

ORIGINAL



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MEMORANDUM

30A

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: August 31, 2005

RE: **AMENDED** STAFF REPORT FOR CORONADO UTILITIES, INC.,
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY
TO PROVIDE WASTEWATER SERVICE TO A PORTION OF PINAL COUNTY
AND FOR AUTHORITY TO ISSUE SHORT AND LONG-TERM DEBT
(DOCKET NOS. SW-04305A-05-0086 AND SW-04305A-05-0087)

Attached is the **Amended** Staff Report for Coronado Utilities, Inc., application for a Certificate of Convenience and Necessity ("CC&N") in Pinal County and for authority to issue short- and long-term debt. Staff recommends approval of the CC&N, initial and Phase 2 rates, and financing with conditions.

EGJ:LAJ:lmh

Originator: Linda Jaress

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Service List for: Coronado Utilities, Inc.

Docket Nos. SW-04305A-05-0086 and SW-04305A-05-0087

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**AMENDED STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

CORONADO UTILITIES, INC.

DOCKET NOS. SW-04305A-05-0086

AND

SW-04305A-05-0087

**APPLICATION FOR A
CERTIFICATE OF CONVENIENCE
AND NECESSITY**

AND

**APPLICATION FOR AUTHORITY
TO ISSUE SHORT AND LONG-TERM
DEBT FOR ACQUISITION AND
IMPROVEMENT OF WASTEWATER FACILITIES**

AUGUST 2005

STAFF ACKNOWLEDGMENT

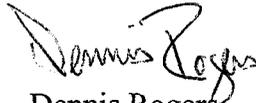
The Amended Staff Report for Coronado Utilities, Inc. (Docket Nos. SW-04305A-05-0086 and SW-04305A-05-0087) was prepared by the Staff members listed below. Linda Jaress prepared the Staff Report, Crystal Brown prepared the rate analysis and Dennis Rogers prepared the financing analysis.



Linda A. Jaress
Executive Consultant III



Crystal Brown
Public Utilities Analyst V



Dennis Rogers
Public Utilities Analyst V

**EXECUTIVE SUMMARY
CORONADO UTILITIES, INC.
APPLICATION FOR A CC&N
DOCKET NOS. SW-04305A-05-0086 AND SW-04305A-05-0087**

On February 10, 2005, Coronado Utilities, Inc., ("Coronado" or "Company") filed an Application for a Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC" or "Commission") to provide wastewater services to a portion of Pinal County and to issue short- and long-term debt to finance the project. A hearing was held on the matters on June 29, 2005. Since the hearing, the Commission has received numerous customer comments protesting the large proposed increase in rates and raising other significant issues. Also, the Utilities Division Staff learned that on October 24, 2001, a fatal accident occurred in a wastewater plant belonging to Far West Water and Sewer Company involving Santec Corporation, a close affiliate of Coronado.

This Amended Staff Report presents new recommendations regarding rates, financing and safety. Staff is now recommending phased in rates. Phase 1 rates would be in effect until Coronado has fulfilled certain requirements including the completion of the new system and wastewater treatment plant when the Phase 2 rates would go into effect. Staff is also recommending a reduced initial equity investment by the owners, with the recommendation that the Company retain 75 percent of its earnings until its capital structure reaches 40 percent equity. Staff also provides recommendations relating to safety to prevent accidents at the San Manuel plant if Coronado is granted the CC&N.

Coronado belongs to a family of companies who have several years of experience in the design, installation and operations of wastewater treatment plants. BHP Copper, Inc. desires to exit the business of running wastewater operations. Customers are, in general, better off being served by a utility which wants to provide them service.

No other entity has come forward to request a CC&N to provide wastewater service to San Manuel. No wastewater district has been formed or, to Staff's knowledge, has been seriously discussed by the residents of San Manuel. The incident at Far West occurred four years ago and has been addressed by the Court. Safety concerns have been addressed by Staff's new recommendations.

Staff believes that with the adoption of the proper safety precautions and conditions proposed, it is in the public interest to grant a CC&N to Coronado.

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Introduction

On February 10, 2005, Coronado Utilities, Inc. ("Coronado" or "Company") filed an Application for a Certificate of Convenience and Necessity ("CC&N") to provide wastewater services to a portion of Pinal County and for approval of long- and short-term debt with the Arizona Corporation Commission ("ACC" or "Commission").

