

ORIGINAL



0000028397

MEMORANDUM

30A

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: September 15, 2005

RE: AMENDED STAFF REPORT FOR THE MARTINEZ LAKE SEWER
COMPANY APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND
NECESSITY FOR SEWER SERVICES DOCKET NO. SW-04123A-03-0692

Attached is the Amended Staff Report for the above referenced application. On September 1, 2005, during the hearing for this matter, the Administrative Law Judge requested that Staff file an Amended Staff Report. The attached Amended Staff Report and Exhibits incorporate the updated costs, rates and recommendations discussed at the hearing. It also incorporates Staff's recommendation, as discussed at the hearing, that the Commission approve the application with conditions, rather than issue an Order Preliminary as recommended in the Staff Report filed on August 12, 2005.

EGJ:LAJ:red

Originator: Linda Jaress

Attachment: Original and Thirteen Copies

AZ CORP COMMISSION
DOCUMENT CONTROL

2005 SEP 15 A 8:23

RECEIVED

Service List for: Martinez Lake Sewer Company
Docket No. SW-04123A-03-0692

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Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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AMENDED STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MARTINEZ LAKE SEWER COMPANY

DOCKET NO. SW-04123A-03-0692

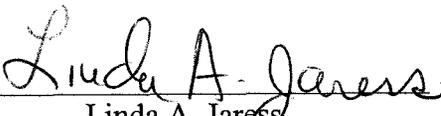
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE
SEWER SERVICE IN YUMA COUNTY, ARIZONA

SEPTEMBER 15, 2005

STAFF ACKNOWLEDGEMENT

The Amended Staff Report for Martinez Lake Sewer Company (Docket No. SW-04123A-03-0692) was prepared by the Staff members listed below. Linda Jaress prepared the Staff Report, Marlin Scott, Jr. prepared the Engineering Report and James Dorf prepared the Financial and Regulatory Analysis Report.

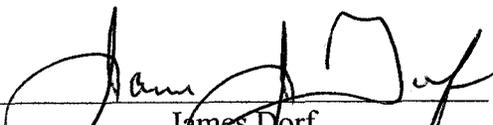
Contributing Staff:



Linda A. Jaress
Executive Consultant III



Marlin Scott, Jr.
Utilities Engineer



James Dorf
Chief Accountant

EXECUTIVE SUMMARY
MARTINEZ LAKE SEWER COMPANY
DOCKET NO. SW-04123A-03-0692

On September 19, 2003, Martinez Lake Sewer Company ("Martinez Lake" or "the Company") filed an application for approval of a Certificate of Convenience and Necessity ("CC&N") to provide utility wastewater service in an area within Yuma County, Arizona located approximately 30 miles northeast of the City of Yuma. Martinez Lake has projected 200 connections. The requested area covers approximately 138 acres or 0.25 square miles.

The Company proposes to construct a sewer collection system that will consist of 6,600 feet of collection main, 30 manholes, 200 laterals, 1,485 feet of force main and two lift stations. The flow from the Martinez Lake collection system will be transported to the treatment plant belonging to Fisher's Landing Water and Sewer Works ("Fisher's Landing") which is adjacent to Martinez Lake's requested area. Fisher's Landing owns and operates a 75,000 gallon per day wastewater treatment plant and will provide wastewater treatment service to Martinez Lake under a contract. Staff has determined that Fisher's Landing has sufficient capacity to serve Martinez Lakes.

Staff concludes that the requested CC&N of Martinez Lake is in the public interest and should be approved. Staff recommends approval with the following conditions:

1. The Company must file with Docket Control, a copy of Fisher's Landing's Aquifer Protection Permit within one year after a decision is issued in this proceeding.
2. The Company must use the wastewater depreciation rates by individual NARUC category as delineated in Table B of the attached Staff Engineering Report.
3. The Company must file documentation with Docket Control identifying when the Company serves its first customer, within 30 days of serving that first customer.
4. The Company must charge Staff's recommended rates and charges as shown in Schedule JJD-3. The Company may collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C. R-14-2-409.D.5.
5. The Company must file in Docket Control a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
6. The Company must file a general rate application within five years from the date it serves its first customer.
7. The Company must maintain its books and records in accordance with the NARUC Uniform System of Accounts.

