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MEMORANDUM RECEIVED

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Utilities Division

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AZ CORP COMMISSION  
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**DOCKETED**

FEB 08 2001

DATE: February 7, 2001

DOCKETED BY *CLP*

RE: STAFF REPORT FOR OATMAN WATER COMPANY'S APPLICATION FOR FINANCING APPROVAL AND FOR A PERMANENT RATE INCREASE (DOCKET NO. W-01079A-00-0852)

Attached is the Staff Report for Oatman Water Company's application for financing approval and a permanent rate increase. Staff recommends approval of the financing request of \$163,500 from the Water Infrastructure Finance Authority. Staff further recommends approval of its rates and charges, subject to Commission approval. Staff further recommends that a hearing not be held in this matter.

DRS:DWC:jbc

Originator: Darron W. Carlson

Attachment: Original and Eleven Copies

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STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

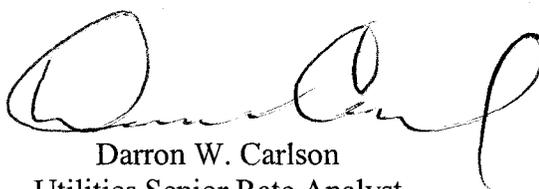
OATMAN WATER COMPANY  
DOCKET NO. W-01079A-00-0852

APPLICATION  
FOR  
FINANCING APPROVAL  
AND A  
PERMANENT RATE INCREASE

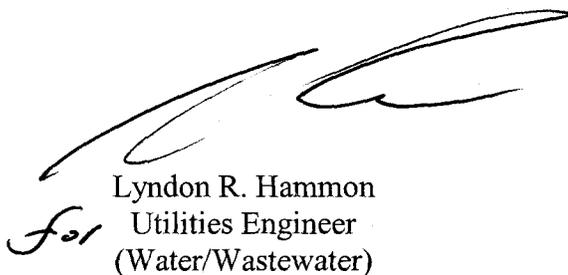
FEBRUARY 2001

## STAFF ACKNOWLEDGMENT

The Staff Report for Oatman Water Company, Docket No. W-01079A-00-0852, was the responsibility of the Staff members listed below. Darron W. Carlson was responsible for the review and analysis of the Company's application for financing approval and a permanent rate increase, as well as Staff's recommended revenue requirements, rate base, rate design and income statement analysis. Lyndon R. Hammon was responsible for the engineering and technical analysis. Bradley G. Morton was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission as well as conducting a public comment meeting in Oatman, Arizona.



Darron W. Carlson  
Utilities Senior Rate Analyst

  
for

Lyndon R. Hammon  
Utilities Engineer  
(Water/Wastewater)



Bradley G. Morton  
Consumer Service Specialist I

**FACTSHEET**

Company:

CC&N: Decision No. 35579-A, dated December 24, 1964

Current Rates: Decision No. 53669, dated July 29, 1983

Emergency rates #1 Decision No. 62772, dated August 2, 2000

Emergency rates #2 Decision No. 62953, dated October 10, 2000

Type of Ownership: Arizona "C" Corporation

Location: The Company provides water utility service to the community of Oatman, Arizona. Oatman is in Mohave County, located approximately equal distance between Needles, California and Kingman, Arizona on old Highway Route 66.

Rates:

Permanent Rate Application filed: October 24, 2000

Current Test Year ended: March 31, 2000

Prior Test Year ended: December 31, 1981

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Proposed Rates</u>
<u>Metered Rates:</u>			
5/8-inch meter	\$16.00	\$25.00	\$25.00
Gallons in minimum:	750	1,000	0
Commodity Charge in excess of minimum (Per 1,000 gallons):			
0 to 3,000 gallons	<sup>1</sup> \$5.00	\$25.00	\$4.95
3,001 to 9,000 gallons	\$5.00	\$25.00	\$6.95
Over 9,000 gallons	\$5.00	\$25.00	\$9.10
Emergency surcharge #1	<sup>2</sup> \$2.17	\$2.17	\$2.17
Emergency surcharge #2	<sup>3</sup> \$2.19	\$2.19	\$2.19

Typical Residential Bill:

5/8-inch meter (excluding surcharges)	\$28.79	\$82.61	\$41.97
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<sup>1</sup> Staff has converted the tariff rate of \$3.75 per 750 gallons to this 1,000-gallon equivalent for ease of comparison.

<sup>2</sup> Staff has converted the surcharge of \$1.63 per 750 gallons to this 1,000-gallon equivalent for ease of comparison.

<sup>3</sup> Staff has converted the surcharge of \$1.64 per 750 gallons to this 1,000-gallon equivalent for ease of comparison.

**FACTSHEET (Cont'd)**

Customers:

Number of customers in the prior Test Year: (12/31/81): 118

Number of customers in the current Test Year (03/31/00): 140-145

Customer notification mailed: October 24, 2000

Number of customer concerns since rate application filed: 72

Percentage of concerns to customer base: 50 percent

### **Summary of Filing**

Based on Test Year results, as adjusted by Staff, Oatman Water Company ("Oatman" or "Company") realized an operating loss of \$6,508 on an Original Cost Rate Base ("OCRB") of \$5,574, resulting in no return, as shown on Schedule 1.

The Company proposed a revenue level of \$66,090 and an operating income of \$19,648, for a 357.69 percent rate of return on an OCRB of \$5,493. Staff's analysis shows that the Company's proposed rates actually produce revenues of \$131,578 and an operating income of \$85,136. The Company confirmed the discrepancy identified by Staff's analysis. Staff has utilized \$66,090 as the Company's proposed revenue throughout this report, except for where the Company's actual proposed rates must be utilized, such as for the typical bill analysis. The typical residential bill would increase from \$28.79 to \$82.61, an increase of 186.9 percent, under the Company's proposed rates.

Staff is recommending a revenue level of \$68,840, resulting in an operating income of \$15,782, for a 283.16 percent rate of return on an OCRB of \$5,574. The typical residential bill would increase from \$28.79 to \$41.97, an increase of 45.8 percent, under Staff's proposed rates.

At the end of the Test Year, the Company was serving approximately, 140 primarily residential, customers. All customers are being served on 5/8-inch meters.

Oatman has also requested approval of a financing application incorporated within its rate application. The Company is requesting financing approval for a loan of \$163,500 from the Water Infrastructure Finance Authority ("WIFA"). The proceeds of the loan are needed for capital improvements.

### **Background**

The Company is an Arizona "C" corporation that operates a water system in Oatman, in Mohave County, Arizona. The Company is a wholly owned subsidiary of Americana Investments ("Americana"). In 1964, Americana purchased the Tom Reed Gold Mine, and as part of the purchase was obligated to take the water system. Americana expressed a desire to discontinue service in 1979, however, the Company was ordered by the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. 51629, dated December 3, 1980, to continue providing service. In late 1989, Americana filed an application requesting approval to abandon or discontinue public service. The Commission, in Decision No. 56869, dated June 6, 1990, found that it was not in the public interest to permit Americana to abandon its water system.

On May 12, 2000, Oatman filed an application for an emergency rate increase to cover costs of hauling water when its primary well was nearly inoperable. In Decision No. 62772, dated August 2, 2000, the Commission approved an emergency surcharge of \$1.63 per 750 gallons that became effective August 1, 2000, and will expire on July 31, 2001.