A hearing was held on the matters on June 29, 2005. Since the hearing, the Commission has received numerous customer comments protesting the large proposed increase in rates and raising other significant issues. Also, the Utilities Division Staff ("Staff") learned that on October 24, 2001, a fatal accident occurred in a wastewater plant belonging to Far West Water and Sewer Company ("Far West") involving Santec Corporation ("Santec"), an affiliate of Coronado. On June 30, 2005, Santec pled guilty to causing the death of an employee during this incident.

Background

Coronado was formed for the purpose of the ownership and operation of a wastewater utility serving the community of San Manuel, in Pinal County. The community of San Manuel has received wastewater services from Magma Copper and, more recently, BHP Copper, Inc., ("BHP") for more than 50 years. For many years, sewer service was free. At some point, BHP began charging \$48 per year. In 1999, BHP announced it was placing the mine on "care and maintenance" status and in October, 2003 announced permanent closure. BHP closed its mining operations and eventually sought purchasers of the existing sewage collection and treatment facilities. On November 8, 2004, Coronado entered into a purchase agreement with BHP to acquire the wastewater assets and associated 84 acres of property.

Affiliated Companies

Coronado's owners are John Clingman, Jason Williamson and Dwight Zemp. Two of the owners, John Clingman and Dwight Zemp, are owners of Santec. Santec is a Colorado corporation which designs, constructs, operates and manages wastewater facilities. Since 1987, Santec has developed over 200 wastewater facilities in the United States and the Caribbean.

Pivotal Utility Management, LLC ("Pivotal Management") is described in Santec's promotional materials as "the operations arm of Santec." John Clingman, Dwight Zemp and Jason Williamson are the members of Pivotal Management which has two other employees. They are also the members of Pivotal Operations, LLC ("Pivotal Operations") which has no employees other than the owners. Pivotal Management contracts with Pivotal Operations to operate five affiliated Arizona utilities. Pivotal Operations subcontracts with individuals or other entities to operate the utility facilities.

The Utilities Division Consumer Services Section has received no complaints from customers of the Arizona utilities owned and/or operated by Pivotal Operations and Pivotal

Management over the past three years. The Utilities Division Compliance Section reports no outstanding issues with those utilities. The respective Annual Reports for the utilities show all property taxes to be paid.

Rates and Capital Structure

The rates recommended in the original Staff Report were based upon a revenue requirement using a capital structure comprised of 40 percent equity and 60 percent debt. The Company requested a capital structure of 13 percent equity and 87 percent debt. Since the hearing, Staff and the Company have agreed to a capital structure of 27 percent equity and 73 percent debt. However, Staff also recommends that to build equity, Coronado retain 75 percent of its net operating income until equity represents 40 percent of total capital. The impact of this recommendation is to limit the income distributed to the owners until a stronger capital structure is achieved. The Company has agreed to this recommendation. Exhibit 1 further discusses the proposed financing and capital structure.

BHP sewer service customers are currently paying \$48 per year for service, a rate which is clearly below BHP's cost. In its original Staff Report in this docket, Staff recommended a rate of \$49.53 per month for residential sewer service, a substantial increase. The recommended rates for all customer classes were flat rates because Coronado did not have access to the customers' water usage upon which to build a rate based upon water usage. Coronado currently is preparing to enter an agreement with Arizona Water Company, the water utility in San Manuel, to receive water usage data upon which to bill customers for sewer service. Thus, Staff is now recommending sewer rates for commercial customers, mobile home parks and schools based upon water usage. Attached, as Exhibit 2, is the report which further discusses Staff's proposed new rates.

Exhibit 2 recommends phased-in rates for the purpose of reducing the rate shock that will be experienced by the BHP customers when they become Coronado customers. Phase 1 rates reflect the lower operating costs of the existing system compared to the projected costs for the new system and plant reflected in Phase 2 rates. Integral to the Phase 1 rates is the prohibition (to which Coronado has agreed) against recording an allowance for funds used during construction ("AFUDC") until Phase 2 rates become effective.

The Phase 2 rates will go into effect after the new wastewater treatment plant and collection system are in service, after the Company files an Approval of Construction from ADEQ and after the customers have received notice of the increase at least 30 days before the rates are implemented. Initial monthly, flat rates for residential customers recommended by Staff and agreed to by Coronado are \$30.23 per month for Phase 1 and \$46.50 for Phase 2. All the proposed rates are attached to Exhibit 2 on Schedule CSB-WW4.