8. The Company must submit to Docket Control a copy of its Approval to Construct from Yuma County when received by the Company, but no later than one year after the effective date of the order.
9. The Commission should find that the fair value rate base is estimated to be \$904,631 in the fifth year.

Staff further recommends that the Commission's Decision granting this CC&N to Martinez Lake be considered null and void should the Company fail to meet conditions 1, 5, 6 and 8 within the time specified.

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Introduction

On September 19, 2003, Martinez Lake Sewer Company ("Martinez Lake" or "the Company") filed an application for approval of a Certificate of Convenience and Necessity ("CC&N") to provide utility wastewater service in an area within Yuma County, Arizona located approximately 30 miles northeast of the City of Yuma. Martinez Lake has projected 200 connections. The requested certificated area covers approximately 138 acres or 0.25 square miles and encompasses most of the area for which Shepard Water Company is certificated to provide water service. Both Shepard and Martinez Lake are owned by the same individuals. The legal area requested by Martinez Lake is reflected on Exhibit 1, attached.

Background

Martinez Lake will provide wastewater service to a resort area called Martinez Lake Resort ("the Resort"). The Resort is a multi-use facility which includes commercial, restaurant, boat dock and rental site facilities. Within the Resort and adjacent to it are approximately 140 lots which will be sold and will provide the vast majority of the hookups to the proposed sewer system. Water service will be provided by Shepard. The owner's representative provided a letter indicating that Mr. and Mrs. Guth are the owners of the property to be serviced by the sewer company and made the request for service.

The Proposed Facilities

The Company has provided Staff with updated plans. The Company proposes to construct a sewer collection system that will consist of 6,600 feet of collection main, 30 manholes, 200 laterals, 1,485 feet of force main and two lift stations. Attached as Exhibit 2 is Staff's Amended Engineering Report which provides a more complete description of the proposed system, the costs of the plant, and a description of Fisher's Landing Water and Sewer Works ("Fisher's Landing"). The collection facilities will allow for the abandonment of existing septic tanks.

The flow from the Martinez Lake collection system will be transported to the treatment plant belonging to Fisher's Landing which is adjacent to Martinez Lake's requested area. Fisher's Landing holds a CC&N to provide wastewater utility service and is currently serving an RV park with 211 available spaces and a mobile home park with 111 available spaces. It owns and operates a 75,000 gallon per day wastewater treatment plant and will provide wastewater treatment service to Martinez Lake under a contract. Staff has determined that Fisher's Landing has sufficient capacity to serve Martinez Lakes.

Contract with Fisher's Landing

The contract between Fisher's Landing and Martinez Lake calls for a one-time connection fee of \$8,000. Martinez Lake will also pay Fisher's Landing \$2.50 per 1,000 gallons for treatment of wastewater. Pursuant to the contract, the charges for treatment may be adjusted

only upon a rate hearing before the Arizona Corporation Commission ("Commission"). Disputes would be resolved by arbitration or other agreed-upon alternate dispute resolution. There is no limit to the volume of sewage delivered by Martinez Lake to Fisher's Landing and there are provisions in the contract that address the potential need for increased capacity.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Martinez Lake does not currently have a wastewater plant and will only have a wastewater collection system. Therefore, ADEQ does not regulate the system. However, Fisher's Landing is regulated by ADEQ and is in compliance with ADEQ regulation. Staff recommends that Martinez Lake file with Docket Control, a copy of Fisher's Landing's Aquifer Protection Permit within one year after a decision is issued in this proceeding.

