separate mailing, within
4 30 days of the effective date of this Decision.

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

6
7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

8
9 
CHAIRMAN O'CONNOR


COMMISSIONER MARQUEZ PETERSON


10
11 
COMMISSIONER TOVAR


COMMISSIONER THOMPSON


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 this
Commission to be affixed at the Capitol, in the City of
Phoenix, this 15th day of March, 2024.


DOUGLAS R. CLARK
EXECUTIVE DIRECTOR

21 DISSENT: _____

22
23 DISSENT: _____

24 RSP BAB:HB:elr/NML

1 Cayetano, Inc. dba Lakewood Water Company
2 Docket Nos. W-01809A-22-0248 and W-01809A-22-0285

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9 **Consented to Service by Email**

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LOAN SURCHARGE CALCULATION - STAFF RECOMMENDED

Loan Amount: **\$1,218,750**
Forgivable Principal Amount **\$707,813**
Amount Financed **\$510,937**
Term (In Years): **19.5**
Interest & Fee Rate **5.498%**

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

\$15,049.22 Principal (From Loan Amortization Schedule) plus Debt Service Reserve Fund
\$27,715.84 Plus: Interest (From Loan Amortization Schedule)

\$42,765.06 Debt Service Component of the Annual Surcharge Revenue

Step 2 - Find the Gross Revenue Conversion Factor

1.3677 From workpapers

Step 3 - Find the Incremental Income Tax Factor

1.3677 minus 1 = 0.3677

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

0.3677 Incremental Income Tax Factor (From Step 3)
\$15,049.22 Multiplied by: Annual Principal Payment on Loan from Step 1 (Note: Interest Expense is tax deductible)

\$5,533.60 Annual Income Tax Component Related to the Principal

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

0.3677 Incremental Income Tax Factor (From Step 3)
\$57,646.88 Depreciation Expense on WFA Loan Funded Plant (1,218,750*4.73%)

\$21,196.76 Annual Income Tax Component of Surcharge Related to Depreciation Expense

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

\$42,765.06 Annual Interest and Principal Payments on the Loan (From Step 1)
20% Multiplied by: One-fifth of Annual Principal and Interest Payment

\$8,553.01 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

0.3677 Incremental Income Tax Factor (From Step 3)
\$8,553.01 Debt Reserve Component of the Annual Surcharge Revenue for first five years (From Step 6)

\$3,144.94 Annual Income Tax Component of Surcharge Related to Debt Reserve

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

\$5,533.60 Annual Income Tax Component Related to the Principal (From Step 4)
(\$21,196.76) Less: Annual Income Tax Component of Surcharge Related to Depreciation Expense (From Step 5)
\$3,144.94 Annual Income Tax Component of Surcharge Related to Debt Reserve (From Step 7)

(\$12,518.21) Net Annual Income Tax Component of Surcharge Revenue

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

(\$12,518.21) Net Annual Income Tax Component of the Annual Surcharge Revenue (From Step 8)
\$42,765.06 Plus: Debt Service Component of the Annual Surcharge Revenue (From Step 1)
\$8,553.01 Plus: Annual Reserve Fund Deposit (From Step 6)

\$38,799.86 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	309	x	12	=	3,708
3/4" Meter	1.5	x	0	x	12	=	-
1" Meter	2.5	x	4	x	12	=	120
1 1/2" Meter	5	x	1	x	12	=	60
2" Meter	8	x	2	x	12	=	192
3" Meter	15	x	0	x	12	=	-
4" Meter	25	x	0	x	12	=	-
6" Meter	50	x	0	x	12	=	-
			316				4,080

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

\$27,101.91 Total Annual Surcharge Revenue Requirement for the Loan (From Step 8 and Step 9)

4,080 Divided by: Total Number of Equivalent Bills (From Step 9)

\$6.64 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

\$11,697.96 Total Annual Surcharge Revenue Requirement for the Loan (From Step 8 and Step 9)

4,080 Divided by: Total Number of Equivalent Bills (From Step 9)

\$2.87 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	\$6.64	=	\$6.64
3/4" Meter	1.5	x	6.64	=	9.96
1" Meter	2.5	x	6.64	=	16.61
1 1/2" Meter	5	x	6.64	=	33.21
2" Meter	8	x	6.64	=	53.14
3" Meter	15	x	6.64	=	99.64
4" Meter	25	x	6.64	=	166.07
6" Meter	50	x	6.64	=	332.13

Step 12b - Find the Monthly Debt Service Reserve 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	\$2.87	=	\$2.87
3/4" Meter	1.5	x	2.87	=	4.30
1" Meter	2.5	x	2.87	=	7.17
1 1/2" Meter	5	x	2.87	=	14.34
2" Meter	8	x	2.87	=	22.94
3" Meter	15	x	2.87	=	43.01
4" Meter	25	x	2.87	=	71.68
6" Meter	50	x	2.87	=	143.36

Step 13a - Recalculation of Annual Debt Service Surcharge Revenue

Col A	Col B		Col C		Col D		Col E
Meter Size	Number of Customers		Number of Months in Year		Surcharge by Meter Size		Annual Surcharge Rev Col B x C X D
5/8"x 3/4" Meter	309	x	12	x	\$6.64	=	\$24,630.85
3/4" Meter	0	x	12	x	9.96	=	0.00
1" Meter	4	x	12	x	16.61	=	797.11
1½" Meter	1	x	12	x	33.21	=	398.56
2" Meter	2	x	12	x	53.14	=	1,275.38
3" Meter	0	x	12	x	99.64	=	0.00
4" Meter	0	x	12	x	166.07	=	0.00
6" Meter	0	x	12	x	332.13	=	0.00
	<u>316</u>				<u>\$717.40</u>		<u>\$27,101.91</u> (From Step 11a)