BHP Status as a Utility

In the August 2, 2005 Procedural Order, the Administrative Law Judge required Coronado and Staff to file a legal analysis of whether BHP is a public service corporation. This analysis is to be filed on the same day as this Staff Report. It is unknown whether or not BHP will ultimately be determined to be a public service corporation by this Commission. However, if BHP is found to be a public service corporation, this docket could then be treated as sale of assets and a transfer of a CC&N from BHP to Coronado. Staff's CC&N recommendation and associated conditions would not be affected by the outcome of the public service corporation determination because the "public interest" and "fit and proper" standards would similarly apply.

The impact on the customers of such a determination is also likely not to change. If the Commission were to order BHP as a public service corporation, to build the new wastewater treatment plant and make other improvements before selling the assets to Coronado, BHP would still soon request the transfer of the sewer assets to Coronado or another entity. The assets would transfer at book value pursuant to Commission practice and policy. The assets would still be new and offset by little depreciation. Therefore, the book value to the new owner would equal BHP's construction cost. It is likely, then, that the rates charged by the new owner to own, operate and earn a return on the plant would be close to, if not identical to the rates recommended by Staff in this report.

If BHP were found to be a public service corporation, installed a new wastewater treatment plant and did not sell the assets to Coronado, BHP could then file a rate case and receive new rates based upon the value of its assets devoted to public service, just as any other utility in Arizona. The rates including the new plant would likely be similar to those recommended by Staff in this case.

Staff is unaware of any other wastewater utility in Arizona whose rates are lower than those currently charged by BHP. Unfortunately, the residents of San Manuel are being served by an old wastewater treatment plant that needs to be replaced. Whether Coronado or BHP, or any other entity installs the new plant, the residents will be faced with significantly higher rates.

Incident at Far West Water and Sewer Company

Santec was hired by Far West in February 2001 to conduct repair and upgrade work at its wastewater facilities. On October 25, 2001, while entering a sewer collection tank to deflate a stopper in a gravity line, a Far West employee collapsed and died from asphyxiation. An employee of Santec who entered the tank to perform a rescue of the Far West employee also died. On December 23, 2002, a Grand Jury Indictment was filed in the Superior Court of the State of Arizona charging Far West and Santec with knowingly violating "a standard or regulation and that violation caused death to an employee."

The safety violations were related to the "Permit Required Confined Spaces" rules of OSHA. These rules include requirements that employers provide employees with the

understanding, knowledge and skills necessary for the safe performance of the duties assigned. Some procedures that are required at workplaces where employees may enter confined spaces which were apparently not followed by Far West and Santec were training in and the use of appropriate emergency rescue procedures, respiratory protection, ventilation equipment, and testing of air quality. These actions and procedures should have been part of a written, confined spaces program that Santec did either not have or did not follow.

On June 30, 2005, Santec Corporation and the State of Arizona filed a plea agreement in Superior Court. Within this document, Santec agreed to plead guilty to a Class 6 felony, Violating Safety Standard and Causing Death of an Employee. According to the agreement, Santec will pay restitution to the wife of one victim and restitution to other victims as ordered by the Court. Mr. Clingman and Mr. Zemp also agreed to be available for interviews with the State and would be provided immunity from criminal prosecution arising from the events and facts associated with the case. Staff is awaiting the minute entry from the court emanating for the August 23, 2005 sentencing hearing.

In a data request, Staff asked Coronado to list the actions that have been taken since October 2001 by Pivotal and Santec to improve safety procedures at the utilities they own and operate. The following is the complete response received by Staff on July 19, 2005;

“Santec Corporation reviewed all safety and confined space policies. Santec purchased additional equipment as needed and provided additional training as needed. Santec has made its employees well aware of safety procedures. All confined space entries require written confirmation and documentation even if they are not permit required.

Pivotal has reviewed the safety procedures and safety manuals at every utility it manages to ensure buildings have all proper and necessary safety equipment, signage, and that operators have the proper training and resources necessary to fulfill their duties in the safest possible manner.”

In data request LAJ 4-1, Staff requested a copy of Coronado’s written permit-required confined space entry program and was supplied with such by Coronado. Coronado also avowed that the procedure is currently in the safety manual at the San Manuel wastewater treatment plant and will be adopted by Coronado at closing of the sale.

