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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

IN THE MATTER OF THE APPLICATION OF
NACO WATER COMPANY, L.L.C. FOR A
RATE INCREASE.

DOCKET NO. W-02860A-06-0002

IN THE MATTER OF THE APPLICATION OF
NACO WATER COMPANY, L.L.C. FOR
APPROVAL OF FINANCING.

DOCKET NO. W-02860A-05-0727

NOTICE OF FILING

Staff of the Arizona Corporation Commission hereby files the Surrebuttal Testimony of Dorothy Hains and Jeffery M. Michlik, of the Utilities Division, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 23rd day of October, 2006.

Kevin O. Torrey
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-6031

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23rd day of October 2006 with:

Arizona Corporation Commission

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OCT 23 2006

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

DOCKETED BY

Copy of the foregoing mailed this
23rd day of October 2006 to:

Bonnie O'Connor
Naco Water Company, L.L.C.
Post Office Box 85160
Tucson, AZ 85754

AZ CORP COMMISSION
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SURREBUTTAL

TESTIMONY

OF

DOROTHY HAINS

&

JEFFREY M. MICHLIK

DOCKET NOS. W-02860A-06-0002

&

W-02860A-05-0727

**IN THE MATTER OF THE APPLICATION OF
NACO WATER COMPANY, INC.,
AN ARIZONA CORPORATION, FOR A RATE
INCREASE & A FINANCING APPLICATION**

OCTOBER 23, 2006

HAINS

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
BARRY WONG
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02860A-06-0002
NACO WATER COMPANY, INC.,) DOCKET NO. W-02860A-05-0727
AN ARIZONA CORPORATION, FOR A RATE)
INCREASE & A FINANCING APPLICATION)

SURREBUTTAL TESTIMONY

OF

DOROTHY HAINS

UTILITIES ENGINEER

UTILITIES DIVISION

OCTOBER 23, 2006

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 **A.** My name is Dorothy Hains. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. Are you the same Dorothy Hains who has previously filed testimony in this Naco
7 Water Company ("Company") rate proceeding?**

8 **A.** Yes.

9
10 **Q. What is the purpose of your surrebuttal testimony?**

11 **A.** I will be providing Staff's response to one of three issues raised by the Company's
12 witness, Ms. Bonnie O'Connor, in her rebuttal testimony filed on October 2, 2006. My
13 response specifically addresses the Hydrogeologic Assessment Imperative for Phelps
14 Dodge Settlement that Ms. O'Connor raised.

15
16 **II. HYDROGEOLOGIC ASSESSMENT FOR PHELPS DODGE SETTLEMENT**

17 **Q. In your opinion, what is the purpose of a hydrogeology study?**

18 **A.** Generally speaking, water companies, or landowners, or developers, etc. who seek to
19 develop a new source, should hire a consultant to study the local and/or regional aquifer in
20 the project area. This study should include, but not be limited to, well inventory, aquifer
21 characteristics, water quality in the aquifer, ground water flow direction, potential
22 production, aquifer depth etc. This must be done before the specialist can suggest where
23 and how to drill a well.

1 **Q. Does Staff believe that the Southern Upper San Pedro River Hydrologic Assessment**
2 **("SUSPRHA") will improve the water loss condition in the Company's water**
3 **systems?**

4 **A.** No. The water loss problem is related to aging pipe, worn out meters and plant corrosion.
5 Two of the Company's water systems had 23% and 31% water loss during the test year.
6 A hydrologic assessment study will not provide solutions for reducing water loss in the
7 systems. Staff believes that the Company should handle the water loss through programs
8 such as pipeline repair and meter replacement.

9
10 **Q. Does Staff agree with the Company that SUSPRHA is imperative for Phelps Dodge**
11 **Settlement? Please explain.**

12 **A.** Yes. A sulfate plume, developing in the Bisbee Junction area, was discovered in 2005.
13 The plume has grown and is a threat to the Company's Bisbee Junction well. It is
14 believed that the plume is the result of continuous mining activity in the past century. The
15 Phelps Dodge Company ("Phelps Dodge") is the owner of local copper mines. The
16 SUSPRHA may determine the plume growth rate, identify the affected area and may also
17 suggest remediation options.

18
19 **Q. Please explain why Staff does not believe the Company should pay for this study**
20 **now.**

21 **A.** The southern upper San Pedro River covers an area from the head of the San Pedro River
22 in Mexico in the south, to Tombstone, Arizona in the north, Mule Mountains in the east, to
23 Huachuca Mountains in the west; approximately 1,225 square miles area located in two
24 countries. This study will be extremely expensive. Naco Water Company is not the only
25 water provider in the SUSPRHA area. Staff believes this study should be a joint
26 adventure for all affected water providers. In addition, Staff believes that Phelps Dodge

1 should pay for at least a portion, if not all of the hydrogeology assessment. It is Staff's
2 understanding that the Company is in the process of negotiating a remediation agreement
3 with Phelps Dodge. Staff believes that if the Company pays for any portion of the
4 SUSPRHA, it should do so in the next phase of this process. The Company should file
5 monthly reports explaining to this Commission where it is in its negotiations with Phelps
6 Dodge.

7

8 Based on the above and the fact the Company and its customers cannot afford to pay for
9 everything at once, Staff believes the water loss problem is more critical and should be
10 addressed first.

11

12 **Q. Does this conclude your surrebuttal testimony?**

13 **A. Yes, it does.**

MICHLIK

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
BARRY WONG
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02860A-06-0002
NACO WATER COMPANY, L.L.C.,)
AN ARIZONA LIMITED LIABILITY)
COMPANY, FOR PERMANENT)
INCREASES IN ITS WATER RATES AND)
CHARGES FOR UTILITY SERVICE WITHIN)
COCHISE COUNTY, ARIZONA)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02860A-05-0727
NACO WATER COMPANY, L.L.C.,)
AN ARIZONA LIMITED LIABILITY)
COMPANY, FOR APPROVAL OF)
FINANCING)

SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 23, 2006

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EXECUTIVE SUMMARY
NACO WATER COMPANY, LLC
DOCKET NOS. W-02860A-06-0002 AND W-02860A-05-0727

Rate Application:

Staff's surrebuttal testimony recommends revised rates that would increase operating revenue by \$126,282, to produce operating revenue of \$285,711, resulting in operating income of \$103,729, or a 79.21 percent increase over adjusted test year revenue of \$159,429. Staff recommends a fair value rate base ("FVRB") of \$637,938, and a 16.26 percent rate of return on the FVRB.

Finance Application:

Staff's surrebuttal testimony recommends authorization of a \$450,000 loan from WIFA over a 20-year period at an estimated 5.6 percent interest rate or a \$750,000 loan from WIFA over a 20-year period at a 0 percent interest rate. Staff's recommended operating revenues of \$285,711, would produce a times interest earned ratio ("TIER") of 6.34 and a debt service coverage ("DSC") ratio of 1.20.