Step 13b - Recalculation of Annual Debt Service Reserve Surcharge Revenue

Col A	Col B		Col C		Col D		Col E
Meter Size	Number of Customers		Number of Months in Year		Surcharge by Meter Size		Annual Surcharge Rev Col B x C X D
5/8"x 3/4" Meter	309	x	12	x	\$2.87	=	\$10,631.38
3/4" Meter	0	x	12	x	4.30	=	0.00
1" Meter	4	x	12	x	7.17	=	344.06
1½" Meter	1	x	12	x	14.34	=	172.03
2" Meter	2	x	12	x	22.94	=	550.49
3" Meter	0	x	12	x	43.01	=	0.00
4" Meter	0	x	12	x	71.68	=	0.00
6" Meter	0	x	12	x	143.36	=	0.00
	<u>316</u>				<u>\$309.65</u>		<u>\$11,697.96</u> (From Step 11b)

LOAN SURCHARGE AMORTIZATION - STAFF RECOMMENDED

Line
No.

1	Loan Amount Requested	\$1,218,750		
2	Forgiveable Principle Amount	\$707,813		
3	Amount Financed:	\$510,937		
4	Number of years:	19.5	Compounding Periods	12
5	Interest & Fee Rate	5.498%		
6	Subsidy Rate:	1.00		
7	Interest Rate (r) (Line 5 x Line 6)	5.498%	APR:	5.64%

LOAN AMORTIZATION SCHEDULE

Line No.	Period	Loan payment (1)	Beginning-of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
				Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
17	1	\$3,563.76	\$510,937.00	\$2,340.94	\$1,222.81	\$509,714.19			
18	2	3,563.76	509,714.19	2,335.34	1,228.41	508,485.77			
19	3	3,563.76	508,485.77	2,329.71	1,234.04	507,251.73			
20	4	3,563.76	507,251.73	2,324.06	1,239.70	506,012.03			
21	5	3,563.76	506,012.03	2,318.38	1,245.38	504,766.66			
22	6	3,563.76	504,766.66	2,312.67	1,251.08	503,515.57			
23	7	3,563.76	503,515.57	2,306.94	1,256.81	502,258.76			
24	8	3,563.76	502,258.76	2,301.18	1,262.57	500,996.18			
25	9	3,563.76	500,996.18	2,295.40	1,268.36	499,727.83			
26	10	3,563.76	499,727.83	2,289.59	1,274.17	498,453.66			
27	11	3,563.76	498,453.66	2,283.75	1,280.01	497,173.65			
28	12	3,563.76	497,173.65	2,277.88	1,285.87	495,887.78	27,715.84	15,049.22	42,765.06

STATEMENT OF CASH AVAILABILITY

Line		[A]	[B]
No.	INCOME STATEMENT	Decision No. 78912	Staff Recommended
1	Operating Revenue		
2	461 Metered Water Revenue	\$115,382	\$115,382
3	471 Misc Service Revenues	1,228	1,228
4	474 Other Water Revenue	626	626
5	469 Guraranteed Revenue (Surcharge)	0	27,102
6	Total Operating Rev:	<u>\$117,236</u>	<u>\$144,338</u>
7			
8	Operating Expenses		
9	601 Salaries and Wages	\$0	\$0
10	604 Employee Pensions and Benefits	0	0
11	610 Purchased Water	0	0
12	615 Purchased Power	9,857	9,857
13	618 Chemicals	0	0
14	620 Materials and Supplies	2,031	2,031
15	620.1 Repairs and Maintenance	0	0
16	620.2 Office Supplies and Expense	0	0
17	630 Contractual Services	0	0
18	631 Contractual Services -Engineering	0	0
19	632 Contractual Services - Accounting	2,220	2,220
20	633 Contractual Services - Legal	1,380	1,380
21	634 Contractual Services - Management Fees	52,000	52,000
22	635 Contractual Services - Water Testing	1,815	1,815
23	636 Contractual Services - Other	0	0
24	640 Rents	1,500	1,500
25	641 Rental of Building/Real Property	2,862	2,862
26	642 Rental of Equipment	0	0
27	650 Transportation Expenses	0	0
28	657 Insurance - General Liability	0	0
29	657.1 Insurance - Health and Life	0	0
30	665 Regulatory Commission Expense - Rate Case	0	0
31	670 Bad Debt Expense	958	958
32	675 Miscellaneous Expense	1,102	1,102
33	403 Depreciation Expense	6,963	6,963
34	408 Taxes Other Than Income	0	0
35	408.11 Property Taxes	5,682	5,682
36	409 Income Tax	7,179	7,179
37	427.1 Customer Security Deposit Interest	0	0
38	Total Operating Expense	<u>\$95,549</u>	<u>\$95,549</u>
39			
40	Operating Income	\$21,687	\$48,789
41			
42	Additions to Cash		
43	Depreciation Expense	\$6,963	\$6,963
44			
45	Subtractions from Cash		
46	Refunds of Advances in Aid of Construction	\$0	\$0
47			
48	Net Cash from Operations	\$28,650	\$55,752
49			
50	Operating Margin (L39 / L5)	18.50%	33.80%
51			
52	Annual Debt Service Amount	\$0	\$42,765
53			
54	Cash Available for Contingencies (L47 - L51)	\$28,650	\$12,987
55			
56	DSC [L32 + L36 + L39] + [L51]	0	1.30