Safety

Section 3 of the Constitution of the State of Arizona empowers the Commission to “make and enforce reasonable rules, regulations, and orders for the convenience, comfort, and safety, and the preservation of the health of the employees and patrons of such [public service] corporations.” Staff believes the action and inaction of Santec at Far West regarding safety are relevant to this proceeding because the owners of Santec comprise two-thirds of the ownership of Coronado, Pivotal and Arizona utilities. Common ownership would likely result in similar

management and operational quality and style among the entities. Furthermore, the Commission has jurisdiction over such matters.

The Arizona Division of Occupational Safety and Health ("ADOSH") operates under an approved plan with the U.S. Department of Labor to retain jurisdiction over occupational safety and health issues within Arizona, excluding mining operations, Indian Reservations and federal employees. ADOSH compliance activities consist of conducting unannounced safety and health inspections at workplaces throughout Arizona to determine whether employers are complying with the Arizona Occupational Safety and Health Law and standards adopted under that statute. ADOSH also provides free consultative assistance to employers who request assistance in coming into compliance with occupational safety and health standards. Employers may request consultative services for an individual operation or an entire workplace. ADOSH also offers a variety of safety and health outreach training classes throughout Arizona including Confined Space Entry, Fall Protection, Respiratory Protection and Hazard Communication.

Staff believes that due to the tragic consequences of Santec's safety violations at Far West, the Commission should take measures to ensure that such events do not occur at Coronado. Thus, Staff recommends that all operators, agents, employees or operators including employees and agents of contractors and/or subcontractors operating the Coronado facilities must comply with all ADOSH requirements including any and all training required by ADOSH to operate wastewater facilities. Furthermore, for three years, Coronado must file in Docket Control certification from ADOSH that it has availed itself of ADOSH consultation services and its operators, agents, employees including employees and agents of contractors/and or subcontractors operating the Coronado facilities have taken appropriate training.

Public Interest

Coronado belongs to a family of companies who have several years of experience in the design, installation and operations of wastewater treatment plants. BHP desires to exit the business of running wastewater operations. Staff and the Commission share several negative experiences in our efforts to regulate utilities who do not want to provide service and to protect their customers. Customers are, in general, better off over the long run, being served by a utility which wants to provide them service.

No other entity has come forward to request a CC&N to provide wastewater service to San Manuel. No wastewater district has been formed or, to Staff's knowledge, has been seriously discussed by the residents of San Manuel. The incident at Far West occurred four years ago and has been addressed by the court. Safety concerns have been addressed by Staff's new recommendations.

Staff believes that with the adoption of the proper safety precautions and conditions proposed, it is in the public interest to grant a CC&N to Coronado.

Recommendations

Regarding safety, Staff recommends:

1. That all operators, agents, employees or operators including employees and agents of contractors and/or subcontractors operating the Coronado facilities must comply with all ADOSH requirements including any and all training required by ADOSH to operate wastewater facilities.
2. On an annual basis for three years, Coronado must file in Docket Control certification from ADOSH that it has availed itself of ADOSH consultation services and its operators, agents, employees including employees and agents of contractors/and or subcontractors operating the Coronado facilities have taken appropriate training.

Regarding rates, Staff recommends:

3. That the Commission authorize Coronado Utilities, Inc., the wastewater rates and charges shown on Schedule CBS-WW4, Pages 1 and 2.
4. That Phase two rates should become effective when all the following three criteria are met: The new wastewater treatment plant and system are in service; the Company files with Docket Control an ADEQ Approval of Construction and; the Company gives customers notice of the rate increase in a form acceptable to Staff and at east 30 days before the rates are to be implemented.
5. That the Commission make a fair value rate base finding of \$3,096,163.
6. That Coronado use the depreciation rates as stated in the Staff Report filed on May 7, 2005.
7. That Coronado be ordered to file a rate application in its fourth year of operations, using the third year as the test year.
8. That the Commission require Coronado Utilities, Inc., to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Sewer Utilities.
9. That the Commission require Coronado Utilities, Inc., to file with Docket Control a tariff consistent with the rates and charges authorized by the Commission within 30 days of the effective date of a decision in this matter.