On July 26, 2000, Oatman again filed an application for an emergency rate increase to cover continuing costs of hauling water while its primary well remains nearly inoperable. In Decision No. 62953, dated October 10, 2000, the Commission approved an additional emergency surcharge of \$1.64 per 750 gallons that became effective November 1, 2000, and will expire on July 31, 2001. The Commission also ordered the Company to file for a permanent rate increase within 10 days of that order. The subsequent permanent rate increase application, that is the subject of this Staff Report, was filed on October 24, 2000.

Oatman's current rates were authorized in Decision No. 53669, dated July 29, 1983. The Company, in the instant application, is seeking an increase in revenues of approximately 52 percent. However, as previously stated, the Company's proposed rates actually increase revenues by 202 percent.

### **Consumer Services**

A search of Consumer Services records indicated that there have been no formal complaints filed against the Company in 1998 or 1999. In the year 2000, there are fourteen complaints on file. Eleven of these were due to outages or interruptions of service. There was one complaint for billing, one for pressure and one for quality of service response time. Staff initiated investigations into these complaints and applied the appropriate rule for compliance.

The Commission has received 72 verbal or written responses objecting to the rate increase since the application was found sufficient on November 24, 2000. Due to the volume of responses to the instant application, Staff scheduled and held a public comment meeting in Oatman, Arizona on Wednesday evening, January 10, 2001. A transcript of that meeting is available upon request.

### **Engineering Analysis and Compliance**

The water system was field inspected on December 2, 2000, by Mr. Lyndon R. Hammon of Staff Engineering accompanied by Mr. Andrew T. Wilson of the Arizona Department of Environmental Quality ("DEQ") and Mr. Steven Anderson, the manager and owner of the Company. Attachment "A" of this Report contains a description of the water system and Staff Engineering's recommendations.

Staff Engineering recommends annual water testing costs of approximately \$1,520 as depicted in Table 1 of Attachment "A".

Staff Engineering further recommends approval of the financing request for plant facilities.

The Company is current on its property tax payments to Mohave County and for collection and remittance of sales taxes.

### **Rate Base**

Staff's adjustments to rate base resulted in an increase of \$81, as depicted in Schedule 2, Page 1 of 3, of this Staff Report.

Staff's adjustment to Plant in Service resulted in a decrease of \$1,154, as depicted in Schedule 2, Page 2 of 3. The \$1,154 adjustment is recommended to reflect the plant values as recorded in the Company's general ledger. The Company concurs with this adjustment.

Staff's adjustment to Accumulated Depreciation resulted in a decrease of \$1,154, as depicted in Schedule 2, Page 3 of 3. The \$1,154 adjustment is recommended to reflect the amount as recorded in the Company's general ledger. The Company concurs with this adjustment.

Staff increased the working capital allowance by \$81 predicated upon Staff's adjustments to operating expenses.

Staff's recommended OCRB is \$5,574. The Company's rate base is a reflection of its fully depreciated plant.

### **Operating Revenues**

The Company recorded operating revenues of \$43,615 for the Test Year. Staff increased Test Year revenue by \$566 (Adjustment A) to reflect the revenue generated by the Company's revised bill count. The Company concurs with this adjustment.

### **Operating Expenses**

Staff's adjustments to operating expenses resulted in an increase of \$4,247 as depicted in Schedule 3, Page 1 of 3.

Adjustment B increased Salaries and Wages by \$3,020, the net result of a \$1,120 decrease to reflect post Test Year reductions in salary expense and a \$4,140 increase, to reflect a reclassification from Rents Expense for rental subsidizations that the Company utilizes to supplement employee salaries.

Adjustment C increased Purchased Water by \$6,077 to reflect Staff's inclusion of a three-year amortization of the Company's post Test Year water hauling costs through December 31, 2000, reduced by costs already covered in the emergency rate increase surcharges. The Company's total hauling costs were \$45,774 reduced by the emergency surcharges totaling \$15,827. Staff amortized the net amount of \$29,947 over three years for an annual adjusted Purchased Water Expense of \$9,982.

Adjustment D decreased Purchased Power by \$92 to reflect Staff's removal of power bills not directly related to the Company's water operations.

Adjustment E decreased Chemicals by \$1,690 to disallow \$170 to reflect Staff Engineering's proposed annualized water testing costs of \$1,520 and to reclassify this amount to Water Testing Expense.

Adjustment F increased Water Testing Expense by \$1,520 to reflect the reclassification from Chemicals Expense.

Adjustment G decreased Rents by \$4,200 to reflect Staff's reclassification of \$4,140 to Salaries and Wages Expense and Staff's removal of \$60 to reflect the on-going level of rental expense.

Adjustment H increased Transportation Expenses by \$889 to reflect Staff's reclassification of truck insurance in this amount from General Liability Insurance.

Adjustment I decreased Insurance – General Liability by \$889 to reflect Staff's reclassification of this amount of truck insurance costs to Transportation Expense.

Adjustment J decreased Property Taxes by \$438 to reflect Staff's proposal to allow the most recent property tax bills (year 2000).

Adjustment K increased income taxes by \$50 to recognize the tax liability on Staff's adjusted revenues and expenses. The minimum tax liability for "C" type Arizona corporations is \$50.

The Company late filed documents on November 22, 2000, that Staff used to revise the Company's application and to allow Staff to make the application sufficient on November 24, 2000. The Company late filed documents on January 23, 2001, seeking recognition of post Test Year expenses in the subject application. These documents included water-hauling expenses through December 31, 2000, which Staff has recommended recognition for with a three-year amortization. The Company also requested recognition of a well repair bill for routine maintenance that turned into a major \$10,000 repair (eventually settled by the Company for \$6,300). Staff believes that the Test Year Repair and Maintenance Expenses already reflect routine well maintenance and therefore, Staff does not recommend recognition of this \$6,300 expense item.

In addition to the aforementioned adjustments to operating expenses that appear "above the line", Staff also made an adjustment to Interest Expense and Reserve/Replacement Fund Deposit, "below the line" items. Staff increased these accounts by \$6,641 and \$2,433, respectively, to recognize on a pro forma basis, the debt service required for the proposed WIFA loan that the Company has requested authorization to obtain.

### **Rate Design**

The Company-proposed rates would increase the average water customer's bill by 186.9 percent.

The Company is proposing an increase in revenues of \$22,475 over Test Year revenues, or 52 percent, producing an operating income of \$19,648. However, as stated previously, the Company's proposed rates would actually increase revenues by \$87,963, or 202 percent, over Test Year revenues, producing an operating income of \$85,136.

Oatman's application states that the requested rate increase is needed to fund the proposed WIFA loan that will provide funding for system improvements to meet DEQ requirements and to allow the Company to return to normal service status with new wells, not water hauling, as a source of water.

Staff recommends granting the Company rate relief to enable it to fund the debt service of the requested WIFA loan. When the Company late-filed post-Test Year expenses for water hauling and repairs and maintenance, it failed to revise its proposed revenue requirement to recover these additional costs. Therefore, the Company's proposed revenue level is insufficient to meet its revised needs.

Staff is recommending an increase of \$24,659, or 55.8 percent, over Test Year revenues, to produce an Operating Income of \$15,782. Staff's recommended increase provides an Operating Margin of 22.93 percent and a 283.16 percent rate of return. (The rate of return appears extraordinary due to the low value of the Company's OCRB, however, the actual return in dollars is reasonable).

