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WS-01303A-02-0868
WS-01303A-02-0869
WS-01303A-02-0870
W-01303A-02-0908
W-01303A-01-0983

From: "Donald M Davidson, Jr" <ddavidjr@juno.com>
To: <mspitzer@cc.state.az.us>, <wmundell@cc.state>, <jhatch@cc.state.az.us>, <mgleason@cc.state.az.us>, <kmayes@cc.state.az.us>
Date: Wed, Dec 29, 2004 12:55 PM
Subject: Tubac water rate increase

Arizona Corporation Commission
DOCKETED
JAN 20 2005
DOCKETED BY

Members of the Arizona Corporation Commission:

As you are aware, Arizona Water is in the process of planning to address 2006 EPA standards for arsenic as well as expand storage capacity in the Tubac district. I write to strongly protest the proposed $74/mo rate increase for the 517 customers resulting from these activities.
In my own case, this represents a monthly increase of 197%, which I believe you will agree is a bit much![My billing history can be provided upon request].

My concerns regarding the storage capacity are three-fold: First, Arizona Water plans to include income tax as well as the cost of a new office center within the storage complex as part of their cost accounting (see table 1). I believe neither are warranted. Secondly, up to 60% of the proposed increased storage (1500gallons) has been "claimed" by the district fire marshal, a fact that I believe strongly supports levying this cost as a property tax matter and NOT as straight water use billing. Finally, there is the entire matter of amortization of the $2,500,000 cost. I enclose a spreadsheet showing that with straight line depreciation, Arizona Water could cover their costs with a monthly increase of but $11/current customer.

As for the arsenic removal, I would suggest that the commission consider either distributing these costs evenly throughout the state for all Arizona Water districts, or assist us in finding funding to meet the cost of this federally mandated requirement.

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Sincerely,

Donald M. Davidson, Jr
Retired geoscientist

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Table 1.

Tubac Water-Costs for Arsenic Removal & New Water Storage Project Investment $2.5 million with a 38 year life of facility

Illustration Only

	Forecast for the Year:			
	2006	2011	2016	2021
Remaining Investment at year end	$2,500,000	$2,152,778	$1,805,556	$1,458,333
Required Revenue for Arsenic Treatment	$459.914	$444,627	$430,339	- $418,052
Variable Operating Expense	$158,000	$175,000	$193,000	$213,000
Depreciation	$69.444	$69.444	$69.444	$69,444
Income Tax	$52,470	$45.183	$37,895	$30,608
6% Interest Expense on Loan	590.000	$77.500	565.000	$52.500
Total Expenses	$369,914	$367,127	$365,339	$365,552
Return on Equity	$90,000	$77.500	$65,000	$52,500
Average Revenue Increase Per Customer:				
Annual	$890	$751	$645	$563
Monthly	$74	$63	$54	$47
Total Number of Customers	517	592	667	74 2
Scenario - Higher Customer Growth:				
Average Revenue Increase Per Customer:				
Annual	$890	$593	$478	$418
Monthly	$74	$49	$40	$35
Total Number of Customers	517	750	900	1000

Please Note:

1) Required revenues recover expenses and provide an allowed return on equity.
2) Variable operating expense Increases over time with anticipated inflation.
3) Depreciation is a constant 1136th of the initial investment. Facility Is paid off In 36 years.
4) Income tax is due on return on equity.
5) Loan Interest Is 6% on new loans and Is due on the remaining balance of the loan.
6) Retum on equity Is currently allowed at 9% of average remaining investment.
7) Actual not forecasted costs are used by the ACC In setting. Above is only iRustrative.
8) Paying off the loan in 5 years requires annual depreciaUon expense of $500,000 in 2006 - 2010 and
   Increases the annual cost per customer In 2006 from $902 to $1.746. Starting In 2011, however. only variable operating expense would be Incurred under such a scenario.

Dec, 2004

AMORTIZATION CALCULATION
TUBAC WATER PROJECT

Total dollars	$2,500,000.00
Time frame	36 years
Cost per year	$69,444.00
Customer base	517.00
Cost per year/ customer	$134.32
Monthly cost/ customer	$11.19