Regarding financing, Staff recommends:

10. That Coronado be authorized to obtain \$2,650,800 of long-term debt financing on the terms and conditions consistent with or better than those used in Staff's pro forma analysis subject to establishment of rates that provide Staff's recommended operating income.
11. That Coronado's initial capitalization be comprised of at least \$878,863 of equity.
12. That Coronado be required to retain seventy-five percent of its net operating income until equity represents forty percent of total capital.
13. That Coronado be required to file in Docket Control by April 15th of each year a Statement of Liabilities and Stockholders Equity until and including such time as the equity represents forty percent of total capital.
14. That the Commission approve the granting of liens in favor of the lender as required to secure the borrowings authorized.
15. That no loan funds be applied to operating expenses or income.
16. That Coronado be authorized to engage in any transaction and to execute any documents necessary to effectuate the financing authorizations granted.
17. That Coronado be ordered to file copies of all executed financing documents with Docket Control within 90 days of loan closing.

Regarding other compliance, Staff recommends:

18. That the Commission require Coronado Utilities, Inc., to file with Docket Control a copy of the Pinal County franchise within 365 days of the effective date of the decision in this matter.
19. That the Commission require Coronado Utilities, Inc., to file with Docket Control a copy of the Arizona Department of Environmental Quality Unified Water Quality Permit for the San Manuel Wastewater Treatment Facility authorizing a treatment and disposal capacity of 350,000 gallons per day within 365 days of the effective date of the decision and order in this matter.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to Coronado Utilities, Inc., be considered null and void without further order from the Commission should the Coronado fail to meet Conditions 9, 18 and 19 within the time specified.

Staff further recommends that the area certificated be the area described in the revised legal description attached to the May 27, 2005 Staff Report.

MEMORANDUM

TO: Crystal Brown
Public Utilities Analyst V
Financial and Regulatory Analysis Section, Utilities Division

FROM: Dennis Rogers *Dennis Rogers*
Public Utilities Analyst IV
Financial and Regulatory Analysis Section, Utilities Division

DATE: August 26, 2005

RE: CORONADO UTILITIES, INC.
DOCKET NO. SW-04305A-05-0087

Introduction

Coronado Utilities, Inc. ("Coronado" or "Company") filed a Financing Application¹ on February 10, 2005, with the Arizona Corporation Commission ("Commission") for authorization to issue a combination of short and long term debt instruments totaling not more than \$3,300,000, and Capital Equity in the amount of \$292,363, for a total of \$3,592,363. The proceeds of which are intended to finance the acquisition of wastewater infrastructure. The initial capital structure comprised 8.1 percent equity and 91.9 percent debt.

The Company's proforma capital structure at the end of Year 1 was projected to be comprised of common equity totaling \$467,028 (common stock of \$292,363 and retained earnings of \$174,665), long-term debt of \$3,139,623 for a total of \$3,606,651.

A hearing was held on June 29, 2005, to consider the Company's and Staff's positions regarding the financing and capital structure requirements.

Staff recommended an initial capital structure of 40 percent equity and 60 percent debt. The Company originally proposed a capital structure at the end of Year 1 of 13 percent equity and 87 percent debt. Staff and the Company then entered into discussions in an effort to resolve their disparate positions.

The Company then proposed increasing its initial equity contribution by \$586,498 from \$292,365 to \$878,863. The new debt requirements have been reduced by \$649,200 from \$3,300,000 to \$2,650,800. The new capital structure proposed by the Company at the end of the First Year is projected to be composed of 27 percent equity and 73 percent debt consisting of common stock of \$878,863, retained earnings of \$76,387 and long-term debt of \$2,567,141 for a total of \$3,522,391. Staff's opinion is that the initial First Year equity contribution is sufficient

¹ Docket No. SW-04305A-05-0087

provided that the Company retains seventy-five percent of its net operating income until equity represents forty percent of total capital.

Staff Conclusions and Recommendations

Staff concludes that the issuance of debt in the amount of \$2,650,800 and common equity of \$878,863 is within Coronado's corporate powers, compatible with the public interest, consistent with sound financial practices and will not impair its ability to perform service.

Staff further concludes that use of loan proceeds for operating expenses or income is an inappropriate use of the funds.

Staff recommends that Coronado's initial capitalization be comprised of at least \$878,863 equity.

