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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
WILILAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
TIERRA LINDA HOMEOWNERS ASSOCIATION,
INC. FOR A CERTIFICATE OF CONVENIENCE
AND NECESSITY TO PROVIDE WATER
SERVICE TO PIMA COUNTY, ARIZONA

Docket No. W-04236A-04-0075

STAFF'S NOTICE OF FILING

Staff of the Arizona Corporation Commission ("Commission") hereby files its Addendum to Staff Report in Response to Applicant's Objections.

RESPECTFULLY SUBMITTED this 30th day of April, 2004.

Christopher C. Kempley, Chief Counsel
David Ronald, Attorney
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007
(602) 542-3402

Arizona Corporation Commission

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1 Original and 13 copies of the foregoing
2 filed this 30th day of April, 2004 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, AZ 85007

7 Copy of the foregoing mailed this
8 30th day of April, 2004 to:

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ADDENDUM TO STAFF REPORT IN RESPONSE TO APPLICANT'S OBJECTIONS

Tierra Linda Homeowners Association, Inc.
Docket No. W-04236A-04-0075

Applicant's Observations:

B. 1- Near the bottom of page 2 of the Staff Report, Staff says that the Applicant has proposed a hook-up fee as a general revenue fee.

What Staff said is that Tierra Linda has proposed a generic hook-up fee as a general revenue fee. However, total revenue submitted by Applicant and recommended by Staff includes only revenue generated by metered water sales, and DOES NOT include hook-up fees. (See page 2 of Staff Report, Finance of Utility Plant, paragraph three and Schedule ENZ-1 Operating Revenue line).

2- Staff's schedule ENZ-1, Rate Base and Rate of Return includes hook-up fees as CIAC.

A cosmetic error was made on Schedule ENZ-1, which has been replaced with a Revised Schedule ENZ-1. Original Cost Rate Base includes Net Plant less Advances in Aid of Construction and Refundable Meter Deposits. Rate of return has not changed.

For further information on disallowance of hook-up fees please refer to Staff's Report, Page 2, Finance of Utility Plant, paragraph four.

Staff's rate design will provide adequate revenue and was assigned to produce the recommended revenue levels.

3- If the hook-up fees are disallowed, a different means of financing will need to be adopted and more equity will be required. Further, schedule ENZ-1 would show lower returns.

A cosmetic error was made on Schedule ENZ-1, which has been replaced with a Revised Schedule ENZ-1. Rate of return has not changed.

4- If a larger equity investment is to be required of the applicant, the rates proposed will need to be increased so that the necessary fair rate of return on investment may be realized.

Staff's rate design will provide adequate revenue. Rate of return and rate design were not affected by the cosmetic error.

As a Non-profit Corporate Entity a "FAIR" rate of return may be anything over breakeven depending on the level of non-cash expenses and cash flow. Staff believes its rates provide adequate revenue.

RATE BASE & RATE OF RETURN COMPUTATION

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Plant in Service	\$ 1,133,375	\$ 1,330,221	\$ 1,550,006	\$ 1,805,277	\$ 2,044,064
Less: Accumulated Depreciation	(23,070)	(72,137)	(127,402)	(189,419)	(257,651)
Cash	33,443	77,004	111,471	144,604	135,553
Net Plant	\$ 1,143,748	\$ 1,335,088	\$ 1,534,075	\$ 1,760,462	\$ 1,921,966
Less: Advances in Aid of Construction	(287,566)	(348,997)	(411,920)	(492,946)	(571,131)
Less: Contributions in Aid of Constr.	-	-	-	-	-
Amortization	-	-	-	-	-
Refundable Meter Deposits	(6,000)	(27,400)	(46,600)	(63,600)	(65,440)
Original Cost Rate Base	\$ 850,182	\$ 958,691	\$ 1,075,555	\$ 1,203,916	\$ 1,285,395
Operating Revenue	25,312	64,333	91,392	118,221	135,369
Operating Expense	38,940	76,603	95,259	115,611	131,868
Operating Income (Loss)	\$ (13,628)	\$ (12,270)	\$ (3,867)	\$ 2,610	\$ 3,501
Rate of Return	-1.60%	-1.28%	-0.36%	0.22%	0.27%
Number of Customers - Residential	15	70	125	180	199
-Commercial	0	0	0	0	0