While Staff is concerned with the potential for "rate shock", Staff also notes that, except for the two emergency rate increases of last year that expire on July 31, 2001, the Company has not had a rate increase in eighteen years.

Although all of the Company's existing customers have 5/8-inch meters, Staff is recommending minimum monthly rates for all meter sizes so that the Company will have a rate in its tariff for any standard meter size. Staff's recommended minimum charges are based on the relative service line and meter installation charges for the various meter sizes. To the extent that service line and meter installation charges are representative of the overall relative infrastructure costs caused by those meters, Staff's recommended minimum charges provide for matching of cost recovery and cost causation. Staff disagrees with the Company's proposal to include 1,000 gallons in the minimum charge. Including gallons in the minimum charge implies that water, a limited and valuable resource, is available in limited quantities for free. Charging for all water consumption allows customers to control their bill and encourages judicious use.

Staff does not agree with the Company regarding the proposed commodity charge for water usage in excess of the minimum. The Company's request for a commodity rate of \$25.00

per 1,000 gallons for all usage in excess of minimum is inconsistent with the Company's proposed revenue requirement and would generate more than double the requested revenue. Staff is recommending a three-tier inverted rate design to promote water conservation. Staff believes its commodity rates of \$4.95 per 1,000 gallons for 0 to 3,000 gallons, \$6.95 per 1,000 gallons for 3,001 to 9,000 gallons and \$9.10 per 1,000 gallons for usage over 9,000 gallons is sufficient and will promote water conservation.

The Company failed to request any charges for service line and meter installation. Staff is recommending its usual level of service line and meter installation charges based on Staff Engineering's industry averages.

All the Company's proposed and Staff's recommended rates and charges are reflected on Schedule 4 of this Staff Report. An analysis of the effects of current, Company proposed, and Staff's recommended rates on the typical residential user is presented on Schedule 5 of this Staff Report.

### **Financing**

The Company included a financing application with its rate application. Customer notification of the financing application occurred along with the rate application (October 24, 2000).

Oatman is seeking approval for a \$163,500 loan from WIFA to obtain funding for projected capital expenditures as outlined in Staff Engineering's Report, at Attachment "A". Staff Engineering has reviewed these projected expenditures and found them to be reasonable and necessary. Further, Staff Engineering recommends approval of the financing request.

Staff believes that the capital projects outlined in the financing application are necessary to maintain minimum DEQ requirements and are in the public interest. Therefore, Staff recommends approval of the financing request.

Staff recommended revenue provides adequate debt service for this loan. Refer to Schedule 6 of this report to review the pro forma effects of this loan on the various financial components of the Company's filing. Generally, a Times Interest Earned Ratio ("TIER") of 1.50 and a Debt Service Coverage ("DSC") ratio of 1.25 are considered to be the minimum level for which a creditor will extend credit. Assuming approval of Staff's recommendations, the TIER would be 2.74 and the DSC would be 1.25.

The Company could not provide specific details of the loan, but Staff received the projected loan details from WIFA. Refer to Schedule 7 of this report to review the specific terms and general conditions of the WIFA loan.

**Staff Recommendations**

Staff recommends approval of its rates and charges shown on Schedule 4 of this Report.

Staff further recommends approval of its rates and charges without a hearing.

Staff further recommends that the Commission approve \$163,500 of long-term debt from WIFA at terms and conditions as outlined in Schedule 7, without a hearing.

Staff further recommends that Oatman file a copy of all executed loan documents with the Commission as soon as they become available.

Staff further recommends that the rates approved in this proceeding be interim until such time as the Company builds the plant and executes the loan substantially as approved. The rates shall not become permanent until such time as the Company files documentation to confirm completion of all facilities described in the financing and files a copy of the ADEQ Approval of Construction. If the Approval of Construction is not filed with the Compliance Section of the Utilities Division by June 30, 2002, the interim rates shall terminate without further action of the Commission and all interim rates collected to that point shall be refunded in a manner to be determined by the Commission at that time.

Staff further recommends that in addition to the collection of its regular rates and charges, the Company shall collect from its customers their proportionate share of any Privilege, Sales or Use Tax where appropriate, as provided for in A.A.C. R14-2-608.D.3.

**SUMMARY OF FILING**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
<b>Revenues:</b>				
Metered Water Revenue	\$43,525	\$44,091	\$66,000	\$68,750
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	90	90	90	90
<b>Total Operating Revenue</b>	<b>\$43,615</b>	<b>\$44,181</b>	<b>\$66,090</b>	<b>\$68,840</b>
<b>Operating Expenses:</b>				
Operation and Maintenance	\$44,967	\$49,602	\$44,967	\$49,602
Depreciation	0	0	0	0
Property & Other Taxes	1,475	1,037	1,475	1,037
Income Tax	0	50	0	2,419
<b>Total Operating Expense</b>	<b>\$46,442</b>	<b>\$50,689</b>	<b>\$46,442</b>	<b>\$53,058</b>
<b>Operating Income/(Loss)</b>	<b>(\$2,827)</b>	<b>(\$6,508)</b>	<b>\$19,648</b>	<b>\$15,782</b>
<b>Rate Base O.C.L.D.</b>	<b>\$5,493</b>	<b>\$5,574</b>	<b>\$5,493</b>	<b>\$5,574</b>
<b>Rate of Return - O.C.L.D.</b>	<b>NMF</b>	<b>NMF</b>	<b>357.69%</b>	<b>283.16%</b>
<b>Times Interest Earned Ratio (Pre-Tax)</b>	<b>N/A</b>	<b>-0.97</b>	<b>N/A</b>	<b>2.74</b>
<b>Debt Service Coverage Ratio (Pre-Tax)</b>	<b>N/A</b>	<b>-0.44</b>	<b>N/A</b>	<b>1.25</b>
<b>Operating Margin</b>	<b>-6.48%</b>	<b>-14.73%</b>	<b>29.73%</b>	<b>22.93%</b>

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
  2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

**RATE BASE**

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$29,009	(\$1,154)	A	\$27,855
Less:				
Accum. Depreciation	29,009	(1,154)	B	27,855
<b>Net Plant</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	0	0		0
<b>Total Advances</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
<b>Net CIAC</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
<b>Total Deductions</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Plus:				
1/24 Purchased Power & Water	\$314	\$249	C	\$563
1/8 Operation & Maint.	4,679	(169)	D	4,510
Inventory	500	0		500
Prepayments	0	0		0
<b>Total Additions</b>	<b>\$5,493</b>	<b>\$81</b>		<b>\$5,574</b>
<b>Rate Base</b>	<b>\$5,493</b>	<b>\$81</b>		<b>\$5,574</b>

*Explanation of Adjustment:*

- A See Schedule 2, Page 2 of 3.
- B See Schedule 2, Page 3 of 3.
- C To reflect Staff's higher proposed purchased power & water expense.
- D To reflect Staff's lower proposed operation & maintenance expenses.

**PLANT ADJUSTMENT**

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	0	0	0
304 Structures & Improvements	0	0	0
307 Wells & Springs	0	0	0
311 Pumping Equipment	0	0	0
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
331 Transmission & Distribution Mains	0	0	0
333 Services	0	0	0
334 Meters & Meter Installations	0	0	0
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
Unclassified Plant	29,009	(1,154) A	27,855
<b>TOTALS</b>	<b>\$29,009</b>	<b>(\$1,154)</b>	<b>\$27,855</b>

*Explanation of Adjustment:*

A To reflect the plant value recorded in the Company's general ledger.

