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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

DOCKETED

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

NOV -7 2006

DOCKETED BY	nr
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IN THE MATTER OF THE APPLICATION OF LAS QUINTAS SERENAS WATER CO. FOR A RATE INCREASE.

DOCKET NO. W-01583A-04-0178

IN THE MATTER OF THE APPLICATION OF LAS QUINTAS SERENAS WATER CO. FOR AUTHORITY TO INCUR LONG-TERM INDEBTEDNESS TO FINANCE WATER SYSTEM IMPROVEMENTS AND ASSURE COMPLIANCE WITH NEW ARSENIC RULES.

DOCKET NO. W-01583A-05-0326

IN THE MATTER OF THE APPLICATION OF LAS QUINTAS SERENAS WATER CO. FOR AN OPINION AND ORDER TO (i) RE-OPEN THE RECORD IN A RECENT RATE CASE SO AS TO CONSIDER EVIDENCE IN SUPPORT OF AN ARSENIC COST RECOVERY MECHANISM, AND (ii) MODIFY RATE CASE DECISION IN ORDER TO ADD AN ARSENIC COST RECOVERY MECHANISM AS AN AUTHORIZED RATE AND CHARGE.

DOCKET NO. W-01583A-05-0340

COMPLIANCE FILING AND REQUEST FOR APPROVAL OF PROPOSED SURCHARGE

Pursuant to the Second Ordering Paragraph of Decision No. 68718, as issued by the Commission on June 1, 2006 in the above-captioned and consolidated matters, Las Quintas Serenas Water Co. ("LQS") hereby submits its proposed Arsenic Cost Recovery Mechanism ("ACRM") Surcharge. The \$1,586,446 loan from the Arizona Water Infrastructure Financing

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1  
2 Authority ("WIFA") to LQS, which was authorized in the Fourth Ordering Paragraph of  
3 Decision No. 68718, was closed on October 24, 2006. Accordingly, the filing of the attached  
4 ACRM Surcharge proposal at this time satisfies the time-period requirement of the Second  
5 Ordering Paragraph of Decision No. 68718.  
6

7 Attached hereto as Appendix "A" is LQS's proposed ACRM Surcharge. The proposed  
8 surcharge was developed pursuant to the "Instructions to Calculate the Annual Surcharge  
9 Revenue Requirement On the Loan" ("Instructions") that was appended to Decision No. 68718,  
10 together with Table A to the Instructions. In addition, LQS' calculations include a determination  
11 and provision for (i) the WIFA Debt Reserve and (ii) Incremental Tax On WIFA Debt Reserve,  
12 as required by the WIFA loan documents. Those particular line items were not indicated on  
13 Table A.  
14

15 With further reference to Appendix "A", page 1 of LQS' "Calculation of Annual and  
16 Monthly Surcharges" reflects both the actual WIFA loan principal and interest components, as  
17 well as the interest rate prescribed by Table A. Page 2 depicts the details of the Incremental Tax  
18 on WIFA Debt Reserve calculation. Page 3 sets forth certain customer count information, the  
19 most recent of which was used in connection with the surcharge calculations. The resulting  
20 annual surcharge and monthly surcharge for a 5/8 X 3/4 inch meter are \$163.11 and \$13.59,  
21 respectively. LQS believes that these proposed initial surcharges represent satisfaction of the  
22 requirements of the Third Ordering Paragraph of Decision No. 68718.  
23

24 WHEREFORE, LQS hereby requests that the Commission issue an opinion and order or  
25 other appropriate form of decision (i) confirming that LQS has complied with the requirements  
26 of Decision No. 68718 applicable to the proposed ACRM Surcharge, (ii) approving the proposed  
27  
28

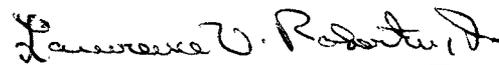
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ACRM Surcharge attached hereto as Appendix "A" as a part of LQS' authorized rates and charges for water service, and (iii) providing that the proposed ACRM Surcharge shall be effective immediately.