Rate Design:

Staff's surrebuttal testimony recommends a revised typical 5/8-inch meter residential bill with median usage of 5,272 gallons would increase by \$23.92, or 76.30 percent from \$31.35 to \$55.27. However, the increase is less if we take into account the effect of the emergency rate increase and interim rate increase. For instance, after these factors are considered the typical 5/8-inch meter residential bill with median usage of 5,272 gallons would increase by \$16.26, or 41.68 percent from \$39.01 to \$55.27.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst IV employed by the
4 Arizona Corporation Commission (“ACC” or “Commission”) in the Utilities Division
5 (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Jeffrey M. Michlik who filed direct testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

11 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of
12 Staff, to the rebuttal testimony of Naco Water Company, LLC (“Company”) witness Ms.
13 Bonnie O’Conner, regarding rate base, operating revenues and expenses, revenue
14 requirement, financing, and rate design.

15
16 **Q. Please explain how Staff’s surrebuttal testimony is organized?**

17 A. Staff’s surrebuttal testimony is generally organized to present issues in the same sequence
18 as presented in the Company’s rebuttal testimony.

19
20 **RESPONSE TO THE COMPANY’S REBUTTAL TESTIMONY**

21 **Financing Application**

22 **Q. Please summarize the Company’s financing request and Staff’s recommendation.**

23 A. The Company requested Commission authorization to incur approximately \$2.5 million in
24 long-term debt to fund construction projects needed to address the Company’s water loss,
25 water quality, and system reliability concerns.

1 Staff recommended alternate loan amounts that are dependent upon the interest rate
2 obtained from the Water Infrastructure Financing Authority ("WIFA"). Staff
3 recommended \$750,000 if the Company could obtain a zero percent interest rate and
4 \$450,000 if it could not. The funds were intended to address the Company's water loss
5 problem.

6
7 **Q. What was the Company's response to Staff's recommendation?**

8 A. The Company rejected Staff's recommendation stating that:

9 A. The amount was insufficient to address the ongoing and worsening drinking water
10 supply condition.

11 B. Filing multiple new finance and rate applications for each phase is not cost effective.

12 C. The Phelps Dodge financial settlement has no certitude.

13 D. The hydrogeologic assessment is imperative for Phelps Dodge Settlement.

14 E. The ACC Debt Authorization is not consistent with the WIFA lending.

15 F. Staff removed wells from plant in service and the associated accumulated depreciation
16 from wells that were never placed in service.

17
18 **Q. Does Staff agree with any of the Company's arguments?**

19 A. No, except for the last issue (Plant in Service). Staff will address each argument
20 separately.

21
22 **Q. Did Staff intend for its recommended loan amount to fund all construction for
23 Naco's projects?**

24 A. No. The purpose of the loan recommended by Staff was to provide funds to address the
25 Company's first priority construction project - correcting its water loss problem.

1 **Q. Could correction of the Company's water loss problem impact the Company's other**
2 **planned construction projects?**

3 A. Yes, it could. Resolving the water loss problem may allow the Company to avoid or defer
4 the need to obtain new sources of water.

5
6 **Q. Did Staff base its recommended loan amount on the cost effectiveness of filing new**
7 **finance and rate applications for each phase?**

8 A. No, Staff did not.

9
10 **Q. What traditional ratemaking principles did Staff utilize in determining its**
11 **recommended loan amount?**

12 A. Staff utilized the principles of gradualism and affordability.

13
14 **Q. What is the median income for residents in the Naco service area?**

15 A. The median income for a household in Cochise County, Arizona is \$32,105.
16 Approximately 13.5 percent of the families and 17.7 percent of the population fall below
17 the poverty line.

18
19 **Q. Would Staff's recommended loan result in more affordable rates than would the**
20 **Company proposed \$2.5 million loan?**

21 A. Yes, it would. Perhaps the most important aspect of this analysis that has been ignored by
22 the Company, is the impact of dramatically raising the rates on the customers.

23
24 Based on the Company's bill count, the median usage in gallons for a 5/8-inch meter
25 customer is 5,272. Based on the median usage of 5,272 gallons, the typical monthly bill
26 for a 5/8-inch customer with the emergency surcharges included is \$39.01. Staff is

1 recommending increasing the typical 5/8-inch monthly bill to \$55.27 to accommodate the
2 \$450,000 loan. This is already a \$16.26, or a 42 percent increase over the current rates.
3 Using the Company's proposed rates, the typical monthly bill for a 5/8-inch customer
4 would be \$83.58, which is a \$44.57, or a 114% increase over the current rates as shown on
5 Staff's Surrebuttal Schedule JMM-19.
6

7 **Q. Does Staff agree that the Phelps Dodge Financial Settlement has no certitude?**

8 A. No, Staff agrees with the Company that there is uncertainty concerning the amount, if any,
9 that Phelps Dodge will provide for construction projects. However, it is unfair to
10 customers to place all of the risk that "Phelps Dodge will never pay" in Staff's
11 recommended rates. Further, Staff recognizes that the Company may take approximately
12 a year or longer to use the proceeds from Staff's recommended loan to correct the water
13 problems. During that time, the Company and Phelps Dodge may enter into some type of
14 an agreement.
15

16 **Q. Is Staff aware of any other water utility that has received funds from Phelps Dodge
17 to address its water problems?**

18 A. Yes, Community Water of Green Valley ("Community Water") has received funds from
19 Phelps Dodge to address the water problems caused by Phelps Dodge mining operations.
20 Community Water spends its own money to correct the problems and is reimbursed by
21 Phelps Dodge for some or all of the projects' cost. Community Water projects to receive
22 reimbursements of approximately \$14 million from Phelps Dodge.

1 **Q. Why did Staff not include the cost of the hydrogeological assessment in its**
2 **recommended loan amount?**

3 A. Staff based its recommended loan amount on the project identified as the most important
4 by both the Company and Staff - correcting the water loss problem. See Surrebuttal
5 Testimony of Dorothy Hains ("Hains ST").

6
7 **Q. Is Staff's DSC inconsistent with the DSC required by WIFA?**

8 A. No, it is not. Apparently, the Company has misunderstood the meaning of Staff's 1.53
9 DSC. The Company has interpreted Staff's recommendation to require it to maintain a
10 DSC higher than that required by WIFA. The Company also erroneously concludes that
11 with Staff's recommended revenue it could finance more debt than Staff recommended for
12 authorization since the resulting DSC would exceed the minimum DSC of 1.20 required
13 by WIFA. The Company's analysis did not take into account the reserve payment
14 requirement WIFA imposes on the debt that must be paid from the Company's operating
15 income.

16
17 **Q. WIFA requires a DSC ratio of 1.20 to facilitate WIFA lending, why is Staff's DSC**
18 **ratio at 1.53?**

19 A. Staff set the DSC ratio at 1.53 because the DSC ratio did not reflect additional WIFA
20 expenses such as the reserve fund and annual repair and maintenance fund. When these
21 additional cash obligations are added to the DSC ratio calculation they produce a DSC
22 ratio of 1.20. Therefore Staff is not imposing a higher DSC ratio. These changes are
23 reflected in Column C, line 6 of Staff's Surrebuttal Schedules JMM-16 and JMM-17.

