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TO: Docket Control
Arizona Corporation Commission

AZ CORPORATION COMMISSION
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FROM: Ernest G. Johnson
Director
Utilities Division

Date: October 15, 2007

RE: BEAVER DAM WATER COMPANY, INC. APPLICATION FOR NEW
CERTIFICATE OF CONVENIENCE AND NECESSITY FOR
WASTEWATER DOCKET NO. SW-03067A-06-0397

Revised Pro-Forma Income Statement

During the hearing on the above referenced case held October 3, 2007, Administrative Law Judge Kinsey directed Staff to docket a late-file exhibit on Staff's review of Beaver Dam Water Company, Inc.'s ("Company" or "Beaver Dam") revised Pro-Forma Income Statement.

Staff has had the opportunity to review the revised pro-forma income statement submitted by Beaver Dam in its objection to the Staff Report. This revised pro-forma income statement presents a year five operating income of \$50,445 on revenues of \$203,400. Because no plant investment is given, Staff cannot comment as to what return on equity is generated by the figures in the new pro-forma income statement.

Staff does note that there is an error concerning operating expenses. Specifically the Company has failed to account for any depreciation expense. Staff assumes the pro-forma was generated with the Company's requested capital structure of 100% advances in aid of construction ("AIAC" or "advances"). The Company seems to be accounting for AIAC as if it was a contribution in aid of construction ("CIAC"). While there is no depreciation expense taken on CIAC, depreciation is taken on advances.

If the Company was to properly account for depreciation, the operating income shown on its pro-forma would be decreased accordingly by that same amount. If this pro-forma was generated with a total investment comparable to the figure the Company previously submitted to Staff, the depreciation expense would be approximately \$34,432. This would decrease the Company's pro-forma operating income in year five to approximately \$16,000 from \$50,445. Staff estimates that the depreciation in years 1-5 to be approximately \$156,000.

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Staff would also note that the Company does not appear to be refunding advances until year five of the investment. During the first five years in which the Company does not refund advances, depreciation expense would be applied to the advanced plant in service. This would further degrade the Company's equity investment. The Company essentially would operate with a negative rate base for the first five years of operation as the Company would not infuse equity into the Company until it begins refunds of the advances at the end of year five.

EGJ:DRE:kdh

Original: Darak R. Eaddy

Service List for: Beaver Dam Water Company
Docket No. SW-03067A-06-0397

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