Proposed Rates

Attached as Exhibit 3, is the Amended Report of the Financial and Regulatory Analysis Section. It reflects the updated plant numbers included in Staff's Amended Engineering Report. Included in the Report is a financial analysis of the Company and, as Schedule JJD-3, a complete list of Staff's recommended rates and charges. Briefly, Staff recommends slightly higher than rates than those proposed by the Company. Staff's adjustments to rates are based on generating a more reasonable rate of return, using more reasonable depreciation rates, and more recent cost estimates. Staff's rates of \$32.12 per month for residential and \$381 per month for commercial service would result in a rate of return in year five of 10 percent compared to the Company's proposed rates of \$31 for residential and \$350 for commercial resulting in a rate of return of over 22 percent.

Staff also found that the projected fair value rate base in year five is \$904,631.

Consumer Service and Compliance

As previously mentioned, Shepard Water Company is owned by the same person as Martinez Lake. It is logical to assume that under common ownership, the two utilities will be operated in a similar manner. It is therefore prudent to review the compliance of Shepard with the Commission's rules, regulations and decisions and to review the number of complaints filed against it in the determination of whether or not Martinez Lake will be a fit and proper entity to hold a CC&N. Staff reviewed the Consumer Services Division database, and over the past three and one-half years, there were no consumer complaints against Shepard recorded.

However, according to the records of the Commission's Compliance Section, Shepard has not complied completely with Decision No. 62091, dated November 19, 1999. The specific requirements set forth in that decision with which Shepard has not complied relate to the construction of a water system and related reports to Staff regarding progress on the construction of the water system.

Since filing the original Staff Report in this matter, Martinez Lake has informed Staff that it had postponed the water system construction until it received the sewer system CC&N in order to achieve efficiencies by installing them, along with underground electric service, simultaneously. Also, the current owners of Martinez Lake were not aware of the Decision's existence when they purchased the Company in 2002.

Although Staff believes that the new owners of Martinez Lake should have been aware of Commission decisions regarding their company, Staff agrees that it is more efficient to install the utilities within a common time frame. Thus, Staff is making no recommendations regarding Sheperd's current non-compliance with Decision No. 62091.

Conclusions and Recommendations

Staff concludes that the requested CC&N of Martinez Lake is in the public interest and should be approved with the following conditions:

1. The Company must file with Docket Control, a copy of Fisher's Landing's Aquifer Protection Permit within one year after a decision is issued in this proceeding.
2. The Company must use the wastewater depreciation rates by individual NARUC category as delineated in Table B of the attached Staff Engineering Report.
3. The Company must file documentation with Docket Control identifying when the Company serves its first customer, within 30 days of serving its first customer.
4. The Company must charge Staff's recommended rates and charges as shown in Schedule JJD-3. The Company may collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C. R-14-2-409.D.5.
5. The Company must file in Docket Control a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
6. The Company must file a general rate application within five years from the date it serves its first customer.
7. The Company must maintain its books and records in accordance with the NARUC Uniform System of Accounts.
8. The Company must submit to Docket Control a copy of its Approval to Construct from Yuma County when received by the Company, but no later than one year after the effective date of the order.

9. The Commission should find that the projected fair value rate base in year five is estimated to be \$904,631.

Staff further recommends that the Commission's Decision granting this CC&N to Martinez Lake be considered null and void should the Company fail to meet conditions 1, 5 and 8 within the time specified.

MEMORANDUM

TO: Jim Fisher
Executive Consultant II
Utilities Division

FROM: Barb Wells
Information Technology Specialist
Utilities Division

THRU: Del Smith
Engineering Supervisor
Utilities Division

DATE: October 18, 2004

RE: **MARTINEZ SEWER COMPANY (DOCKET NO. SW-4123A-03-06921)**

The area requested by Martinez Sewer Company has been plotted using a revised legal description for Exhibit 'A', which has been docketed. This legal description is attached (along with the original Exhibit 'B') and should be used in place of the original description submitted with the application.

Also attached is a copy of the map for your files.