**ACCUMULATED DEPRECIATION ADJUSTMENT**

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$29,009
Accumulated Depreciation - Per Staff	27,855 A
<b>Total Adjustment</b>	<b><u>(\$1,154)</u></b>

*Explanation of Adjustment:*

- A - To adjust accumulated depreciation to the amount recorded in the Company's general ledger.

**STATEMENT OF OPERATING INCOME**

	Company Exhibit	Staff Adjustments		Staff Adjusted
<b>Revenues:</b>				
461 Metered Water Revenue	\$43,525	\$566	A	\$44,091
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	90	0		90
<b>Total Operating Revenue</b>	<b>\$43,615</b>	<b>\$566</b>		<b>\$44,181</b>
<b>Operating Expenses:</b>				
601 Salaries and Wages	\$16,120	\$3,020	B	\$19,140
610 Purchased Water	3,905	6,077	C	9,982
615 Purchased Power	3,630	(92)	D	3,538
618 Chemicals	1,690	(1,690)	E	0
620 Repairs and Maintenance	5,940	0		5,940
621 Office Supplies & Expense	1,581	0		1,581
630 Outside Services	0	0		0
635 Water Testing	0	1,520	F	1,520
641 Rents	8,400	(4,200)	G	4,200
650 Transportation Expenses	1,489	889	H	2,378
657 Insurance - General Liability	1,701	(889)	I	812
659 Insurance - Health and Life	0	0		0
670 Bad Debt Expense	191	0		191
675 Miscellaneous Expense	320	0		320
403 Depreciation Expense	0	0		0
408 Taxes Other Than Income	0	0		0
408.11 Property Taxes	1,475	(438)	J	1,037
409 Income Tax	0	50	K	50
<b>Total Operating Expenses</b>	<b>\$46,442</b>	<b>\$4,247</b>		<b>\$50,689</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(\$2,827)</b>	<b>(\$3,681)</b>		<b>(\$6,508)</b>
<b>Other Income/(Expense):</b>				
419 Interest and Dividend Income	\$0	\$0		\$0
421 Non-Utility Income	0	0		0
427 Interest Expense	0	6,641	L	6,641
4XX Reserve/Replacement Fund Deposit	0	2,433	M	2,433
426 Miscellaneous Non-Utility Expense	0	0		0
<b>Total Other Income/(Expense)</b>	<b>\$0</b>	<b>(\$9,074)</b>		<b>(\$9,074)</b>
<b>NET INCOME/(LOSS)</b>	<b>(\$2,827)</b>	<b>(\$12,755)</b>		<b>(\$15,582)</b>

**STAFF ADJUSTMENTS**

A -	METERED WATER REVENUE - Per Company	\$43,525	
	Per Staff	44,091	\$566
		<hr/>	<hr/>

To reflect the revenue level indicated by the Company's revised bill count submitted November 22, 2000.

B -	SALARIES AND WAGES - Per Company	\$16,120	
	Per Staff	19,140	\$3,020
		<hr/>	<hr/>

To reflect a post Test Year \$1,120 reduction in Salary Expense and an increase of \$4,140 reclassified from Rent Expense.

C -	PURCHASED WATER - Per Company	\$3,905	
	Per Staff	9,982	\$6,077
		<hr/>	<hr/>

To reflect Staff's three-year amortization of the Company's post Test Year water hauling costs through December 31, 2000, reduced by costs already covered in the two existing emergency rate increases. (\$45,774 less \$15,827 = \$29,947 / 3 = \$9,982).

D -	PURCHASED POWER - Per Company	\$3,630	
	Per Staff	3,538	(\$92)
		<hr/>	<hr/>

To reflect Staff's removal of power bills not directly related to the Company's water operations.

E -	CHEMICALS - Per Company	\$1,690	
	Per Staff	0	(\$1,690)
		<hr/>	<hr/>

To disallow \$170 to reflect Staff Engineering's proposed annualized water testing costs of \$1,520 and to reclassify this amount to Water Testing Expense.

F -	WATER TESTING - Per Company	\$0	
	Per Staff	1,520	\$1,520
		<hr/>	<hr/>

To reflect \$1,520 of water testing costs reclassified from Chemicals Expense.

**STAFF ADJUSTMENTS (Cont.)**

G -	RENTS - Per Company	\$8,400	
	Per Staff	<u>4,200</u>	<u>(\$4,200)</u>

To reflect Staff's reclassification of \$4,140 to the Salaries and Wages Expense and to remove \$60 to reflect the on-going level of rental expense.

H -	TRANSPORTATION EXPENSE - Per Company	\$1,489	
	Per Staff	<u>2,378</u>	<u>\$889</u>

To reclassify \$889 of truck insurance expense from General Liability Insurance Expense.

I -	INSURANCE - GENERAL LIABILITY - Per Company	\$1,701	
	Per Staff	<u>812</u>	<u>(\$889)</u>

To reclassify \$889 of truck insurance expense to Transportation Expense.

J -	PROPERTY TAXES - Per Company	\$1,475	
	Per Staff	<u>1,037</u>	<u>(\$438)</u>

To reflect Staff's proposal to allow the most current actual property taxes.

K -	INCOME TAX - Per Company	\$0	
	Per Staff	<u>50</u>	<u>\$50</u>

To recognize the tax liability on Staff's adjusted Test Year revenues and expenses. The minimum state income tax liability for Arizona corporations is \$50.

L -	INTEREST EXPENSE - Per Company	\$0	
	Per Staff	<u>6,641</u>	<u>\$6,641</u>

To recognize on a pro forma basis, interest expense on the \$163,500 WIFA loan that the Company has requested authorization to obtain.

M -	RESERVE/REPLACEMENT FUND DEPOSIT - Per Company	\$0	
	Per Staff	<u>2,433</u>	<u>\$2,433</u>

To recognize on a pro forma basis, sinking fund obligations on the \$163,500 WIFA loan that the Company has requested authorization to obtain.

**RATE DESIGN**

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
<u>5/8" x 3/4" Meter</u>	\$16.00	\$25.00	\$25.00
3/4" Meter	0.00	0.00	29.00
1" Meter	0.00	0.00	34.00
1½" Meter	0.00	0.00	49.00
2" Meter	0.00	0.00	87.00
3" Meter	0.00	0.00	124.00
4" Meter	0.00	0.00	191.00
6" Meter	0.00	0.00	358.00
Gallons Included in Minimum	750	1,000	0
Excess of Minimum - per 750 Gallons	\$3.75	\$0.00	\$0.00
Excess of Minimum - per 1,000 Gallons	0.00	25.00	0.00
Excess of Minimum - 0 to 3,000 Gallons	0.00	0.00	4.95
Excess of Minimum - 3,001 to 9,000 Gallons	0.00	0.00	6.95
Excess of Minimum - over 9,000 Gallons	0.00	0.00	9.10
<u>Service Line and Meter Installation Charges</u>			
5/8" x 3/4" Meter	\$100.00	\$0.00	\$375.00
3/4" Meter	120.00	0.00	435.00
1" Meter	160.00	0.00	510.00
1½" Meter	300.00	0.00	740.00
2" Meter	400.00	0.00	1,300.00
3" Meter	0.00	0.00	1,855.00
4" Meter	0.00	0.00	2,870.00
6" Meter	0.00	0.00	5,375.00
<u>Service Charges</u>			
Establishment	\$5.00	\$20.00	\$20.00
Establishment (After Hours)	0.00	0.00	30.00
Reconnection (Delinquent)	5.00	0.00	20.00
Meter Test (If Correct)	5.00	10.00	10.00
Deposit	0.00	50.00	*
Deposit Interest	0.00%	0.00%	*
Re-Establishment (Within 12 Months)	25.00	50.00	**
NSF Check	0.00	20.00	20.00
Deferred Payment	0.00%	0.00%	0.00%
Meter Re-Read (If Correct)	2.50	5.00	5.00

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

**TYPICAL BILL ANALYSIS**  
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 125

(Actual number is 140-145 but seasonality of customers causes the lower average.)