Dated this 3<sup>rd</sup> day of November 2006.

Respectfully submitted,



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Attorney for Las Quintas  
Serenas Water Co.

Original and thirteen (13) copies of the foregoing filed this 3<sup>rd</sup> day of November, 2006 with:

Docket Control  
Arizona Corporation Commission  
c/o 400 West Congress, Suite 218  
Tucson, Arizona 85701

A copy of the same served by e-mail or first class mail this same date to:

Hon. Jane L. Rodda  
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# **APPENDIX “A”**

**Las Quintas Serenas Water Co.  
Docket Nos. W-01583A-04-0178,  
W-01583A-05-0326 and W-01583A-05-0340**

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**Las Quintas Serenas Water Company**  
Docket Numbers: W-01583A-04-0178, W-01583A-05-0326, W-01583A-05-0340  
Arizona Corporation Commission Decision Number 68718  
Calculation of Annual and Monthly Surcharges

	Customers At 7/31/2006	5/8 x 3/4 Inch Meter Equivalent Meter Converter	Final Equivalent Meters for First Year	Monthly Surcharge by Meter Size	Monthly Surcharge to be Collected	Annual Surcharge to be Collected
<b>Total Customers</b>						
5/8 x 3/4 Inch Meter	809	1	809	\$ 13.59	10,996	131,958
3/4 Inch Meter	5	1.5	8	20.39	102	1,223
1 Inch Meter	35	2.5	88	33.98	1,189	14,272
1 1/2 Inch Meter	6	5	30	67.96	408	4,893
2 Inch Meter	3	8	24	108.74	326	3,915
3 Inch Meter	-	16	-	-	-	-
4 Inch Meter	2	25	50	339.82	680	8,156
6 Inch Meter	-	50	-	-	-	-
<b>Standpipe (1)</b>	<b>166</b>	<b>1</b>	<b>166</b>	<b>13.59</b>	<b>2,256</b>	<b>27,077</b>
<b>Total Meters (a) page 3</b>	<b>1,026</b>		<b>1,174</b>		<b>15,958</b>	<b>191,494</b>

(1) (Standpipes customers included. Large Meters serving Standpipe customers are not shown as they are not billed. Standpipe customers pay a monthly minimum as if they were 5/8 x 3/4 inch meters.)

**Total Equivalent Meters**

1,174

**First Year**

**Principal Payments (b)**

38,720.93

(From Table A - Interest Rate of 6.75%,

**Interest (b)**

105,573.79

Actual WIFA Interest Rate and Fees is 6.60%)

**Incremental Income Tax on above (c)**

8,216.49

(Please see Page 2 for Income Tax Computations)

**WIFA DEBT RESERVE (d)**

28,857.60

(Not Included in Table A)

**Incremental Tax on WIFA Debt Reserve (c)**

10,125.19

(Not Included in Table A)

**Totals**

\$ 191,494

Equivalent Meters

1,174

**Annual Surcharge for 5/8 x 3/4 Inch Meter**

\$ 163.11

**Monthly Surcharge for 5/8 x 3/4 Inch Meter**

\$ 13.59

**(b) - Using Interest Rate of 6.75%, the next highest percentage available from TABLE A**

**Step 1 Find the Annual Payment on the Loan**

\$ 1,580,446 Total Amount of Loan

0.0912 TABLE A, Conversion Factor Table, Column B number at 6.75% Interest Rate

144,137 Annual Debt Service on the Loan (payment)

**Step 2 Find the Annual Interest Payment on the Loan**

\$ 1,580,446 Total Amount of Loan

0.0668 TABLE A, Conversion Factor Table, Column C number at 6.75% Interest Rate

105,574 Annual Interest on Debt

**Step 3 Find the Annual Principal Payment on the Loan**

\$ 1,580,446 Total Amount of Loan

0.0245 TABLE A, Conversion Factor Table, Column D number at 6.75% Interest Rate

38,721 Annual Principal Payment on Loan

**(c) Income Taxes from Page 2**

**(d) Monthly Payment of (\$14,428.77 - \$12,023.97 times 12 months).**

**Las Quintas Serenas Water Company**  
Docket Numbers: W-01583A-04-0178, W-01583A-05-0326, W-01583A-05-0340  
Arizona Corporation Commission Decision Number 68718  
Calculation of Annual and Monthly Surcharges