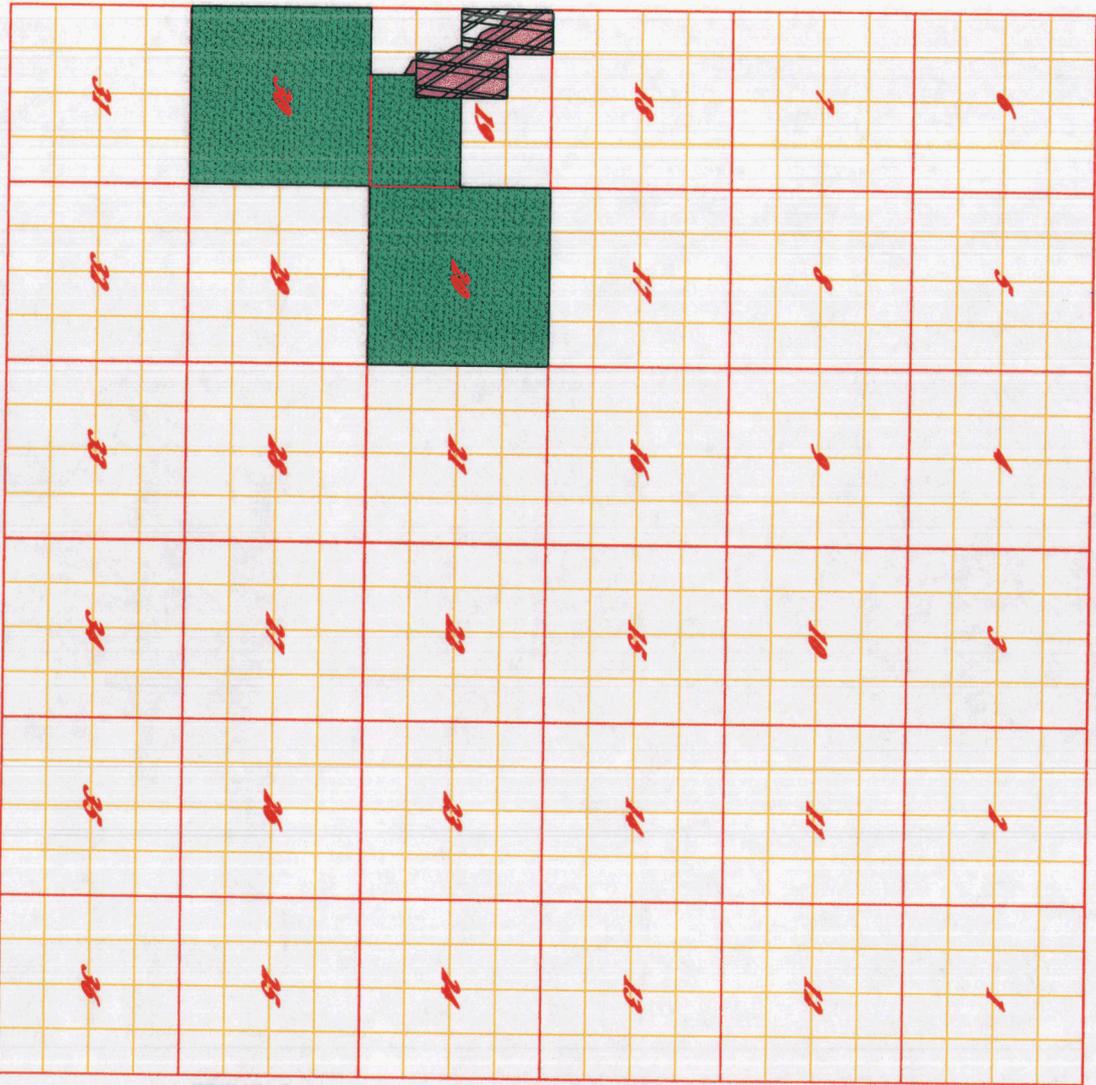
:bsw

Attachments

cc: Docket Control
Mr. Wade Noble
Deb Person (Hand Carried)
File

COUNTY: Yuma

RANGE 21 West



TOWNSHIP 5 South



WS-4047 (1)



Sewer

Fisher's Landing Water and Sewer Works, LLC



W-1537 (1)

Shepard Water Company, Inc.