Staff further recommends granting authorization to obtain \$2,650,800 of long-term debt financing on the terms and conditions consistent with or better than those used in Staff's pro forma analysis subject to establishment of rates that provide Staff's recommended operating income.

Staff further recommends that Coronado be required to retain seventy-five percent of its net operating income until equity represents forty percent of total capital.

Staff further recommends that Coronado be required to file by April 15th of each year a Statement of Liabilities and Stockholders Equity until and including such time as the equity represents forty percent of total capital. The filing should be made to Docket Control.

Staff further recommends approval of granting of liens in favor of the lender as required to secure the borrowings authorized.

Staff further recommends that no loan funds be used for operating expenses or income.

Staff further recommends authorizing Coronado to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Coronado be ordered to file copies of all executed financing documents with Docket Control within 90 days of loan closing.

MEMORANDUM

TO: Linda Jaress
Executive Consultant
Utilities Division

FROM: Crystal S. Brown *Crystal S. Brown*
Public Utilities Analyst V
Financial and Regulatory Analysis Section
Utilities Division

DATE: August 31, 2005

RE: SECOND ADDENDUM TO STAFF REPORT FOR CORONADO UTILITIES, INC. FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WASTEWATER SERVICE IN PINAL COUNTY, ARIZONA (DOCKET NO. SW-04305A-05-0086)

On February 10, 2005, Coronado Utilities, Inc. ("Coronado" or "Company"), filed an Application with the Arizona Corporation Commission ("Commission") for a Certificate of Convenience and Necessity ("CC&N") to provide wastewater service to the community of San Manuel located in Pinal County, Arizona. On May 27, 2005, Staff filed its report pertaining to this filing. On June 21, 2005, Staff filed an addendum to its Staff Report to reflect revised rates.

During the June 29, 2005 hearing, the Administrative Law Judge ("ALJ") raised the question of phased-in rates. Neither Staff's nor the Company's original recommendations included phased-in rates. After the hearing, a large number of customers contacted the Commission via phone and written correspondence to voice concern about the high level of rate increase. In response, Staff and the Company have discussed and agreed to a two-step rate phase-in.

Staff's recommended rates, with which the Company has agreed, are presented on Schedule CSB-WW4. The initial (phase 1) rates to take effect subsequent to the Commission granting Coronado a CC&N are designed to generate a revenue requirement of \$599,323. This revenue requirement is based upon revised Year One operating expenses to provide a 1.25 debt service coverage ratio ("DSC"). Phase 1 rates reflect lower operating costs of the existing system compared to the projected operating costs for phase 2. On average the phase 1 rates represent a 35 percent reduction from the \$922,036 phase 2 revenue requirement. Integral to the agreement on Phase 1 rates is the prohibition to record an allowance for funds used during construction ("AFUDC") until phase 2 rates become effective.

The phase 1 monthly customer charge for the residential customers is \$30.23 with no volumetric rate. The monthly customer charge for commercial and school customers is

\$7.50. The volumetric rates for commercial and school customers are \$0.64 and \$0.20 per 100 gallons of metered water use, respectively. The mobile home park rates are seasonal. In the summer, each mobile home park is billed \$20.71 per active unit. In the winter months, a monthly customer charge of \$7.50 is applicable to each mobile home park. Additionally, in the winter, a volumetric rate of \$0.37 per 100 gallons of metered water use is applicable.

Phase 2 rates should become effective when all the following three criteria are met:

1. The new plant and collection system are in service,
2. The Company files with the Commission's Docket Control an ADEQ Approval of Construction and
3. The Company gives customers notice of the rate increase at least 30 days before the rates are to be implemented in a form that is acceptable to Staff.

The \$922,036 revenue requirement for phase 2 rates is based upon a revised Year Three capital structure and revised Year Three operating expenses. Although, implementation of phase 2 rates is expected prior to Year Three, the rates were developed using Year Three because it better represents anticipated on-going costs.

The phase 2 monthly customer charge for the residential customers is \$46.50 with no volumetric rate. The monthly customer charge for commercial and school customers is \$7.50. The volumetric rates for commercial and school customers are \$0.98 and \$0.3122 per 100 gallons of metered water, respectively. The mobile home park rates are seasonal. In the summer, each mobile home park is billed \$31.86 per active unit. In the winter months a monthly customer charge of \$7.50 is applicable to each mobile home park. In addition, a volumetric rate of \$0.57 per 100 gallons of mobile home park customers' metered water use is applicable in the winter.

