

ORIGINAL

EXCEPTION



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OPEN MEETING AGENDA ITEM

BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

2004 MAY 17 P 3:09

MARC SPITZER - Chairman
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KRISTIN K. MAYES

AZ CORP COMMISSION
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Arizona Corporation Commission

DOCKETED

MAY 17 2004

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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS SUN CITY WEST WATER AND WASTEWATER DISTRICTS.

DOCKET NO. WS-01303A-02-0867

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS SUN CITY WATER AND WASTEWATER DISTRICTS.

DOCKET NO. WS-01303A-02-0868

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WATER DISTRICT AND ITS HAVASU WATER DISTRICT.

DOCKET NO. W-01303A-02-0869

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WATER DISTRICT AND ITS ANTHEM WATER DISTRICT, ITS AGUA FRIA WATER DISTRICT, AND ITS ANTHEM/AGUA FRIA WASTEWATER DISTRICT.

DOCKET NO. WS-01303A-02-0870

**STAFF'S EXCEPTIONS TO
RECOMMENDED
OPINION AND ORDER**

12

1 IN THE MATTER OF THE APPLICATION OF
2 ARIZONA-AMERICAN WATER COMPANY, INC.,
3 AN ARIZONA CORPORATION, FOR A
4 DETERMINATION OF THE CURRENT FAIR
5 VALUE OF ITS UTILITY PLANT AND
6 PROPERTY AND FOR INCREASES IN ITS RATES
7 AND CHARGES BASED THEREON FOR UTILITY
8 SERVICE BY ITS TUBAC WATER DISTRICT.

DOCKET NO. W-01303A-02-0908

**STAFF'S EXCEPTIONS TO
RECOMMENDED
OPINION AND ORDER**

6 Staff does not take exception to any of the language in the Recommended Opinion and Order
7 ("ROO"). Indeed, Staff concurs in the thoughtful analysis contained in the ROO. However, Staff
8 notes that the numbers in the ROO and schedules to the ROO appear to be inconsistent with the text
9 of the ROO. It appears that three important miscalculations occurred.

10 First, the calculation of (1) overheads; (2) salaries and wages; and (3) service company
11 charges is incorrect. It appears that the ROO used Arizona-American's rejoinder schedules as a
12 starting point. Following the text of the ROO, Arizona-American's calculation of the three items
13 listed above should have been replaced by RUCO's figures for these items. However, instead of
14 removing Arizona-American's amounts and recognizing RUCO's amounts, it appears that the reverse
15 occurred. That is, an amount equal to RUCO's adjustments was removed, and an amount equal to
16 Arizona-American's amounts was added. This appears to be a simple calculation error.

17 Second, it appears that the ROO numbers used the property tax expense from Arizona-
18 American's rejoinder schedules instead of an amount consistent with the text that adopts Staff's
19 method for calculating property tax expense.

20 Third, the calculation of income tax is incorrect. Staff was not able to determine all of the
21 reasons for this miscalculation. In part, the error was due to using an incorrect level of interest
22 expense to calculate the income tax. It appears that synchronized interest was not used for the
23 interest expense in the income tax calculation. Income tax expense is also affected by the
24 aforementioned operating expense treatments.

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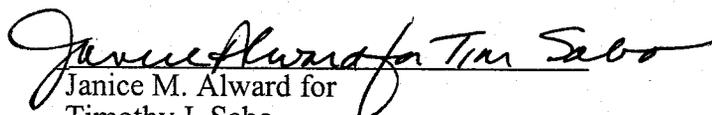
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1 Staff corrected the three errors discussed above. These corrections are shown on the attached
2 Exhibit A. The total effect of these errors for each system is shown on Exhibit B. Staff respectfully
3 requests that the Commission approve modifications to the ROO consistent with these attached
4 schedules, and that rates be adjusted accordingly.

5 RESPECTFULLY SUBMITTED this 17th day of May 2004.

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8 
9 Janice M. Alward for
10 Timothy J. Sabo
11 Attorney, Legal Division
12 Arizona Corporation Commission
13 1200 West Washington Street
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13 The original and twenty-one (21) copies
14 of the foregoing were filed this
15 17th day of May 2004 with:

15 Docket Control
16 Arizona Corporation Commission
17 1200 West Washington Street
18 Phoenix, Arizona 85007

18 Copies of the foregoing were mailed
19 this 17th day of May 2004 to:

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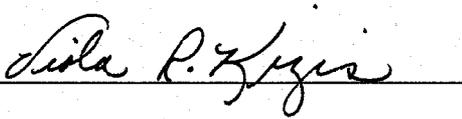
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REVENUE REQUIREMENT INCREASE/(DECREASE) - BY SYSTEM
 (STAFF EXCEPTIONS)