Martinez Lake Sewer Company
 Docket No. SW-4123-03-692
 Application for Sewer CC&N

Martinez Lake Sewer Company
SW-04123A-03-0692

EXHIBIT "A"

That portion of Lot 4 of Section 19, Township 5 South, Range 21 West, Gila and Salt River Base and Meridian, Yuma County Arizona, More particularly described as follows:

Beginning at the Southeast corner of Section 19, Township 5 South, Range 21 West; thence North 65 degrees 44 minutes 56 Seconds West a distance of 3,220.64 feet to a point on the North line of Lot 4; Thence along the north line of said Lot 4 South 89 degrees 56 minutes 12 seconds West a distance of 427.32 feet to the TRUE POINT OF BEGINNING; Thence continuing South 89 degrees 56 minutes 12 seconds West a distance of 422.89 feet; Thence South 35 degrees 16 minutes 34 seconds East a distance of 65.00 feet; Thence South 13 degrees 25 minutes 34 seconds East a distance of 83.06 feet; Thence South 71 degrees 07 minutes 47 seconds East a distance of 110.67 feet; Thence South 59 degrees 05 minutes 55 seconds East a distance of 340.39 feet; thence North 00 degrees 57 minutes 07 seconds West a distance of 246.06 feet; thence North 19 degrees 47 minutes 17 seconds West a distance of 78.71 feet; Thence North 00 degrees 00 minutes 43 seconds West a distance of 24.84 feet to the TRUE POINT OF BEGINNING.

Containing 2.0966 Acres more or less.

EXHIBIT "B"

LEGAL DESCRIPTION

THAT PORTION OF LOTS 1, 2, AND 3 AND THE SE 1/4, NW 1/4 OF SECTION 19, TOWNSHIP 5 SOUTH, RANGE 21 WEST, G.&S.R.B.&M., YUMA COUNTY ARIZONA, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

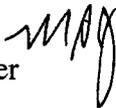
BEGINNING AT THE SE CORNER OF SECTION 19, TOWNSHIP 5 SOUTH, RANGE 21 WEST THENCE WESTERLY A DISTANCE OF 2639.26' TO THE S 1/4 CORNER OF SECTION 19 T.5S., R.21W., THENCE N00°05'00"W A DISTANCE OF 1319.77' TO THE SE CORNER OF LOT 3, BEING THE NE CORNER OF LOT 4 (IN LAKE) AND THE TRUE POINT OF BEGINNING;

THENCE N89°57'20"W ALONG THE NORTH LINE OF LOT 4, A DISTANCE OF 1108.68' TO A POINT;
THENCE N05°30'00"W A DISTANCE OF 523.87' TO A POINT;
THENCE N29°45'00"W A DISTANCE OF 815.10' TO A POINT;
THENCE N19°45'00"E A DISTANCE OF 389.40' TO A POINT;
THENCE N59°45'01"W A DISTANCE OF 576.00' TO A POINT;
THENCE N29°29'55"W A DISTANCE OF 290.40' TO A POINT;
THENCE N09°59'55"W A DISTANCE OF 244.20' TO A POINT;
THENCE N56°51'10"W A DISTANCE OF 521.56' TO A POINT;
THENCE NORTHERLY A DISTANCE OF 1320.00' TO THE NW CORNER OF LOT 1;
THENCE S89°56'00"E A DISTANCE OF 1227.60' TO THE NE CORNER OF LOT 1;
THENCE SOUTHERLY A DISTANCE OF 1320.00' TO THE SE CORNER OF LOT 1;
THENCE S89°57'00"E A DISTANCE OF 1320.00' TO THE NE CORNER, SE 1/4, NW 1/4;
THENCE S00°05'00"E A DISTANCE OF 2662.80' TO THE TRUE POINT OF BEGINNING;
CONTAINING 134.4990 ACRES MORE OF LESS.