Staff recommends that Plan B¹ no longer be considered because the Company has assured Staff that it can obtain an agreement with Arizona Water Company for the water usage data. Staff recommends that the Company shall submit this agreement to Docket Control prior to the Open Meeting in this proceeding.

Staff recommends that its rates, with which the Company has agreed, as described above and shown on Schedule CSB-WW4 be adopted.

¹ Plan B is the alternative rate design to be implemented if the Company could not obtain a formal written agreement with Arizona Water Company for water usage data.

**RATE DESIGN
FOR PHASED-IN RATES**

PHASE 1

		-Proposed Rates-	
		Company	Staff
Monthly Customer Charges			
Residential	\$ 30.23	\$ 30.23	
Commercial	\$ 7.50	\$ 7.50	
Mobile Home Park - Winter Only (See Note A)	\$ 7.50	\$ 7.50	
School	\$ 7.50	\$ 7.50	
Volumetric Rates - Based on Metered Water Usage			
Commercial - per 100 gallons of water usage	\$ 0.6400	\$ 0.6400	
Mobile Home Park - per 100 gallons of water usage (Winter Only - See Note A)	\$ 0.3700	\$ 0.3700	
School - per 100 gallons of water usage	\$ 0.2000	\$ 0.2000	
Volumetric Rates - Based on Number of Units			
Mobile Home Park - monthly rate per occupied space (Summer Only - See Note A)	\$ 20.71	\$ 20.71	
Effluent Sales			
Per 1,000 Gallons for General Irrigation	\$ 0.15	\$ 0.15	
Per Acre Foot (or 325,851 gallons) for General Irrigation	\$ 48.88	\$ 48.88	

PHASE 2

		-Proposed Rates-	
		Company	Staff
Monthly Customer Charges			
Residential	\$ 46.50	\$ 46.50	
Commercial	\$ 7.50	\$ 7.50	
Mobile Home Park - (Winter Only - See Note A)	\$ 7.50	\$ 7.50	
School	\$ 7.50	\$ 7.50	
Volumetric Rates - Based on Metered Water Usage			
Commercial - per 100 gallons of water usage	\$ 0.9800	\$ 0.9800	
Mobile Home Park - per 100 gallons of water usage (Winter Only - See Note A)	\$ 0.5700	\$ 0.5700	
School - per 100 gallons of water usage	\$ 0.3122	\$ 0.3122	
Volumetric Rates - Based on Number of Units			
Mobile Home Park - monthly rate per occupied space (Summer Only-See Note A)	\$ 31.86	\$ 31.86	
Effluent Sales			
Per 1,000 Gallons for General Irrigation	\$ 0.15	\$ 0.15	
Per Acre Foot (or 325,851 gallons) for General Irrigation	\$ 48.88	\$ 48.88	

Note A: Summer (April, May, June, July, August, September)
Winter (January, February, March, October, November, December)

RATE DESIGN (Cont.)

Service Installation Charges

-Proposed Rates-	
Company	Staff
Cost (B)	Cost

Service Charges

Establishment of Service (a)
 Re-establishment of Service
 Reconnection/Delinquent
 Minimum Deposit
 Deposit Interest
 NSF Check Charge
 Late Payment Penalty (Per Month)
 Deferred Payment
 All revenue related taxes will be charged customers

-Proposed Rates-	
Company	Staff
\$25.00	\$25.00
**	***
50.00	35.00
***	***
*	*
25.00	25.00
1.50%	1.50%
1.50%	1.50%

Main Extension and additional facilities agreements

Cost (B)	Cost
----------	------

(B) Cost to include parts, labor, overhead, and all applicable taxes, including income tax.

- * Per Commission Rules (R14-2-403.B)
- ** Months off system times the minimum (R14-2-403.D)
- *** Two Times Monthly Bill

Note No. 1: Usage rate for trailer park customers during April through September will be based on previous winter use averages (October through March). Winter rates will be based on monthly actual water usage (October through March).

Note No. 2: If a new customer is added during any of the summer months, its usage rate calculation will be based on the "park average" - defined as the average monthly usage during the winter months at that specific trailer park.

Note No. 3: For any customer being billed volumetrically, water meters that can be shown to be "irrigation only" will be excluded from the tariff calculations.