Line No.	Description	Sun City West Water	Sun City Wastewater	Sun City Water	Sun City Wastewater	Mohave Water	Havasu Water	Anthem Water	Acqua Fria Water	Anthem/ Acqua Fria Wastewater	Tubac Water
1	Test Year Revenue	\$ 3,380,774	\$ 3,535,680	\$ 6,193,080	\$ 5,088,340	\$ 4,394,132	\$ 440,924	\$ 4,010,805	\$ 6,186,037	\$ 1,866,546	\$ 254,486
2	Test Year Operating Expenses	2,938,753	3,895,951	6,030,993	4,091,048	3,404,484	386,767	3,023,829	4,550,576	1,830,365	245,434
3	Test Year Operating Income	442,021	(360,271)	162,087	997,292	989,648	44,157	986,976	1,635,461	36,181	9,052
4	Required Operating Income	777,652	579,195	1,421,483	566,207	571,239	53,442	1,083,417	602,858	177,535	73,271
5	Operating Income Deficiency/(Excess)	335,631	939,466	1,259,396	(431,085)	(418,409)	9,285	96,441	(1,032,603)	141,354	64,219
6	Gross Revenue Conversion Factor	1.62863	1.62863	1.62863	1.62863	1.62863	1.62863	1.62863	1.62863	1.62863	1.62863
7	Increase in Gross Revenue Requirement	\$ 546,619	\$ 1,530,042	\$ 2,051,073	\$ (702,077)	\$ (681,433)	\$ 15,121	\$ 157,066	\$ (1,681,728)	\$ 230,213	\$ 104,588
8	Required Percent Increase/(Decrease) in Revenue	16.17%	43.27%	33.12%	-13.80%	-15.51%	3.43%	3.92%	-27.19%	12.33%	41.10%

Calculation of Test Year Operating Expenses

9	Total Operating Expenses - Company Rejoinder	\$ 2,932,836	\$ 3,578,308	\$ 5,611,752	\$ 3,958,033	\$ 3,478,133	\$ 426,168	\$ 3,279,318	\$ 4,845,829	\$ 1,848,102	\$ 236,000
10	Additions:										
11	Rate Case Expense	13,355	13,966	24,464	20,100	17,368	1,742	15,839	24,436	7,373	1,006
12	OVHD - Salaries and Wages	22,464	33,696	69,857	14,976	56,161	11,232	44,982	26,206	22,464	3,744
13	OVHD - Office Supplies	182,392	168,783	322,980	242,477	163,185	14,208	53,684	165,421	30,213	9,386
14	OVHD - Insurance	19,535	16,021	57,988	24,091	18,113	1,630	11,712	22,645	3,398	2,351
15	OVHD - Miscellaneous	270,185	740,226	906,640	354,605	671,585	6,263	5,332	6,263	5,176	277
16	Salaries and Wages	437,097	468,101	784,680	442,774	441,464	63,753	399,982	604,339	277,965	32,750
17	Service Company Charges	144,412	162,559	240,067	177,169	240,404	25,489	112,294	280,269	107,303	21,046
18	Property Tax	1,090,904	1,604,630	2,430,684	1,277,878	1,610,093	187,369	918,696	1,501,241	620,232	135,646
19	Subtotal Operating Expense Additions	60,452	(231,348)	(15,974)	219,526	253,706	20,964	273,347	406,080	(2,201)	(2,209)
20	Federal and State Income Taxes	1,151,356	1,373,264	2,414,710	1,497,404	1,863,799	206,333	1,192,043	1,907,331	618,031	133,437
21	Total Additions										

Calculation of Test Year Income Taxes

22	Rate Case Expense	\$ 22,313	\$ 23,335	\$ 40,874	\$ 33,583	\$ 29,013	\$ 2,910	\$ 26,471	\$ 43,906	\$ 12,319	\$ 1,680
23	OVHD - Salaries and Wages	57,665	86,499	230,664	38,444	144,165	28,833	115,332	115,332	57,666	9,611
24	OVHD - Office Supplies	104,573	92,664	214,090	131,056	92,327	4,200	42,372	108,264	23,372	7,060
25	OVHD - Insurance	22,010	17,430	63,152	24,520	19,040	1,736	13,731	26,166	3,979	2,471
26	OVHD - Miscellaneous	1,462	1,237	4,389	1,685	1,840	1,288	5,300	6,226	5,142	275
27	Salaries and Wages	332,808	413,655	769,786	69,343	576,845	110,136	302,138	430,180	189,310	64,491
28	Service Company Charges	474,842	508,522	862,438	414,009	479,986	69,256	434,521	656,525	264,697	35,578
29	Property Tax - Company Rejoinder	130,976	163,121	266,318	189,357	263,528	27,185	221,191	309,791	108,825	22,972
30	Federal and State Income Taxes	(1,311)	(250,822)	(446,242)	(385,392)	(331,104)	(13,032)	263,347	506,184	(39,542)	(20,135)
31	Total Operating Expense Deletions	1,145,439	1,055,641	1,895,469	1,364,389	1,937,448	237,734	1,447,532	2,202,584	635,768	124,003
32	Total Test Year Operating Expenses	\$ 2,838,753	\$ 3,895,951	\$ 6,030,993	\$ 4,091,048	\$ 3,404,484	\$ 386,767	\$ 3,023,829	\$ 4,550,576	\$ 1,830,365	\$ 245,434