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	3,304	\$28.79	\$82.61	\$53.82	186.9%
Median Usage	1,716	\$20.83	\$42.91	\$22.08	106.0%
<u>Staff Proposed</u>					
Average Usage	3,304	\$28.79	\$41.97	\$13.18	45.8%
Median Usage	1,716	\$20.83	\$33.50	\$12.67	60.8%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$16.00	\$25.00	56.3%	\$25.00	56.3%
1,000	17.25	25.00	44.9%	29.95	73.6%
2,000	22.25	50.00	124.7%	34.90	56.9%
3,000	27.25	75.00	175.2%	39.85	46.2%
4,000	32.25	100.00	210.1%	46.80	45.1%
5,000	37.25	125.00	235.6%	53.75	44.3%
6,000	42.25	150.00	255.0%	60.70	43.7%
7,000	47.25	175.00	270.4%	67.65	43.2%
8,000	52.25	200.00	282.8%	74.60	42.8%
9,000	57.25	225.00	293.0%	81.55	42.4%
10,000	62.25	250.00	301.6%	90.65	45.6%
15,000	87.25	375.00	329.8%	136.15	56.0%
20,000	112.25	500.00	345.4%	181.65	61.8%
25,000	137.25	625.00	355.4%	227.15	65.5%
50,000	262.25	1,250.00	376.6%	454.65	73.4%
75,000	387.25	1,875.00	384.2%	682.15	76.2%
100,000	512.25	2,500.00	388.0%	909.65	77.6%
125,000	637.25	3,125.00	390.4%	1,137.15	78.4%
150,000	762.25	3,750.00	392.0%	1,364.65	79.0%
175,000	887.25	4,375.00	393.1%	1,592.15	79.4%
200,000	1,012.25	5,000.00	393.9%	1,819.65	79.8%

**WIFA LOAN FINANCIAL ANALYSIS**

Staff Adjusted Test Year and Pro Forma Financial Information  
Including Immediate Effects of the Proposed Debt

**REVENUES AND EXPENSES**

	<u>March 31, 2000</u>	<u>Pro Forma</u>
Operating Revenue:	<b>\$43,615</b>	<b>\$68,840</b>
Operating Expenses:		
Purchased Water/Pumping Power	\$7,535	\$13,520
Admin. & General	28,313	26,244
Maintenance & Testing	9,119	9,838
Depreciation (d)	0	0
Property Taxes	1,475	1,037
Other taxes	0	0
Total Operating Expense	<u>\$46,442</u>	<u>\$50,639</u>
Pre-Tax Operating Income	<b>(\$2,827)</b>	<b>\$18,201</b>
Interest Income	\$0	\$0
Interest Expense (a)	<u>0</u>	<u>6,641</u>
Pre-Tax Net Income (b)	<u><b>(\$2,827)</b></u>	<u><b>\$11,560</b></u>
Principal Repayment (c)	0	5,523
Reserve/Replacement Deposit (e)	0	2,433

**DEBT SERVICE**

<b>TIER (Interest Coverage)</b>		
[(a) + (b)] ÷ (a)	N/M	2.74
<b>DSC</b>		
[(a) + (b) + (d)] ÷ [(a) + (c) + (e)]	N/M	1.25

**CAPITAL STRUCTURE**

	<u>March 31, 2000</u>		<u>Pro Forma</u>	
Short-term Debt	\$0	0.0%	\$0	0.0%
Long-term Debt	\$0	0.0%	\$163,500	124.0%
Common Equity	(\$31,655)	100.0%	(\$31,655)	-24.0%
Total Capital	(\$31,655)	100.0%	\$131,845	100.0%

**TERMS OF PROPOSED WIFA LOAN**

**Terms and Conditions**

Loan Amount	<b>\$163,500.00</b>
Term (No. of Years)	<b>20</b>
Combined Interest & Fee Rate	
Interest Rate Index	5.50%
Subsidy Rate Index	75.00%
Combined Interest & Fee Rate	<u>4.13%</u>
Coverage Requirement	<b>20.00%</b>
Debt Service Reserve Requirement	<b>\$12,164.15</b>
Number of Years Debt Service Reserve Funded	<b>5</b>

**Monthly Fixed payment to WIFA**

*Including Debt Service Reserve Requirement (years 1-5)*

Monthly Fixed Payments to WIFA	\$1,013.68
Monthly Debt Service Reserve Deposit	\$202.74
<b>Total Monthly Fixed Payment</b>	<b><u>\$1,216.42</u></b>

*Excluding Debt Service Reserve Requirement (years 6-20)*

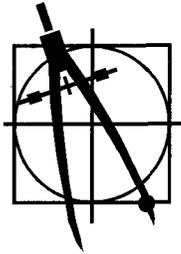
Monthly Fixed Payments to WIFA	\$1,013.68
Monthly Debt Service Reserve Deposit	0.00
<b>Total Monthly Fixed Payment</b>	<b><u>\$1,013.68</u></b>

**Monthly Replacement Fund Deposit - Held by Company**

Debt Service Reserve Requirement (years 1-5)	<b>\$0.00</b>
Debt Service Reserve Requirement (years 6-20)	<b>\$202.74</b>

**Annual Fiscal Impact**

Year	Annual Debt Service	Reserve Fund Deposit	Replacement Fund Deposit	Total Annual Fiscal Impact
1	\$12,164.15	\$2,432.83	\$0.00	\$14,596.99
2	12,164.15	2,432.83	0.00	14,596.99
3	12,164.15	2,432.83	0.00	14,596.99
4	12,164.15	2,432.83	0.00	14,596.99
5	12,164.15	2,432.83	0.00	14,596.99
6	12,164.15	0.00	2,432.83	14,596.99
7	12,164.15	0.00	2,432.83	14,596.99
8	12,164.15	0.00	2,432.83	14,596.99
9	12,164.15	0.00	2,432.83	14,596.99
10	12,164.15	0.00	2,432.83	14,596.99
11	12,164.15	0.00	2,432.83	14,596.99
12	12,164.15	0.00	2,432.83	14,596.99
13	12,164.15	0.00	2,432.83	14,596.99
14	12,164.15	0.00	2,432.83	14,596.99
15	12,164.15	0.00	2,432.83	14,596.99
16	12,164.15	0.00	2,432.83	14,596.99
17	12,164.15	0.00	2,432.83	14,596.99
18	12,164.15	0.00	2,432.83	14,596.99
19	12,164.15	0.00	2,432.83	14,596.99
20	12,164.15	0.00	2,432.83	14,596.99
21	0.00	0.00	0.00	0.00
22	0.00	0.00	0.00	0.00
23	0.00	0.00	0.00	0.00
24	0.00	0.00	0.00	0.00
25	0.00	0.00	0.00	0.00
26	0.00	0.00	0.00	0.00
27	0.00	0.00	0.00	0.00
28	0.00	0.00	0.00	0.00
29	0.00	0.00	0.00	0.00
30	0.00	0.00	0.00	0.00
	<b>\$243,283.10</b>	<b>\$12,164.15</b>	<b>\$36,492.46</b>	<b>\$291,939.72</b>