1 **Q. Does Staff agree that ACC debt authorization is not consistent with WIFA Lending?**

2 A. No, Staff does not. Staff's calculation of its recommended loan and DSC is consistent
3 with WIFA's.

4
5 **Q. What interest rate did Staff utilize in its analysis?**

6 A. Staff's analysis used the most current interest rates in effect at this time, 5.60 percent.

7
8 **Q. Is this consistent with how WIFA calculates its interest rates?**

9 A. Yes, WIFA uses the prime rate plus 2 percent or a maximum of 8 percent. In this case
10 Staff used the maximum of 8 percent times the WIFA subsidy rate of .70 to derive an
11 interest rate of 5.60 percent over a 20-year period.

12
13 **Q. Could the interest rate change before the WIFA board authorizes the financing?**

14 A. Yes. WIFA representatives have conveyed to Staff that the interest rate is decided on a
15 case by case basis.

16
17 **Q. Why did Staff present alternate financing amounts?**

18 A. WIFA has in place certain rules which allow hardship cases to qualify for zero percent
19 interest loans. The purpose is to allow the WIFA board to have more flexibility when
20 authorizing a loan amount. In this case, the WIFA board can authorize a \$750,000 loan at
21 zero percent for 20 years if the Company qualifies for a hardship case, or a \$450,000 loan
22 at approximately 5.6 percent over 20 years.

23
24 **Q. Does Staff agree with the Company on the plant in service issues?**

25 A. Yes, Staff has reviewed a lease agreement between the Company and Southern Pacific
26 Railroad dated June 8, 1964, regarding well # 4, and agrees with the Company that it does

1 not own the well, and therefore agrees with the Company that it was never put into plant
2 in service and therefore cannot be taken out of plant in service. In regards, to well # 3 and
3 # 5 never being put into plant in service, the Company contends there are no records of the
4 wells being put into plant in service. As the total amount removed for both wells and the
5 associated depreciation is only \$2,375, and the inclusion or removal of these wells will
6 have a de minimis effect on rate base, Staff will not remove these two wells. Staff will
7 rely on the Company's rebuttal testimony that these two wells were never included in
8 plant in service. These changes are reflected on surrebuttal schedule JMM-6.
9

10 **Q. Would Staff please provide a brief recap of its surrebuttal testimony?**

11 A. The Company's engineering firm and Staff have agreed that water loss is the number one
12 concern at present and that it should be corrected immediately. At this point it is still
13 unclear whether the Company will receive any financial assistance from Phelps Dodge.
14 Therefore, Staff finds it imprudent to pass on the cost to develop new sources of water
15 supply to ratepayers who will already be experiencing rate shock. Most importantly, the
16 customers have been left out of the Company's equation, and are the ones who will be
17 paying for the system upgrades not the Company's engineering firm nor the Company.
18 Staff's recommended WIFA loan amount of \$450,000 (or \$750,000 assuming a zero
19 interest loan) will address the water loss problem while balancing the economic burden to
20 customers.
21

22 **Q. Does this conclude your surrebuttal testimony?**

23 A. Yes, it does.

Naco Water Company, LLC.
 Docket Nos. W-02860A-06-0002 and
 W-02860A-05-0727
 Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 658,312	\$ 637,938
2	Adjusted Operating Income (Loss)	\$ (12,757)	\$ (22,553)
3	Current Rate of Return (L2 / L1)	-1.94%	-3.54%
4	Required Rate of Return	30.55%	16.26%
5	Required Operating Income (L4 * L1)	\$ 201,142	\$ 103,729
6	Operating Income Deficiency (L5 - L2)	\$ 213,899	\$ 126,282
7	Gross Revenue Conversion Factor	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	\$ 213,899	\$ 126,282
9	Adjusted Test Year Revenue	\$ 175,673	\$ 159,429
10	Proposed Annual Revenue (L8 + L9)	\$ 389,572	\$ 285,711
11	Required Increase in Revenue (%)	121.76%	79.21%
12	Rate of Return	30.55%	16.26%

References:

Column (A): Company Schedules from the Rate Application
 Column (B): Staff Schedules JMM-2, JMM-7

Naco Water Company, LLC.
 Docket Nos. W-02860A-06-0002 and
 W-02860A-05-0727
 Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-2

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 985,549		\$ 980,982
2	Less: Accumulated Depreciation	315,377	Adj no. 2 & 3	312,688
3	Net Plant in Service	\$ 670,172	Adj no. 3	\$ 668,294
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 21,719		\$ 21,719
8	Customer Deposits	8,638		8,638
9	Deferred Income Tax Credits	-		-
<u>ADD:</u>				
10	1/24 Power	443	(443) Adj no. 1	-
11	1/8 Operations & Maintenance	18,053	(18,053) Adj no. 1	-
17	Original Cost Rate Base	<u>\$ 658,312</u>	<u>\$ (20,374)</u>	<u>\$ 637,938</u>

References:

Column (A), Company Schedule from the Rate Application
 Column (B): Schedule JMM-3
 Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>							
1							
2	301	Organization	\$ 198	\$ -	\$ -	\$ -	\$ 198
3	302	Franchises	-	-	-	-	-
4	303	Land and Land Rights	4,345	-	-	-	4,345
5	304	Structures & Improvements	5,918	-	-	-	5,918
6	305	Collecting & Impounding Reservoirs	-	-	-	-	-
7	306	Lakes, Rivers, Other Intakes	-	-	-	-	-
8	307	Wells and Springs	77,391	-	(38)	(2,689)	74,664
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-
11	310	Power Generation Equipment	-	-	-	-	-
12	311	Pumping Equipment	132,579	-	(20)	-	132,559
13	320	Water Treatment Plant	1,971	-	(147)	-	1,824
14	330	Distribution Reservoirs & Standpipes	136,659	-	(1,245)	-	135,414
15	331	Transmission & Distribution Mains	513,601	-	(416)	-	513,185
16	333	Services	37,950	-	-	-	37,950
17	334	Meters	28,060	-	-	-	28,060
18	335	Hydrants	34,717	-	-	-	34,717
19	336	Backflow Prevention Devices	-	-	-	-	-
20	339	Other Plant & Misc. Equipment	-	-	-	-	-
21	340	Office Furniture & Equipment	9,202	-	-	-	9,202
22	341	Transportation Equipment	-	-	-	-	-
23	342	Stores Equipment	-	-	-	-	-
24	343	Tools, Ship & Garage Equipment	140	-	(12)	-	128
25	344	Laboratory Equipment	-	-	-	-	-
26	345	Power Operated Equipment	2,818	-	-	-	2,818
27	346	Communication Equipment	-	-	-	-	-
28	347	Miscellaneous Equipment	-	-	-	-	-
29	348	Other Tangible Plant	-	-	-	-	-
30			985,549	-	(1,878)	(2,689)	980,982
31							
32	Add:						
33		Post Test Year Plant	-	-	-	-	-
34		General Office Plant Allocation	-	-	-	-	-
35	Less:						
36			-	-	-	-	-
37			-	-	-	-	-
38							
39		Total Plant in Service	\$ 985,549	\$ -	\$ (1,878)	\$ (2,689)	980,982
40		Less: Accumulated Depreciation	315,377	-	-	(2,689)	312,688
41		Accumulated Depreciation - General Office Plant Allocation	-	-	-	-	-
42		Net Plant in Service	\$ 670,172	\$ -	\$ (1,878)	\$ -	\$ 668,294
43							
44		<u>LESS:</u>					
45		Contributions in Aid of Construction (CIAC) (Less Amortization of CIAC)	\$ 21,719	\$ -	\$ -	\$ -	\$ 21,719
46		Customer Meter Deposits	8,638	-	-	-	8,638
47		Deferred Income Tax Credits	-	-	-	-	-
48							
49		<u>ADD:</u>					
50		1/24 Power	443	(443)	-	-	-
51		1/8 Operations & Maintenance	18,053	(18,053)	-	-	-
52							
53		Original Cost Rate Base	\$ 658,312	\$ (18,496)	\$ (1,878)	\$ -	\$ 637,938