Calculation of Test Year Income Taxes

34	Test Year Revenue	\$ 3,380,774	\$ 3,535,680	\$ 6,193,080	\$ 5,088,340	\$ 4,394,132	\$ 440,924	\$ 4,010,805	\$ 6,186,037	\$ 1,866,546	\$ 254,486
35	Less: Total Operating Expenses - Company Rejoinder	2,932,836	3,578,308	5,611,752	3,958,033	3,478,133	426,168	3,279,318	4,845,829	1,848,102	236,000
36	Less: Subtotal Operating Expense Additions	1,090,904	1,604,630	2,430,684	1,277,878	1,610,093	187,369	918,696	1,501,241	620,232	135,646
37	Add: Total Operating Expense Deletions Except Income Tax	1,146,750	1,306,463	2,441,711	968,997	1,606,344	250,766	1,164,185	1,696,400	675,310	144,138
38	Synchronized Interest Expense	347,167	258,564	633,751	252,688	254,960	23,841	268,804	483,290	79,224	32,702
39	Taxable Income - Test Year	156,617	(69,359)	(41,386)	568,738	657,200	54,312	706,172	1,052,077	(5,702)	(6,724)
40	State Tax @ 6.988%	10,913	(4,813)	(2,884)	39,630	45,800	3,784	49,345	73,309	(399)	(399)
41	Federal Taxable Income	145,704	(65,796)	(38,502)	528,108	611,400	50,527	556,827	978,768	(5,305)	(5,325)
42	Federal Tax @ 34%	49,539	(22,463)	(13,091)	179,897	207,906	17,179	224,001	332,781	(1,804)	(1,811)
43	Total Federal & State Income Taxes	\$ 60,452	\$ (231,346)	\$ (15,974)	\$ 219,526	\$ 253,706	\$ 20,964	\$ 273,347	\$ 406,080	\$ (2,201)	\$ (2,209)

Calculation of Synchronized Interest

44	Original Cost Rate Base	\$ 11,971,281	\$ 8,916,017	\$ 21,853,479	\$ 8,713,382	\$ 8,791,741	\$ 822,117	\$ 9,269,095	\$ 16,665,182	\$ 2,731,868	\$ 1,127,661
45	Weighted Average Cost of Debt	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%
46	Synchronized Interest Expense	\$ 347,167	\$ 258,564	\$ 633,751	\$ 252,688	\$ 254,960	\$ 23,841	\$ 268,804	\$ 483,290	\$ 79,224	\$ 32,702

Calculation of Test Year Income Tax Adjustment

44	Total Federal & State Income Taxes	\$ 60,452	\$ (231,346)	\$ (15,974)	\$ 219,526	\$ 253,706	\$ 20,964	\$ 273,347	\$ 406,080	\$ (2,201)	\$ (2,209)
45	Federal and State Income Taxes - Company Rejoinder	(1,311)	(250,822)	(446,242)	819,091	331,104	(13,032)	276,403	506,184	(39,542)	(20,135)
46	Test Year Income Tax Adjustment	\$ 61,763	\$ 19,478	\$ (15,974)	\$ (33,996)	\$ (77,398)	\$ 33,996	\$ (6,036)	\$ (100,094)	\$ 37,341	\$ 17,926

REVENUE REQUIREMENT BY SYSTEM - ROO vs REVISED
 (STAFF EXCEPTIONS)

Line No.	Description	Sun City West Water	Sun City West Wastewater	Sun City Water	Sun City Wastewater	Mohave Water	Havasu Water	Anthem Water	Aqua Fria Water	Anthem/ Aqua Fria Wastewater	Tubac Water
1	Increase/(Decrease) in Gross Revenue - ROO	\$ 604,642	\$ 1,143,789	\$ 1,639,864	\$ (1,370,862)	\$ (385,925)	\$ 87,067	\$ (132,865)	\$ (539,990)	\$ 229,038	\$ 70,145
2	Increase/(Decrease) in Gross Revenue - Revised	\$ 546,619	\$ 1,530,042	\$ 2,051,073	\$ (702,077)	\$ (681,433)	\$ 15,121	\$ 157,066	\$ (1,681,728)	\$ 230,213	\$ 104,588
3	Increase/(Decrease) to ROO Revenue Requirement L2-L1	\$ (58,023)	\$ 386,253	\$ 411,209	\$ 668,785	\$ (295,508)	\$ (71,946)	\$ 289,931	\$ (1,141,738)	\$ 1,175	\$ 34,443
4	Revenue Requirement - ROO	\$ 3,985,416	\$ 4,679,469	\$ 7,832,954	\$ 3,717,478	\$ 4,008,207	\$ 527,991	\$ 3,877,940	\$ 5,646,047	\$ 2,095,584	\$ 324,631
5	Revenue Requirement - Revised	\$ 3,927,393	\$ 5,065,722	\$ 8,244,163	\$ 4,386,263	\$ 3,712,699	\$ 456,045	\$ 4,167,871	\$ 4,504,309	\$ 2,096,759	\$ 359,074