MEMORANDUM

DATE: September 1, 2005 (Revised)

TO: Linda Jaress
Executive Consultant III

FROM: Marlin Scott, Jr. 
Utilities Engineer

RE: Martinez Lake Sewer Company
Docket No. SW-04123A-03-0692 (CC&N)

Introduction

Martinez Lake Sewer Company ("Company") has submitted a Certificate of Convenience and Necessity ("CC&N") application to provide sewer service in Yuma County. The requested sewer service area is approximately 30 miles northeast of Yuma and is approximately 1/4 square-mile in area.

Existing Wastewater Treatment Plant

The Company is proposing to transport its sewer flow to Fisher's Landing Water and Sewer Works' ("Fisher's") existing 75,000 gallon per day ("GPD") wastewater treatment plant. Fisher's was granted a CC&N to provide water and sewer service in Decision No. 64998 (June 26, 2002) and is currently providing sewer service to two commercial properties.

Company's Proposed Sewer System

The Company is proposing to construct a sewer collection system that will consist of 6,600 feet of collection main, 30 manholes, 200 laterals, 1,485 feet of force main, and two lift stations. The flow from this collection system will be transported to the Fisher's plant.

Capacity

The number of service laterals (connections) and monthly wastewater flows were not recorded in Fisher's 2003 Annual Report. Therefore, in its analysis, Staff used an estimated 150 GPD per connection to determine that Fisher's 75,000 GPD plant could serve up to 500 connections. Fisher's system currently serves two commercial properties, a RV Park and Mobile Home Park ("MHP") having 214 and 111 available spaces, respectively. Fisher's indicated that the RV Park and MHP are usually 70% occupied,

which would equate to 227 occupied spaces in order to determine wastewater flows from the two commercial properties. The Company has predicted an additional 200 connections for its requested area, resulting in projected total service connections of 427 served by Fisher's plant. Staff concludes that the Fisher's wastewater plant has the capacity to serve the Company's requested area.

Cost Analysis

The Company submitted a total estimated project cost for its proposed plant-in-service at \$997,188. Staff has reviewed the proposed plant-in-service as shown in Table A and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes.

Table A. Proposed Plant-in-Service

Acct. No.	Martinez Lake Sewer Co. Plant-in-Service	Company Cost	Company Total
351	Organization	\$ -	\$ -
352	Franchise	-	-
360	Collection Sewers – Force		307,188
	4" force main, 490 ft.	7,840	
	6" force main, 995 ft.	17,910	
	Small lift station	50,000	
	Big lift station	100,000	
	Underground electrical service	50,000	
	Allowance for rock excavation	20,000	
	Engineering & contingency @ 25%	61,438	
361	Collection Sewers - Gravity		540,000
	8" sewer line, 6,100 ft.	183,000	
	6" sewer line, 500 ft.	11,000	
	Manholes, 30 each	150,000	
	Cleanout, 10 each	8,000	
	Allowance for rock excavation	80,000	
	Engineering & contingency @ 25%	108,000	
363	Services to Customers		150,000
	4"-Laterals, 200 each	120,000	
	Engineering & contingency @ 25%	30,000	
		\$ 997,188	\$ 997,188

Arizona Department of Environmental Quality ("ADEQ") Compliance

Company's Compliance Status

The Company does not have any plant facilities at this time, therefore, ADEQ does not regulate the wastewater system and the compliance status is not applicable.

Company's Approval to Construct

The Company has not received its Certificate of Approval to Construct ("ATC") for construction of the facilities from the delegated Yuma County. Staff recommends that the Company file with Docket Control a copy of this ATC when received by the Company, but no later than 12 months after the effective date of the order granting this application.

Fisher's Compliance Status

Fisher's wastewater system is in compliance with ADEQ regulation.

Fisher's Aquifer Protection Permit

Since an Aquifer Protection Permit ("APP") represents a fundamental authority for the designation of a wastewater service area and a wastewater provider, Staff recommends that the Company file with Docket Control a copy of Fisher's APP within one year after a decision is issued in this proceeding

Depreciation Rates

Staff has developed typical and customary Wastewater Depreciation Rates within a range of anticipated equipment life. These rates are presented in Table B and it is recommended that the Company use these depreciation rates by individual NARUC category as delineated in the attached Table B.