**ENGINEERING REPORT  
FOR  
OATMAN WATER COMPANY**

**Docket No. W-01079A-00-0852**

**EXECUTIVE SUMMARY**

- I. In December 2000, DEQ reported to Commission Staff that Oatman Water Company is in compliance with DEQ rules and is delivering water that does not exceed any maximum contaminant level and meets the water quality standards of the Safe Drinking Water Act. This compliance status is based on the circumstances that the Company is following the terms of a court enforceable consent agreement and is hauling water from a DEQ approved source. (See §C of report for discussion and details of overall compliance status.)**
- II. Water testing expenses are based upon participation in the DEQ Monitoring Assistance Program. Annual testing expenses should be adjusted to the level described in Table 1 ( \$ 1,520 ). (See §D of report for discussion and details.)**
- III The Company is seeking financing approval to: (1) drill and equip two new wells, (2) install a 50,000- gallon storage tank, (3) install a transmission main from the new storage tank, and (4) replace exposed water mains. The projects and their costs are reasonable and appropriate. Construction should be completed by June 2002. (See §H of this report for details.)**
- IV Staff recommends that the two new wells shall be equipped with well meters, and that the Company shall record the volumes of water sold and water pumped on a monthly basis, as soon as the new wells become operational. Staff requests that this recommendation be incorporated into the final "OPINION AND ORDER".**

## **A. LOCATION OF COMPANY**

Oatman Water Company (Company) serves about 145 customers within the small mining community of Oatman, which is located about 30 miles southwest of Kingman.

The certificated area encompasses 1/4 square mile within the town of Oatman. Figure 1 shows the location of the water system within Mohave County.

## **B. DESCRIPTION OF THE WATER SYSTEM**

The plant facilities were inspected on December 2nd, 2000 by Lyndon Hammon, in the accompaniment of Mr. Andrew T. Wilson of the Department of Environmental Quality, and Mr. Steven Anderson, the owner and manager of Oatman Water Co.

The water system consists of two wells, which pump to the distribution system. An elevated 55,000 gallon storage tank "floats" on the distribution system (i.e. the elevated tank gravity feeds and pressurizes the water mains). A small booster pump lifts water from that elevated tank to a higher 5,000 gallon tank which serves about 14 homes.

The main well originally produced between 15 and 18 gallons per minute, but it began losing production during the spring of 2000. At 5 gal/min, the well was taken out of service and various efforts were made to increase production. Well production was restored to 13 gal/min but then dropped back to 5 gal/min by the end of summer 2000. Production continued to dwindle, and by December 2000, the well no longer produced any water.

There is a small standby well ("Mohave County well") which currently provides about 1 to 2 gal/min.

The continuous daily demand by the water system varies from 8 to 11 gallons per minute. The difference between this demand and the standby well production is met by hauling.

Figure 2 provides a process schematic for the water system with the proposed improvements.

## **C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE**

As a result of an inspection and compliance status review, DEQ issued "Notices Of Violation" to Oatman Water Company in April and August of 1999. The major non-compliance problems were monitoring deficiencies, construction and operation problems

with the main storage tank, and exposed water mains. (The main storage tank is an old riveted tank, which is well beyond its economic life.)

In September of 2000, DEQ and Oatman Water Company entered into a court enforceable consent agreement, which mandates the correction of the Company's deficiencies. Pursuant to the consent agreement, the Company is seeking funds from WIFA for the correction of the DEQ deficiencies and the development of two new wells.

In December 2000, DEQ reported to Commission Staff that Oatman Water Company is in compliance with DEQ rules and is delivering water that does not exceed any maximum contaminant level and meets the water quality standards of the Safe Drinking Water Act. It should be understood, that this compliance status is based upon the circumstances that the Company is following the terms of the consent agreement and is hauling water from a DEQ approved source.

#### **D. WATER TESTING EXPENSES**

On December 8, 1998 DEQ adopted rules which provide for a monitoring assistance program (MAP). The MAP program was fully implemented in 1999.

The MAP program will provide baseline testing for inorganic chemicals (IOC), synthetic organic chemicals (SOC) and volatile organic chemicals (VOC) for a cost based on meter size. Participation in the MAP program is mandatory for water systems which serve less than 10,000 persons, (approximately 3,300 service connections). Participation by larger systems is voluntary.

Oatman is subject to mandatory participation in the MAP program. Staff will calculate the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except asbestos, copper, lead, nitrates, nitrites, radio-chemicals, and coliform bacteria.
2. DEQ testing is performed in 3 year compliance cycles. Therefore, monitoring costs are estimated for a 3 year compliance period (1999, 2000, and 2001) and then presented as a pro forma expense on an annualized basis.
3. MAP fees were taken from the DEQ billing record.
4. Oatman has not completed the first phase of lead and copper sampling.
5. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and 2 points of entry.

6. The estimated water testing expenses represent a minimum cost based on no "hits" and assumes compositing of well samples. If any constituent is found, then the testing costs would dramatically increase.

Table I shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to the annual expense amount shown in Table 1, which is \$ 1,520.

#### **E. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE.**

Oatman Water Company is not within any Active Management Area, and consequently is not subject to reporting or conservation rules.

#### **F. GROWTH**

The present base is about 145 customers. During the past 8 years, the company's service base has remained essentially constant, with any changes due primarily to connects and disconnects of existing homes, and not due to new growth. Because of the remote nature of the community, the limited amount of land available for development, and the reliability of the water supply, it is not likely that this will change within the next 5 years.