ADJ #	References
1	Removal of Allowance for Cash Working Capital Schedule JMM-4
2	Removal of Plant in Service Surcharge Schedule JMM-5
3	Removal of Plant in Service and Accumulated Depreciation Schedule JMM-6

Naco Water Company, LLC.
 Docket Nos. W-02860A-06-0002 and
 W-02860A-05-0727
 Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-4

RATE BASE ADJUSTMENT NO. 1 - REMOVAL OF ALLOWANCE FOR CASH WORKING CAPITAL

Line No.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Cash Working Capital (1/8 of allowance operation and maintenance expense)	\$ 443	\$ (443)	\$ -
2	Cash Working Capital (1/24/ of Power)	\$ 18,053	\$ (18,053)	\$ -

References:
 Column A: Company Schedule from the Rate Application
 Column B: Testimony, Schedule JMM-3
 Column C: Column [A] + Column [B]

Naco Water Company, LLC.
 Docket Nos. W-02860A-06-0002 and
 W-02860A-05-0727
 Test Year Ended December 31, 2005

Surrebuttal Schedule JMM-5

RATE BASE ADJUSTMENT NO. 2 - REMOVAL OF PLANT IN SERVICE SURCHARGE

Line No.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Removal of Surcharge related to Wells and Springs (Account 307)	\$ 77,391	\$ (38)	\$ 77,353
2	Removal of Surcharge related to Water Treatment Plant (Account 320)	\$ 1,971	\$ (147)	\$ 1,824
3	Removal of Surcharge related to Distribution Reservoirs and Standpipes (Account 330)	\$ 136,659	\$ (1,245)	\$ 135,414
4	Removal of Surcharge related to Transmission and Distribution Mains (Account 331)	\$ 513,601	\$ (416)	\$ 513,185
5	Removal of Surcharge related to Tools, Shop and Garage Equipment (Account 343)	\$ 140	\$ (12)	\$ 128
6	Removal of Surcharge related to Pumps (Account 311)	\$ 132,579	\$ (20)	\$ 132,559

References:

Column A: Company Schedule from the Rate Application
 Column B: Testimony, Schedule JMM-3
 Column C: Column [A] + Column [B]

Naco Water Company, LLC.
 Docket Nos. W-02860A-06-0002 and
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Surrebuttal Schedule JMM-6

RATE BASE ADJUSTMENT NO. 3 - REMOVAL OF PLANT IN SERVICE AND ACCUMULATED DEPRECIATION

Line No.	Description	(A)	(B)	(C)	(D)
		COMPANY AS FILED	STAFF ADJUSTMENTS	LESS: STAFF ADJUSTMENT NO. 2	STAFF AS ADJUSTED
1	Removal of Plant in Service	\$ 77,391	\$ (2,689)	\$ (38)	\$ 74,664
2	Removal of Accumulated Depreciation	\$ 315,377	\$ (2,689)	\$ -	\$ 312,688
<u>Staff's calculation from the Engineering Report</u>					
3	Removal of plant in service for Well # 1 due to abandonment	\$ 1,124			
4	Removal of plant in service for Well # 2 due to abandonment	1,565			
8	Total amount removed from plant in service	\$ 2,689			

References:

Column A: Company Schedule from the Rate Application
 Column B: Testimony, Schedule JMM-3
 Column C: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	REF	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	REVENUES:						
2	Metered Water Sales	\$ 173,620	\$ (16,244)	Adj. no. 1	\$ 157,376	\$ 126,282	\$ 283,658
3	Water Sales - Unmetered	-	-		-	-	-
4	Other Operating Revenue	2,053	-		2,053	-	2,053
5	Total Operating Revenues	<u>\$ 175,673</u>	<u>\$ (16,244)</u>		<u>\$ 159,429</u>	<u>\$ 126,282</u>	<u>\$ 285,711</u>
6	OPERATING EXPENSES:						
7	Salaries and Wages	\$ 15,758	\$ -		\$ 15,758	\$ -	\$ 15,758
10	Purchased Water	-	-		-	-	-
11	Purchased Power	10,638	-		10,638	-	10,638
13	Chemicals	1,780	-		1,780	-	1,780
14	Repairs and Maintenance	18,691	-		18,691	-	18,691
15	Office Supplies and Expense	4,497	-		4,497	-	4,497
16	Outside Services	58,429	(1,870)	Adj. no. 2	54,559	-	54,559
17	Water Testing	3,600	6,230	Adj. no. 3	9,830	-	9,830
18	Rents	2,400	-		2,400	-	2,400
19	Transportation Expenses	5,969	-		5,969	-	5,969
20	Insurance - General Liability	3,312	-		3,312	-	3,312
21	Insurance - Health and Life	2,373	-		2,373	-	2,373
22	Regulatory Commission Expense - Rate Case	5,319	(2,196)	Adj. no. 4	3,123	-	3,123
23	Miscellaneous Expense	13,973	(13,973)	Adj. no. 7	-	-	-
24	Depreciation Expense	33,368	2,859	Adj. no. 5	36,227	-	36,227
25	Taxes Other Than Income	-	-		-	-	-
26	Property Taxes	10,323	2,502	Adj. no. 6	12,825	-	12,825
27	Income Tax	-	-		-	-	-
40							
41	Total Operating Expenses	<u>\$ 188,430</u>	<u>\$ (6,448)</u>		<u>\$ 181,982</u>	<u>\$ -</u>	<u>\$ 181,982</u>
42	Operating Income (Loss)	<u>\$ (12,757)</u>	<u>\$ (9,796)</u>		<u>\$ (22,553)</u>	<u>\$ 126,282</u>	<u>\$ 103,729</u>
43							
44	Other Income (Expense)						
45	Interest Income	\$ 374	\$ -		\$ 374	\$ -	\$ 374
46	Non-Utility Income	175	-		175	-	175
47	Non-Utility Expense	-	-		-	-	-
48	Interest Expense	(3,516)	(13,973)	Adj. no. 7	(17,489)	-	(17,489)
49	Total Other Income (Expense)	<u>\$ (2,967)</u>	<u>(13,973)</u>		<u>\$ (16,940)</u>	<u>\$ -</u>	<u>\$ (16,940)</u>
50							
51	Net Income (Loss)	<u>\$ (15,724)</u>	<u>\$ (23,769)</u>		<u>\$ (39,493)</u>	<u>\$ 126,282</u>	<u>\$ 86,789</u>