Summary

Conclusions

- A. Staff concludes that the Company's proposed collection system will have adequate infrastructure to serve the requested area.
- B. Staff concludes that the Fisher's 75,000 GPD wastewater plant has the capacity to serve the Company's requested area.
- C. Staff concludes that the proposed plant facilities and cost are reasonable and appropriate. However, no "used and useful" determination of this plant-in-service

was made, and no particular future treatment should be inferred for rate making or rate base purposes.

- D. The Company does not have any plant facilities at this time, therefore, ADEQ does not regulate the wastewater system and the compliance status is not applicable.
- E. Fisher's wastewater system is in compliance with ADEQ regulation.

Recommendations

1. Staff recommends that the Company file with Docket Control a copy of the ATC when received by the Company, but no later than 12 months after the effective date of the order granting this application.
2. Staff recommends that the Company file with Docket Control a copy of Fisher's APP within one year after a decision is issued in this proceeding.
3. Staff recommends that the Company use the wastewater depreciation rates by individual NARUC category as delineated in the attached Table B.

Table B. Wastewater Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

MEMORANDUM

TO: Linda Jaress

FROM: James J. Dorf 

DATE: September 2, 2005

RE: IN THE MATTER OF MARTINEZ LAKE SEWER COMPANY'S
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND
NECESSITY - DOCKET NO. SW-04123A-03-0692

Introduction

On September 19, 2003, Martinez Lake Sewer Company ("Company") filed its application for a Certificate of Convenience and Necessity to provide wastewater service in Yuma County. The requested service area is approximately 30 miles northeast of Yuma, Arizona and is approximately ¼ square mile in area. On March 31, 2005, the Company filed a request to waive the time clock rules associated with the filing for the tariff amendment. The Company has proposed its initial rates and provided pro forma financial information for its first five years of operations.

Staff recommends approval of its proposed initial rates and service charges as reflected on Schedule JJD-3.

Staff Analysis

The Company has provided pro forma financial information regarding its estimates for the first five years of operation (Schedule JJD-2). The estimates were based on plant additions totaling \$518,243. On August 10, 2005, the Company provided an updated estimate of the plant additions which now total \$997,188. Staff has utilized the updated estimate in developing its recommended rates.

Operating Expenses:

The Company is proposing to transport its wastewater flow to Fisher's Landing Water & Sewer Works, L.L.C. (Fisher) to which the Company will be inter-connected. The Company has a Sewer Facility Use Agreement ("Agreement") with Fisher. Staff reviewed the estimated gallonage and per customer charges provided for in the Agreement. The Company's estimate for sewage disposal costs appears reasonable and is consistent with the Agreement. The Company's estimates for its other operating costs appear reasonable and consistent with its operations.

Operating Revenue:

The Company's estimated revenue was based upon a flat rate of \$31.00 per month for residential and \$350.00 per month for commercial customers. These rates will produce estimated revenues of \$161,400 in year five. Based on Staff's pro forma rate base for year five, the Company's estimated operating income of \$104,100 will produce an estimated return on original cost rate base ("OCRB") of 22.12 percent.

The Company's proposed return was based on an estimate of recapturing its capital costs amortized over 20 years at 6 percent. That would result in an annual recovery of approximately \$44,553, although the Company's calculation yielded \$42,768. The Company would also realize an additional amount of pretax income, up to \$61,332 in year five (See Schedule JJD-2).

As indicated above the Company provided and updated estimate for plant additions substantially higher than that used to develop its estimated rates. However, the Company did not revise its operating revenue or expense estimates.