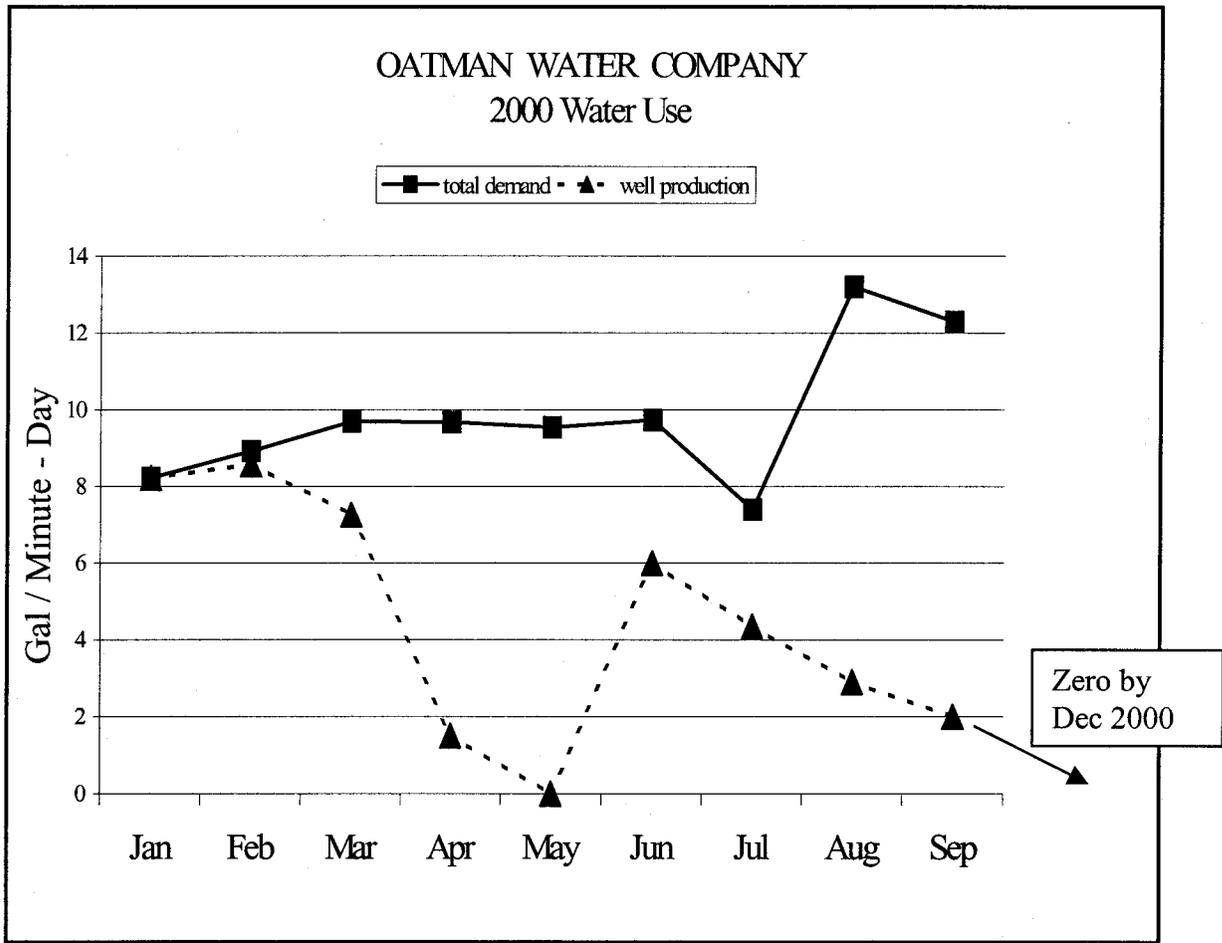
#### **G. WATER USE**

##### Water Sold

Based on the information provided by the Company, water use and well production for 2000 is presented below. The data is presented on an average daily basis as gallons per minute for the total water system and for the wells. This allows a ready comparison of demand versus well production. The difference between demand and production was met by hauling. On an individual customer basis, the high monthly water use was 108 gal/day-service in September, and the low monthly water use was 92 gal/day-service in January.

##### Non-account Water

Due to the incomplete records and vagaries of the hauling situation, it is impossible to determine the difference between pumped and sold water with any meaningful precision. Therefore, it is recommended that the two new wells shall be equipped with well meters, and that the Company shall record the volumes of water sold and water pumped on a monthly basis, as soon as the new wells become operational. Staff requests that the above recommendation shall be incorporated into the final "OPINION AND ORDER" for this rate and financing application.



**H. FINANCING**

Oatman Water Company is seeking financing approval for the following improvements:

<u>Item</u>	<u>Estimated Cost</u>
Install 50,000 gallon storage tank	\$ 17,500
sandblast, paint, tank accessories	\$ 10,000
bury exposed water line -1,000 ft	\$ 20,000
new tank transmission line - 2,000 ft	\$ 24,000
two wells, drill & equip	\$ 42,000
electrical panels controls	\$ 10,000
water hauling truck	\$ 35,000
contingencies, consulting, permits, etc.	\$ 5,000
total	\$ 163,500

Any recoverable water will probably be found in old mining stopes (these are cavities or excavations in the form of steps made by the mining of ore from steeply inclined or vertical veins). There have been recent exploratory core drillings, which have located water. The company has also consulted with hydrologists and obtained recommended drilling sites. Nevertheless, the likelihood of finding water with adequate quantity and acceptable quality is a major risk. Because of this uncertainty, the financing request contains some extra money as a provision for exploratory drilling.

The 50,000 gallon storage tank will bring the Company into compliance with DEQ storage requirements for both quantity and construction standards. The proposed projects and their costs are reasonable and appropriate.

An absolute minimum time between the disbursement of the WIFA money and the operation of the new wells, would be 6 months (30-45 days for design and completion of engineered plans, 30-60 days for DEQ permits, 60 days for drilling, equipping, electrical, and 30 days for water testing and lab results). The difference between the commodity cost of purchased water and the cost of delivered, hauled water is about \$20/1000 gallons. Based on a historical usage of 400,000 gallons per month, the money saved by the Company purchasing the water truck immediately and hauling its own water is about \$8,000 per month. Therefore the pay out for the water truck would be a little over 4 months and it appears that the purchase would be cost effective. Even after the wells are operating, the unreliable nature of water sources in the Oatman area, makes it prudent to have an additional method of obtaining water.

The Company plans to obtain financing from the Water Infrastructure Finance Authority (WIFA) by June of 2001, and to begin construction immediately. The improvements should be completed by June 2002.

TABLE 1  
 SUMMARY OF WATER TESTING COSTS  
 2 POINTS OF ENTRY

Contaminant	Cost per test	No. of tests/3yrs	total 3 yr cost	annual expense
Bacteriological	15	36	540	180
Inorganics	239	2	478	160
Secondary Inorganics	112	2	224	75
Radio-chemicals (2/4yr)	55	1.5	82	27
Lead & copper	23	60	1380	460
Sulfates (1/5yr)	15	1.2	18	6
VOC,s	200	MAP		
Phase II & V chemicals				
Nitrate	20	6	120	40
Nitrite	15	2	30	10
Asbestos (2/9 yr)	180	.67	120	40
Ba, Cn, F, Ni (V)	77	MAP*		
Pesticides/SOC/Unregulated				
EDB & DBCP	150	MAP		
Group 1 pesticides	150	MAP		
Group 2 pesticides	200	MAP		
Group 3 herbicides	200	MAP		
Group 4 α benzo pyrene/adipate esters	250	MAP		
Group 5 carbamate pesticides	170	MAP		
Endothall	170	MAP		
Diquat	170	MAP		
Glyphosate	170	MAP		
Dioxin	600	MAP		
MAP FEES (annual)				522
TOTAL				\$1,520