References:

Column (A): Company Schedule from the Rate Application
Column (B): Schedule JMM-8
Column (C): Column (A) + Column (B)
Column (D): Schedule JMM-1
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Removal of all Revenue Surcharges ADJ #1	(C) Reclassification of Outside Services ADJ #2	(D) Water Testing ADJ #3	(E) Rate Case ADJ #4	(F) Deprec. Exp ADJ #5	(G) Property Tax ADJ #6	(H) Reclassification of Misc. Exp ADJ #7	(I) STAFF ADJUSTED
1	REVENUES:									
2	Metered Water Sales	\$ 173,620	\$ (16,244)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 157,376
3	Water Sales - Unmetered	2,053	-	-	-	-	-	-	-	2,053
4	Other Operating Revenue	-	-	-	-	-	-	-	-	-
5	Total Operating Revenues	\$ 175,673	\$ (16,244)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 159,429
6	OPERATING EXPENSES:									
7	Salaries and Wages	\$ 15,758	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,758
8	Purchased Water	-	-	-	-	-	-	-	-	-
9	Purchased Power	10,638	-	-	-	-	-	-	-	10,638
10	Chemicals	1,780	-	-	-	-	-	-	-	1,780
11	Repairs and Maintenance	18,691	-	-	-	-	-	-	-	18,691
12	Office Supplies and Expense	4,497	-	-	-	-	-	-	-	4,497
13	Outside Services	56,429	-	(1,870)	-	-	-	-	-	54,559
14	Water Testing	3,600	-	-	6,230	-	-	-	-	2,400
15	Rents	2,400	-	-	-	-	-	-	-	2,400
16	Transportation Expenses	5,989	-	-	-	-	-	-	-	5,989
17	Insurance - General Liability	3,312	-	-	-	-	-	-	-	3,312
18	Insurance - Health and Life	2,373	-	-	-	-	-	-	-	2,373
19	Regulatory Commission Expense - Rate Case	5,319	-	-	-	(2,196)	-	-	-	3,123
20	Miscellaneous Expense	13,973	-	-	-	-	-	-	(13,973)	36,227
21	Depreciation Expense	33,368	-	-	-	-	2,859	-	-	36,227
22	Taxes Other Than Income	-	-	-	-	-	-	2,502	-	12,825
23	Property Taxes	10,323	-	-	-	-	-	-	-	10,323
24	Income Tax	-	-	-	-	-	-	-	-	-
25	Total Operating Expenses	\$ 188,430	\$ -	\$ (1,870)	\$ 6,230	\$ (2,196)	\$ 2,859	\$ 2,502	\$ (13,973)	\$ 181,982
26	Operating Income (Loss)	\$ (12,757)	\$ (16,244)	\$ 1,870	\$ (6,230)	\$ 2,196	\$ (2,859)	\$ (2,502)	\$ 13,973	\$ (22,553)
27	OTHER INCOME/(EXPENSE)									
28	Interest and Dividend Income	\$ 374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 374
29	Non-Utility Income	175	-	-	-	-	-	-	-	175
30	Non-Utility Expense	-	-	-	-	-	-	-	-	-
31	Interest Expense	(3,516)	-	-	-	-	-	-	-	(17,489)
32	Total Other Income/(Expense)	\$ (2,967)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (13,973)	\$ (16,940)
33	Net Income/(Loss)	\$ (15,724)	\$ (16,244)	\$ 1,870	\$ (6,230)	\$ 2,196	\$ (2,859)	\$ (2,502)	\$ 13,973	\$ (39,483)

ADJ #	Description	References
1	Removal of all Revenue Surcharges	Schedule JMM-9
2	Reclassification of Outside Services	Schedule JMM-10
3	Water Testing Expense	Schedule JMM-11
4	Rate Case Expense	Schedule JMM-12
5	Depreciation Expense	Schedule JMM-13
6	Property Taxes	Schedule JMM-14
7	Reclassification of Miscellaneous Expense	Schedule JMM-15

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Surrebuttal Schedule JMM-9

OPERATING INCOME ADJUSTMENT NO. 1 - REMOVAL OF ALL REVENUE SURCHARGES

Line No.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Metered Water Sales	\$ 173,620	\$ (16,244)	\$ 157,376
<u>Staff's Calculation</u>				
2	Removal of \$ 1.16 Surcharge from ACC Decision # 61070 related to the current Wifa Loan	\$ 4,427		
3	Removal of all Surcharge Amounts for the Month of August from ACC Decision # 67984	\$ 1,774		
4	Removal of all Surcharge Amounts for the Month of September through December from ACC Decision # 67984	\$ 10,043		
5	Total of all Surcharges	\$ 16,244		

References:

Column A: Company Schedule from the Rate Application
 Column B: Testimony, Schedule JMM-9
 Column C: Column [A] + Column [B]

Naco Water Company, LLC.
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Surrebuttal Schedule JMM-10

OPERATING INCOME ADJUSTMENT NO. 2 - RECLASSIFICATION OF OUTSIDE SERVICES TO RATE CASE EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Outside Services	\$ 56,429	\$ (1,870)	\$ 54,559
2	Reclassification of expenses included in outside services that should be included in rate case expense.	\$ 1,870		

References:

Column A: Company Schedule from the Rate Application
Column B: Testimony, Schedule JMM-9
Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-11

OPERATING INCOME ADJUSTMENT NO. 3 - WATER TESTING EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Water testing expense	\$ 3,600	\$ 6,230	\$ 9,830
2	Staff's recommended water testing expense from the Engineering Report.	\$ 9,830		

References:

Column A: Company Schedule from the Rate Application

Column B: Testimony, Schedule JMM-9

Column C: Column [A] + Column [B]

Naco Water Company, LLC.
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Surrebuttal Schedule JMM-12

OPERATING INCOME ADJUSTMENT NO. 4 - RATE CASE EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rate case expense	\$ 5,319	\$ (2,196)	\$ 3,123
	<u>Staff's calculation</u>			
2	Rate Case Expense	\$ 5,319		
3	Plus: Reclassification of Outside Services (See Adj no. 2)	\$ 1,870		
4	Plus: Amounts spent after 12/31/05	\$ 2,180		
5	Total Rate Case Expense	\$ 9,369		
5	Divided by the estimated amortization period in years	3		
6	Annual Rate Case Expense	\$ 3,123		
7	Company proposed rate case expense	\$ 5,319		
8	Adjustment to rate case expense	\$ (2,196)		