Staff Estimates

Staff utilized the updated plant addition estimates in developing its rate recommendation. Staff recommends a flat residential rate of \$32.12 per month and a commercial rate of \$381.11 per month. This will provide estimated annual revenues of approximately \$167,907 in year five and will yield an estimated return on OCRB of 10.00 percent (Schedule JJD-1). Staff also compared its proposed residential rate to those published in the Arizona Water & Residential Rate Survey for 2003 published by the Water Infrastructure Finance Authority. The monthly median was \$17.12 for the state of Arizona, and \$21.50 for systems with less than 500 customers. For smaller systems the monthly cost ranged from a low of \$5.00 to a high of \$80.00.

The Company has also proposed certain Service Charges. Staff recommends adoption of its Service Charges as they are consistent with those of other company service charges recently approved by the Commission.

Staff recommends that the Company be required to file for new rates within five years from the date its operations commence. This will provide Staff with an opportunity to review the appropriateness of its rates and charges.

Staff's Recommendation

Staff recommends:

1. approval of its rates and charges as shown on Schedule JJD-3. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C.R14-2-409.D5.

2. that the Company docket with the Commission a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
3. that the Company be required to file a general rate application within five years from the date its operations commence.
4. that the Company utilize the depreciation rates delineated in the Staff Engineering Report.
5. that the Company maintains its books and records in accordance with the NARUC Uniform System of Accounts.

PRO FORMA REVENUE REQUIREMENT

Line No.	Description	Year 5	
		Company Original Cost	Staff Original Cost
1	Adjusted Rate Base	\$473,581	\$904,631
2	Adjusted Operating Income	\$104,768	\$90,463
3	Current Rate of Return (L2/L1)	22.12%	10.00%
5	Required Operating Income	\$93,735	\$90,463
6	Operating Expenses	\$67,665	\$77,444
7	Revenue Requirement	\$161,400	\$167,907

PRO FORMA OPERATING INCOME

LINE NO.	DESCRIPTION	COMPANY					STAFF Year 5
		Year 1	Year 2	Year 3	Year 4	Year 5	
1	Operating Revenues:						
2	Residential	\$81,840	\$93,000	\$102,300	\$111,600	\$148,800	\$154,187
3	Commercial	12,600	12,600	12,600	12,600	12,600	13,720
4	Other Sewer Revenues	11,046	1,546	1,296			
5	Total Operating Revenue	105,486	107,146	116,196	124,200	161,400	167,907
6							
7	Operating Expenses:						
8	Effluent disposal	23,000	16,800	18,300	19,800	25,800	25,800
9	Management	12,000	12,000	12,000	12,000	12,000	12,000
10	Maintenance Labor & Repairs	7,200	7,200	7,200	7,200	7,200	7,200
11	Accounting and Legal	6,600	6,600	6,600	6,600	6,600	6,600
12	Other Expenses	2,700	2,700	2,700	2,700	2,700	2,700
13	Depreciation						19,944
14	Property Taxes	3,000	3,000	3,000	3,000	3,000	3,200
15	Total Operating Expenses	54,500	48,300	49,800	51,300	57,300	77,444
16							
17	Operating Income	\$50,986	\$58,846	\$66,396	\$72,900	\$104,100	\$90,463
18	Company Proposed Return*	42,768	42,768	42,768	42,768	42,768	42,768
19	Income	\$8,218	\$16,078	\$23,628	\$30,132	\$61,332	\$90,463

*Company's Proposed Return is approximately a 6.25% return on an Original Cost Rate Base of \$518,243

PROPOSED RATES

<u>Monthly Usage Charge</u>	-Proposed Rates-	
	Company	Staff
Residential	\$31.00	32.12
Commercial	\$350.00	381.11
<u>Service Charges</u>		
Establishment	\$50.00	\$30.00
Establishment (After Hours)		\$40.00
Reconnection (Delinquent)	\$75.00	\$30.00
Deposit	\$50.00	*
Deposit Interest	6.00%	*
Re-Establishment (Within 12 Months)	\$100.00	**
NSF Check	\$30.00	\$25.00
Deferred Payment		***
Late Fee	\$5.00	*

- * Per Commission Rules (R14-2-403.B)
- ** Months off system times the minimum (R14-2-403.D)
- *** 1.5% per month.