	Column (1)	Column (2)	Column (3)	Column (4)	Column (5)	Column (6)	Column (7)
	Staffs Last Rate Case Taxable Income	Principal Paid First Year	Total Income	Incremental Income Taxes on WIFA Payment (3) - (1)	WIFA Debt Reserve Required in Years 1 to 5	Total Income with Reserve	Incremental Income Taxes on WIFA Reserve
Staffs Taxable in Prior Case & Additional Income	16,260	38,721	54,981		28,857.60	83,839	
Less Arizona Income Tax							
Arizona Income Tax Rate =	1,133	2,698	3,831			5,842	
<b>Taxable Income</b>	16,260	38,721	54,981			83,839	
<b>Minus State of Arizona Income Tax</b>	1,133	2,698	3,831	2,698		5,842	3,144
<b>Federal Taxable Income</b>	15,127	36,023	51,150	2,698		77,997	3,144
<b>FEDERAL INCOME TAXES:</b>							
15% BRACKET UP TO \$50,000	2,269	5,403	7,500	5,231		7,500	5,963
25% BRACKET ON NEXT \$25,000	-	-	287	287		6,250	1,019
34% BRACKET ON NEXT \$25,000	-	-	-	-		-	-
39% BRACKET ON NEXT \$235,000	-	-	-	-		-	-
34% BRACKET OVER \$335,000	-	-	-	-		-	-
<b>Federal Income Taxes</b>	2,269	5,403	7,787	5,518		14,769	6,981
<b>Total State &amp; Federal Income Tax</b>	3,402	8,102	11,619	8,216		20,611	10,125
<b>Tax Rate</b>	20.92%	20.92%	21.13%			24.58%	
<b>Effective Income Tax Rates</b>							
State	6.968%	6.968%	6.968%			6.968%	
Federal	15.00%	15.00%	15.22%			18.94%	
Total Tax Rate	21.97%	21.97%	22.19%			25.90%	
<b>Revenue Conversion Factor</b> (1 / (1 plus tax rate))	128.15%	128.15%	128.52%			134.96%	
<b>Incremental Tax (Staff Method)</b>	28.15%	28.15%	28.52%			34.96%	

**Las Quintas Serenas Water Company**  
 Docket Numbers: W-01583A-04-0178, W-01583A-05-0326, W-01583A-05-0340  
 Arizona Corporation Commission Decision Number 68718  
 Calculation of Annual and Monthly Surcharges

	(a)				
	<u>Customers At</u>	<u>Year to Date</u>	<u>Fiscal Year End</u>	<u>Fiscal Year End</u>	<u>Fiscal Year End</u>
	<u>07/31/2006 *</u>	<u>5/30/2006</u>	<u>9/30/2005</u>	<u>9/30/2004</u>	<u>9/30/2003</u>
ACC Annual Report					
Number of Connections	1,026	1,022	995	933	897
Difference (of increase in customers)	4	27	62	36	9

Breakdown Totals					
Meter	860	860	844		
Standpipe	166	162	151		
Percentage of Total Connections	16%	15%	15%		

Potential Growth					
Santa Cruz Meadows Subdivision	239	239			

Number of Meters / Size					
5/8" x 3/4"	809	809	797		
3/4"	5	5	4		
1"	35	35	34		
1-1/2"	6	6	4		
2"	3	3	4		
3"	0	0	0		
4"	2	2	1		
6"	0	0	0		
Standpipe	166	162	151		

<b>Total Meters</b>	<b>1,026</b>	<b>1,022</b>	<b>995</b>		
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(a)

\*Same customer count as is being used in connection with Docket Number W-01583A-06-0437