References:

Column A: Company Schedule from the Rate Application
 Column B: Testimony, Schedule JMM-9
 Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-13

OPERATING INCOME ADJUSTMENT NO. 5 - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	AMOUNT	Projected RATE	EXPENSE
Plant In Service					
1	301	Organization	\$ 198	0.00%	\$ -
2	302	Franchises	-	0.00%	-
3	303	Land and Land Rights	4,345	0.00%	-
4	304	Structures & Improvements	5,918	3.33%	197
5	305	Collecting & Impounding Reservoirs	-	2.50%	-
6	306	Lakes, Rivers, Other Intakes	-	2.50%	-
7	307	Wells and Springs	74,664	3.33%	2,486
8	308	Infiltration Galleries and Tunnels	-	6.67%	-
9	309	Supply Mains	-	2.00%	-
10	310	Power Generation Equipment	-	5.00%	-
11	311	Pumping Equipment	132,559	12.50%	16,570
12	320	Water Treatment Plant	1,824	3.33%	61
13	330	Distribution Reservoirs & Standpipes	135,414	2.22%	3,006
14	331	Transmission & Distribution Mains	513,185	2.00%	10,264
15	333	Services	37,950	3.33%	1,264
16	334	Meters	28,060	8.33%	2,337
17	335	Hydrants	34,717	2.00%	694
18	336	Backflow Prevention Devices	-	6.67%	-
19	339	Other Plant & Misc. Equipment	-	6.67%	-
20	340	Office Furniture & Equipment	9,202	6.67%	614
21	341	Transportation Equipment	-	20.00%	-
22	342	Stores Equipment	-	4.00%	-
23	343	Tools, Ship & Garage Equipment	128	5.00%	6
24	344	Laboratory Equipment	-	10.00%	-
25	345	Power Operated Equipment	2,818	5.00%	141
26	346	Communication Equipment	-	10.00%	-
27	347	Miscellaneous Equipment	-	10.00%	-
28	348	Other Tangible Plant	-	-	-
29		Subtotal General	\$ 980,982		\$ 37,640
30		Less: Amortization of Contributions	\$ 36,833	3.84%	(1,413)
31		Total Depreciation Expense			\$ 36,227
32		Company Proposed Test Year Depreciation Expense			\$ 33,368
33		Staff Recommended Adjustment to increase Depreciation Expense			\$ 2,859

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Surrebuttal Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 6 - PROPERTY TAXES

Line No.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Property taxes	\$ 10,323	\$ 2,502	\$ 12,825

2 Staff's Calculation of Property Taxes to Reflect Proposed Revenues:

3 Adjusted test year revenues	\$ 159,429
4 Adjusted test year revenues	159,429
5 Proposed revenues	<u>285,711</u>
6 Average of three year's of revenue	\$ 201,523
7 Average of three year's of revenue, times 2	\$ 403,046
8 Full cash value	\$ 403,046
9 Assessment ratio (reflects 2006 and 2007 1/2% reductions in assessment ratio)	<u>24%</u>
10 Assessed value	\$ 96,731
11 Property tax rate	<u>0.1326</u>
12 Property tax	\$ 12,825
13 Tax on parcels	-
14 Staff recommended property tax	<u>\$ 12,825</u>
15 Company proposed property tax expense	\$ 10,323
16 Staff recommended adjustment to property taxes	<u>\$ 2,502</u>

References:

Column A: Company Schedule from the Rate Application
 Column B: Testimony, Schedule JMM-9
 Column C: Column [A] + Column [B]

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Surrebuttal Schedule JMM-15

OPERATING INCOME ADJUSTMENT NO. 7 - RECLASSIFICATION OF MISCELLANEOUS EXPENSE TO INTEREST EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Miscellaneous expense	\$ 13,973	\$ (13,973)	\$ -
2	Interest expense	\$ 3,516	\$ 13,973	\$ 17,489

Staff reclassified miscellaneous expense in the amount of \$13,973 from WIFA as interest expense

References:

- Column A: Company Schedule from the Rate Application
- Column B: Testimony, Schedule JMM-9
- Column C: Column [A] + Column [B]

FINANCIAL ANALYSIS

Selected Financial Information
Pro forma Includes Immediate Effects of the Proposed Long-term Debt

	[A] 12/31/2005 Test Year Operating Revenue Without Loan		[B] 12/31/2005 With Staff Recommended Revenue and Full Amount of Company Proposed Loan \$2,500,000		[C] 12/31/2005 With Staff Recommended Revenue and Staff's Recommended Loan \$450,000	
1	Operating Income	\$ (22,553)	\$ 103,729		\$ 103,729	
2	Depreciation & Amortization Expense	\$ 36,227	\$ 36,227		\$ 36,227	
3	Income Tax Expense	\$ -	\$ -		\$ -	
4	Interest Expense	\$ 16,360 (a)	\$ 154,585 (b)		\$ 41,240 (c)	
5	Principal Repayment	\$ 31,317	\$ 101,155		\$ 43,888	
6	Additional WIFA Requirements				\$ 31,420	
TIER & DSC Calculation						
7	TIER [1+3] + [4]	N/M	0.67		2.52	
8	DSC [1+2+3] + [4+5+6]	0.29	0.55		1.20	
Capital Structure						
9	Short-term Debt	\$ 31,317 (d) 5.42%	\$ 101,156 (e) 3.29%		\$ 43,888 (f) 4.27%	
10	Long-term Debt	\$ 419,296 (g) 72.59%	\$ 2,849,457 (h) 92.59%		\$ 856,725 (i) 83.37%	
11	Equity	\$ 127,026 (j) 21.99%	\$ 127,026 4.13%		\$ 127,026 12.36%	
12	Total Capital	\$ 577,639 100.00%	\$ 3,077,639 100.00%		\$ 1,027,639 100.00%	

(a) WIFA Debt Service Invoice, dated April 17, 2006, for the existing loan shows \$268.28 for interest and \$1,095.04 for the WIFA Management Fee for a total monthly fee of \$1,363.32 or \$16,360 annually.

(b) The pro forma interest expense includes the first year of interest on the Company proposed debt and also includes the interest on the existing loan.

(c) The pro forma interest expense includes the first year of interest on the Staff recommended debt and also includes the interest on the existing loan.

(d) Staff recognized \$17,000 of funds provided by the owner as equity. The Company treats it as a short-term debt. The Company has no reasonable expectation that it will repay the loan. The \$31,317 is the Staff calculated current maturities on the \$450,613 ending loan balance.

(e) Includes \$31,317 in short-term debt and \$69,839 in projected current maturities on \$2.5 million long-term debt.

(f) Includes \$31,317 in short-term debt and \$12,571 in projected current maturities on \$450,000 long-term debt.

(g) The \$419,296 amount reflects the \$450,613 ending balance less projected current maturities on the debt (i.e., \$450,613 - \$31,317).