\* MAP is the DEQ Monitroing Assistance Program

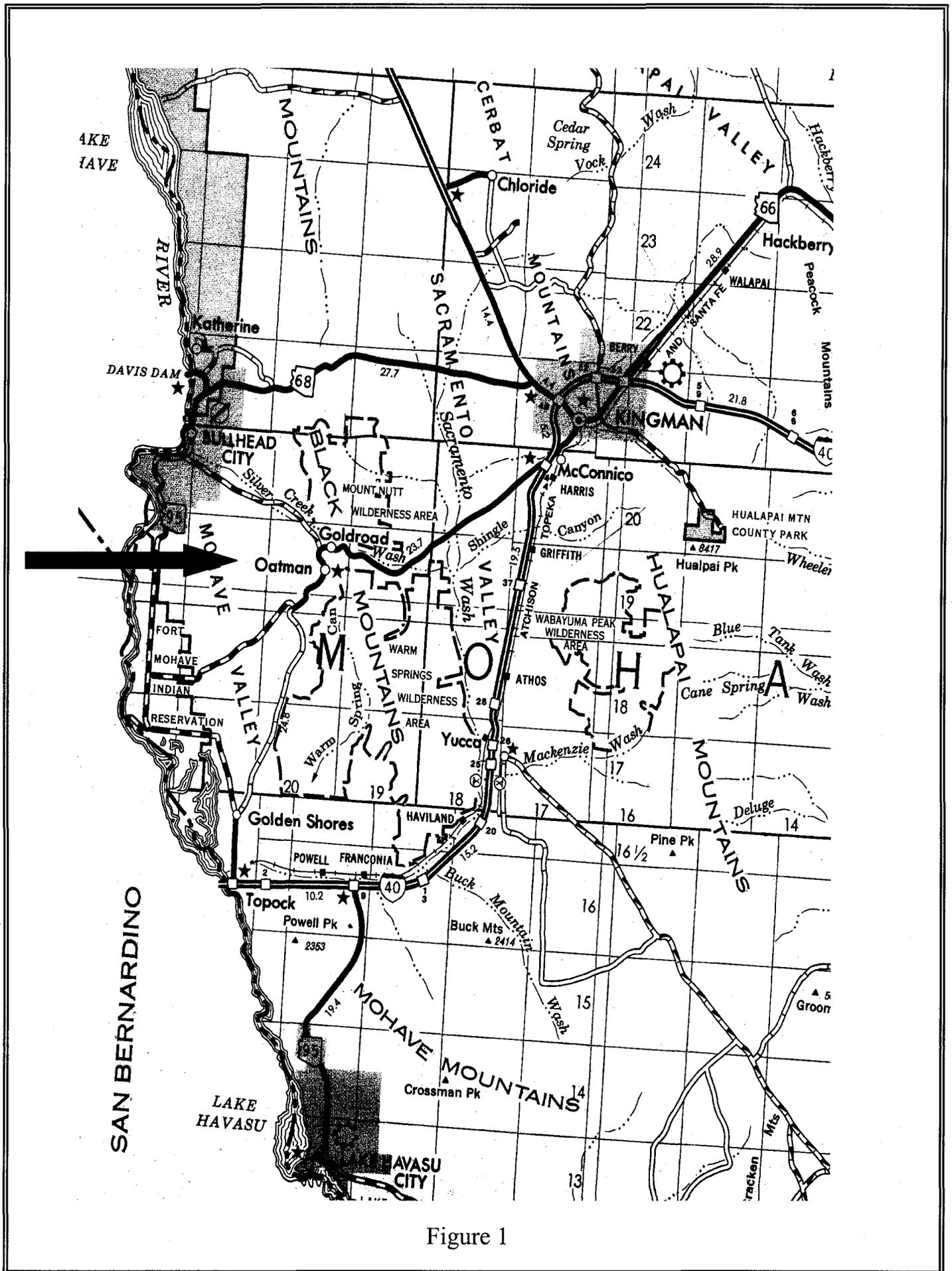


Figure 1

# OATMAN WATER COMPANY PROCESS SCHEMATIC

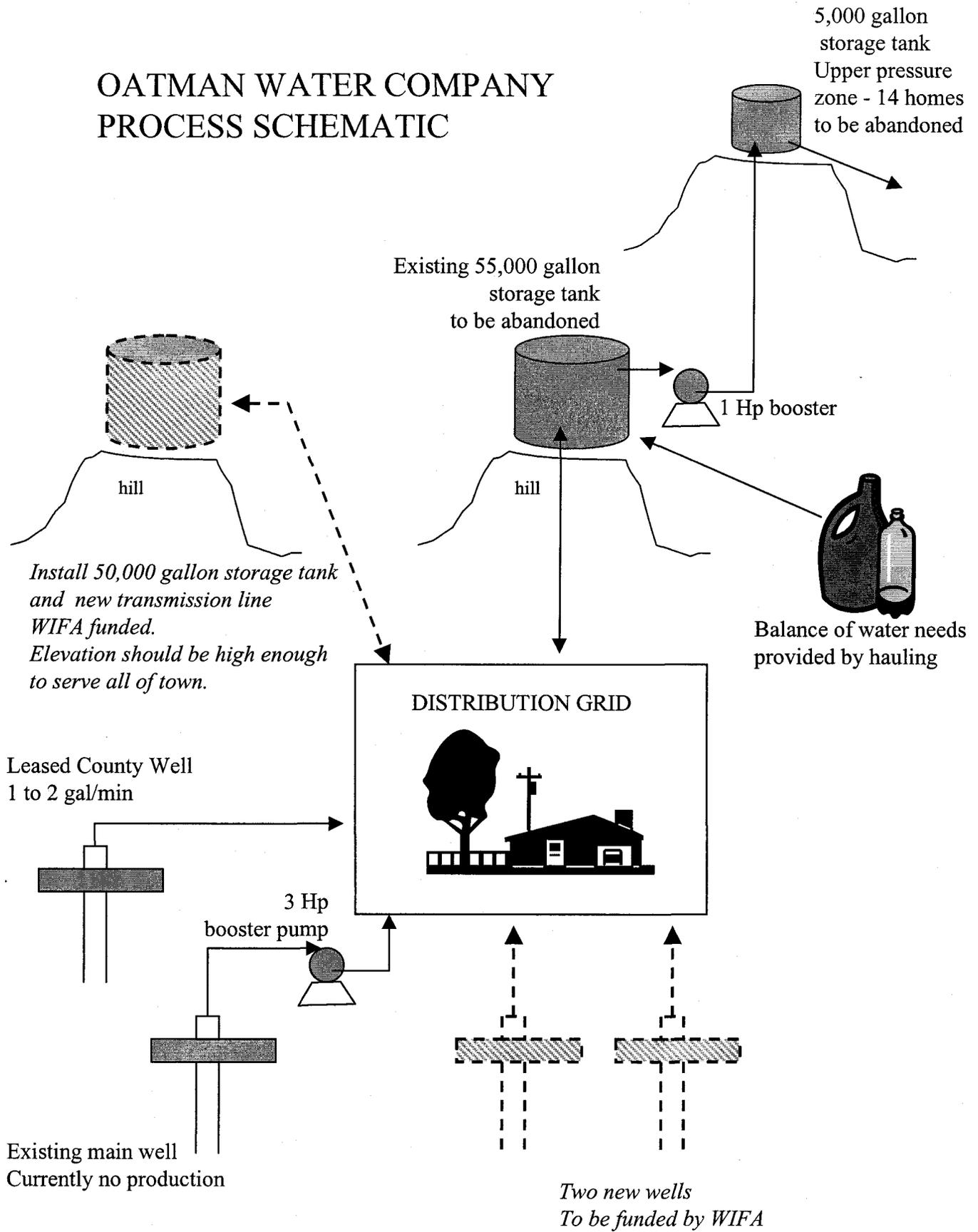


Figure 2