(h) Includes existing debt of \$419,296 and the balance at the end of the first year (i.e., \$2,430,161) for the 2.5 million in Company proposed debt.

(i) Includes existing debt of \$419,296 and the balance at the end of the first year (i.e., \$437,429) for the \$450,000 in Staff recommended debt.

(j) Includes \$110,026 in equity and \$17,000 that Staff removed from short-term debt.

N/M: Not Meaningful

FINANCIAL ANALYSIS

Selected Financial Information
Pro forma Includes Immediate Effects of the Proposed Long-term Debt

	[A] 12/31/2005 Test Year Operating Revenue <u>Without Loan</u>	[B] 12/31/2005 With Staff Recommended Revenue and Full Amount of Company Proposed Loan <u>\$2,500,000 at zero percent interest</u>	[C] 12/31/2005 With Staff Recommended Revenue and Staff's Recommended Loan <u>\$750,000 at zero percent interest</u>	
1	Operating Income	\$ (22,553)	\$ 103,729	\$ 103,729
2	Depreciation & Amortization Expense	\$ 36,227	\$ 36,227	\$ 36,227
3	Income Tax Expense	\$ -	\$ -	\$ -
4	Interest Expense	\$ 16,360 (a)	\$ 16,360 (b)	\$ 16,360 (c)
5	Principal Repayment	\$ 31,317	\$ 156,317	\$ 68,817
6	Additional WIFA Requirements			\$ 31,652
TIER & DSC Calculation				
7	TIER [1+3] + [4]	N/M	6.34	6.34
8	DSC [1+2+3] + [4+5+6]	0.29	0.81	1.20
Capital Structure				
9	Short-term Debt	\$ 31,317 (d) 5.42%	\$ 156,317 (e) 5.08%	\$ 68,817 (f) 5.18%
10	Long-term Debt	\$ 419,296 (g) 72.59%	\$ 2,794,296 (h) 90.79%	\$ 1,131,796 (i) 85.25%
11	Equity	\$ 127,026 (j) 21.99%	\$ 127,026 4.13%	\$ 127,026 9.57%
12	Total Capital	\$ 577,639 100.00%	\$ 3,077,639 100.00%	\$ 1,327,639 100.00%

(a) WIFA Debt Service Invoice, dated April 17, 2006, for the existing loan shows \$268.28 for interest and \$1,095.04 for the WIFA Management Fee for a total monthly fee of \$1,363.32 or \$16,360 annually.

(b) The pro forma interest expense includes zero interest on the Company proposed debt and also includes interest on the existing loan.

(c) The pro forma interest expense includes zero interest on the Staff recommended debt and also includes interest on the existing loan.

(d) Staff recognized \$17,000 of funds provided by the owner as equity. The Company treats it as a short-term debt. The Company has no reasonable expectation that it will repay the loan. The \$31,317 is the Staff calculated current maturities on the \$450,613 ending loan balance.

(e) Includes \$31,317 in short-term debt and \$125,000 in projected current maturities on \$2.5 million long-term debt.

(f) Includes \$31,317 in short-term debt and \$37,500 in projected current maturities on \$800,000 long-term debt.

(g) The \$419,296 amount reflects the \$450,613 ending balance less projected current maturities on the debt (i.e., \$450,613 - \$31,317).

(h) Includes existing debt of \$419,296 and the balance at the end of the first year (i.e., \$2,375,000) for the 2.5 million in Company proposed debt.

(i) Includes existing debt of \$419,296 and the balance at the end of the first year (i.e., \$712,500) for the \$800,000 in Staff recommended debt.

(j) Includes \$110,026 in equity and \$17,000 that Staff removed from short-term debt.

N/M: Not Meaningful

RATE DESIGN

	Present Rates	Company Proposed Rates	Staff Recommended Rates
Monthly Usage Charge			
5/8" Meter - All Classes	\$ 16.43	\$ 56.00	\$ 29.00
3/4" Meter - All Classes	16.43	56.00	29.00
1" Meter - All Classes	31.48	63.00	56.00
1½" Meter - All Classes	41.43	69.00	74.00
2" Meter - All Classes	48.30	74.00	87.00
3" Meter - All Classes	160.00	180.00	180.00
4" Meter - All Classes	260.00	285.00	285.00
6" Meter - All Classes	510.00	640.00	600.00
Commodity Rates			
5/8" Meter (Residential)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons	\$ 2.83	N/A	N/A
Over 10,000 Gallons	4.18	N/A	N/A
From 1 to 3,000 Gallons	N/A	\$ 4.80	N/A
From 3,001 to 10,000 Gallons	N/A	5.80	N/A
Over 10,000 Gallons	N/A	6.75	N/A
From 1 to 3,000 Gallons	N/A	N/A	\$ 4.10
From 3,000 to 9,000 Gallons	N/A	N/A	6.15
Over 9,000 Gallons	N/A	N/A	7.38
5/8" Meter (Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons	\$ 2.83	N/A	N/A
Over 10,000 Gallons	4.18	N/A	N/A
From 1 to 3,000 Gallons	N/A	4.80	N/A
From 3,001 to 10,000 Gallons	N/A	\$ 5.80	N/A
Over 10,000 Gallons	N/A	6.75	N/A
From 1 to 9,000 Gallons	N/A	N/A	\$ 6.15
Over 9,000 Gallons	N/A	N/A	7.38
3/4" Meter (Residential)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons	\$ 2.83	N/A	N/A
Over 10,000 Gallons	4.18	N/A	N/A
From 1 to 3,000 Gallons	N/A	\$ 4.80	N/A
From 3,001 to 10,000 Gallons	N/A	5.80	N/A
Over 10,000 Gallons	N/A	6.75	N/A
From 1 to 3,000 Gallons	N/A	N/A	\$ 4.10
From 3,000 to 9,000 Gallons	N/A	N/A	6.15
Over 9,000 Gallons	N/A	N/A	7.38
3/4" Meter (Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons	\$ 2.83	N/A	N/A
Over 10,000 Gallons	4.18	N/A	N/A
From 1 to 3,000 Gallons	N/A	4.80	N/A
From 3,001 to 10,000 Gallons	N/A	\$ 5.80	N/A
Over 10,000 Gallons	N/A	6.75	N/A
From 1 to 9,000 Gallons	N/A	N/A	\$ 6.15
Over 9,000 Gallons	N/A	N/A	7.38
1" Meter (Residential & Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons	\$ 2.83	N/A	N/A
Over 10,000 Gallons	4.18	N/A	N/A
From 1 to 3,000 Gallons	N/A	\$ 4.80	N/A

	Present Rates	Company Proposed Rates	Staff Recommended Rates
From 3,001 to 10,000 Gallons	N/A	5.80	N/A
Over 10,000 Gallons	N/A	6.75	N/A
From 1 to 18,000 Gallons	N/A	N/A	\$ 6.15
Over 18,000 Gallons	N/A	N/A	7.38
1½" Meter (Residential & Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons	\$ 2.83	N/A	N/A
Over 10,000 Gallons	4.18	N/A	N/A
From 1 to 3,000 Gallons	N/A	\$ 4.80	N/A
From 3,001 to 10,000 Gallons	N/A	5.80	N/A
Over 10,000 Gallons	N/A	6.75	N/A
From 1 to 30,000 Gallons	N/A	N/A	\$ 6.15
Over 30,000 Gallons	N/A	N/A	7.38
2" Meter (Residential & Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons	\$ 2.83	N/A	N/A
Over 10,000 Gallons	4.18	N/A	N/A
From 1 to 3,000 Gallons	N/A	\$ 4.80	N/A
From 3,001 to 10,000 Gallons	N/A	5.80	N/A
Over 10,000 Gallons	N/A	6.75	N/A
From 1 to 35,000 Gallons	N/A	N/A	\$ 6.15
Over 35,000 Gallons	N/A	N/A	7.38
3" Meter (Residential & Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons	\$ 2.83	N/A	N/A
Over 10,000 Gallons	4.18	N/A	N/A
From 1 to 3,000 Gallons	N/A	\$ 4.80	N/A
From 3,001 to 10,000 Gallons	N/A	5.80	N/A
Over 10,000 Gallons	N/A	6.75	N/A
From 1 to 100,000 Gallons	N/A	N/A	\$ 6.15
Over 100,000 Gallons	N/A	N/A	7.38
4" Meter (Residential & Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 133,000 Gallons	\$ 2.83	N/A	N/A
Over 133,000 Gallons	4.18	N/A	N/A
From 1 to 3,000 Gallons	N/A	\$ 4.80	N/A
From 3,001 to 10,000 Gallons	N/A	5.80	N/A
Over 10,000 Gallons	N/A	6.75	N/A
From 1 to 150,000 Gallons	N/A	N/A	\$ 6.15
Over 150,000 Gallons	N/A	N/A	7.38
6" Meter (Residential & Commercial)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
From 1 to 267,000 Gallons	\$ 2.83	N/A	N/A
Over 267,000 Gallons	4.18	N/A	N/A
From 1 to 3,000 Gallons	N/A	\$ 4.80	N/A
From 3,001 to 10,000 Gallons	N/A	5.80	N/A
Over 10,000 Gallons	N/A	6.75	N/A
From 1 to 300,000 Gallons	N/A	N/A	\$ 6.15
Over 300,000 Gallons	N/A	N/A	7.38
Service Line and Meter Installation Charges			
5/8" Meter	\$ 400	\$ 450	\$ 450
3/4" Meter	400	475	475
1" Meter	500	550	550
1½" Meter	715	775	775
2" Meter	1,305	1,375	1,375
3" Meter	1,815	1,975	1,975
4" Meter	2,860	3,040	3,040
6" Meter	5,275	5,635	5,635

Naco Water Company, LLC.
Docket Nos. W-02860A-06-0002 and W-02860A-05-0727
Test Year Ended December 31, 2005

	Present Rates	Company Proposed Rates	Staff Recommended Rates
Service Charges			
Establishment	\$ 25.00	\$ 35.00	\$ 30.00
Establishment (After Hours)	30.00	45.00	40.00
Reconnection (Delinquent)	25.00	35.00	30.00
Reconnection (After Hours)	-	45.00	40.00
Meter Test	30.00	45.00	30.00
Deposit Requirement (Residential)	*	*	*
Deposit Requirement (None Residential Meter)	*	*	*
Deposit Interest	*	*	*
Re-Establishment (With-in 12 Months)	**	**	**
Re-Establishment (After Hours)	**	**	**
NSF Check	15.00	20.00	20.00
Deferred Payment, Per Month	1.5 % of Outstanding balance	1.5 % of Outstanding balance	1.5 % of Outstanding balance
Meter Re-Read	10.00	15.00	15.00
Charge of Moving Customer Meter - Customer Requested per Rule R14-2-405B	Cost	Cost	Cost

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

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

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5).

Typical Bill Analysis
 General Service 5/8-Inch Meter

Company Proposed	Gallons	Present Rates	Present Rates with Surcharges	Proposed or Recommended Rates	Dollar Increase without Surcharge	Dollar Increase with Surcharge	Percent Increase without Surcharge	Present Rate Increase with Surcharge
Average Usage	6,585	\$35.07	\$42.73	\$91.19	\$56.13	\$48.47	160.06%	113.44%
Median Usage	5,272	31.35	39.01	83.58	52.23	44.57	166.60%	114.25%
Staff Recommended								
Average Usage	6,585	\$35.07	\$42.73	\$63.35	\$28.28	\$20.62	80.66%	48.27%
Median Usage	5,272	31.35	39.01	55.27	23.92	16.26	76.31%	41.69%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase	% Staff increase with Surcharges
-	\$16.43	\$56.00	240.84%	\$29.00	76.51%	20.38%
1,000	19.26	60.80	215.68%	33.10	71.86%	22.96%
2,000	22.09	65.60	196.97%	37.20	68.40%	25.04%
3,000	24.92	70.40	182.50%	41.30	65.73%	26.76%
4,000	27.75	76.20	174.59%	47.45	70.99%	34.00%
5,000	30.58	82.00	168.15%	53.60	75.28%	40.17%
6,000	33.41	87.80	162.80%	59.75	78.84%	45.48%
7,000	36.24	93.60	158.28%	65.90	81.84%	50.11%
8,000	39.07	99.40	154.42%	72.05	84.41%	54.18%
9,000	41.90	105.20	151.07%	78.20	86.63%	57.79%
10,000	44.73	111.00	148.16%	85.58	91.33%	63.35%
11,000	48.91	117.75	140.75%	92.96	90.06%	64.33%
12,000	53.09	124.50	134.51%	100.34	89.00%	65.17%
13,000	57.27	131.25	129.18%	107.72	88.09%	65.90%
14,000	61.45	138.00	124.57%	115.10	87.31%	66.55%
15,000	65.63	144.75	120.55%	122.48	86.62%	67.12%
16,000	69.81	151.50	117.02%	129.86	86.02%	67.63%
17,000	73.99	158.25	113.88%	137.24	85.48%	68.08%
18,000	78.17	165.00	111.08%	144.62	85.01%	68.50%
19,000	82.35	171.75	108.56%	152.00	84.58%	68.87%
20,000	86.53	178.50	106.29%	159.38	84.19%	69.21%
25,000	107.43	212.25	97.57%	196.28	82.71%	70.54%
30,000	128.33	246.00	91.69%	233.18	81.70%	71.47%
35,000	149.23	279.75	87.46%	270.08	80.98%	72.15%
40,000	170.13	313.50	84.27%	306.98	80.44%	72.66%
45,000	191.03	347.25	81.78%	343.88	80.01%	73.07%
50,000	211.93	381.00	79.78%	380.78	79.67%	73.40%
75,000	316.43	549.75	73.74%	565.28	78.64%	74.42%
100,000	420.93	718.50	70.69%	749.78	78.12%	74.94%