

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON – Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

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IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. W-02450A-05-0607  
WATER UTILITY OF GREATER TONOPAH, )  
INC., AN ARIZONA CORPORATION, FOR ) **Motion for Extension of Time**  
AUTHORITY TO ISSUE DEBT. )  
)  
)  
)

Water Utility of Greater Tonopah (“Tonopah”) respectfully requests an extension of time to file a rate case. The extension is appropriate because Tonopah soon expects to have many more customers, allowing costs to be spread over a larger number of customers. In addition, substantial changes to Tonopah’s rate base are underway, and the time and expense of a rate case would not be worth the benefits. As things currently stand, the likely rate increase would result in a relatively small amount of additional revenues, but a large percentage increase for customers. Accordingly, a rate case is not in the public interest at this time. Tonopah requests that the rate case requirement be extended until June 30, 2015 with a test year ending December 31, 2014.

**I. Background.**

On August 24, 2005, Tonopah filed an application requesting approval of a loan of not more than \$527,000. In Decision No. 68452 (Feb. 2, 2006), the Commission approved a loan of up to \$500,000. The Commission included the following condition:

That the Water Utility of Greater Tonopah must file with Docket Control, as a compliance item in this docket, for an increase in permanent rates in 2007 with a 2006 test year unless the Water Utility of Greater Tonopah demonstrates to Staff’s satisfaction that its times interest earned ratio will increase to 1.0 or greater by December 31, 2006.

Arizona Corporation Commission

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1 On May 3, 2006, Tonopah filed a notice that its TIER would drop below 1.0 by December  
2 31, 2006. Thus, the condition requiring a rate case in 2007 remains in effect.

3 In the summer of 2006, Tonopah's parent company, West Maricopa Combine, Inc.  
4 ("WMC"), was acquired by Global Water, Inc., which is a subsidiary of Global Water Resources,  
5 LLC ("Global Parent"). After this acquisition, Global Parent spent considerable resources in  
6 upgrading the WMC systems, including adding arsenic treatment to many systems. Also in 2006,  
7 another Global utility, Hassayampa Utilities Company ("Hassayampa"), was granted a CC&N for  
8 wastewater service for part of Tonopah's water CC&N area.

9 **II. Impact of on-going construction.**

10 Tonopah is in the process of completing substantial new facilities for system upgrades and  
11 arsenic treatment. A significant portion of those facilities are financed by Advances in Aid of  
12 Construction ("AIAC" or "advances"). The arsenic facilities alone, when completed, will cost  
13 nearly \$600,000, while Tonopah's net plant in service is only \$768,150. As noted, these arsenic  
14 treatment facilities as well as other system upgrades and additions are largely not yet in service,  
15 and would be "Construction Work in Progress" or "CWIP" in any required rate filing.  
16 Furthermore, there is not a full year of expense history related to the cost of operating the arsenic  
17 treatment plant and other new facilities.

18 During 2007, advances have increased by more than \$700,000. In the short term, there is a  
19 significant timing difference between the recognition of the advances and the recognition of the  
20 related plant. Specifically, advances are immediately deducted from rate base while the assets in  
21 CWIP do not increase plant in service. Thus, in the short term, rate base turns sharply negative  
22 until the facilities are complete and are placed in service (thus finally matching them with the  
23 already accounted-for advances). In other words, large projects funded by advances or  
24 contributions can cause rate base to quickly drop, only to quickly rebound again. The Commission  
25 has recognized that this "yo-yo" effect is not in the public interest. *See Arizona-American Water*  
26 *Co.*, Decision No. 69914 (Sept. 27, 2007). Accordingly, a rate case at the present time is not in the  
27 public interest.

1 **III. Summary financial information shows that a rate case is not in the public interest.**

2 Tonopah's system is poised to experience rapid growth, and substantial additions to plant.  
3 However, at present, Tonopah has few customers. Tonopah is concerned that the burden of rates  
4 not fall exclusively on the existing customers. Thus, Tonopah believes that it would be better to  
5 defer a rate case until more customers are added to the system. In addition, the rapid growth  
6 means that current accounting data is not likely to be reflective of near-future customer counts,  
7 income, expenses and rate base.

8 Attached as Exhibit A are summary rate schedules (Schedules A-1, B-1, C-1 and D-1)  
9 showing Tonopah's rate base, expenses and revenue requirement for a test year ended December  
10 31, 2006. These schedules show that if Tonopah filed a rate case using a 2006 test year, the likely  
11 increase in gross revenue would be \$53,641, or 25.49%. The average bill impact would be about  
12 26.51%.

13 Attached as Exhibit B are summary rate schedules (Schedules A-1, B-1 C-1 and D-1)  
14 showing Tonopah's rate base, expenses and revenue requirement for a test year ended September  
15 30, 2007. These schedules show that if Tonopah filed a rate case using a September 2007 test  
16 year, the likely increase in gross revenue would be \$177,663, or 67.18%. The average bill impact  
17 would be about 69.49%.

18 Thus, under either test year, customers would receive a large percentage increase, but  
19 because there are few customers, the utility would not receive significantly more dollars. This  
20 suggests that a rate case is not in the public interest at this time.

21 Moreover, Tonopah would likely have to file as a "Class C" utility. Class C utilities must  
22 file many of the same schedules as "Class B" and "Class A" utilities, and they cannot use the short  
23 form for smaller Class D and E utilities. Thus, it is likely that any rate case would be expensive  
24 and time-consuming. The utilities owned by Global Parent have numerous proceedings before the  
25 Commission. In addition, the Commission's Staff currently bears a heavy workload. Delaying  
26 Tonopah's rate case would save resources for Staff and Global to focus on other efforts.

27

1 **IV. Balterra Service Area**

2 In Decision 70030 (December 4, 2007), Tonopah was granted a CC&N extension for the  
3 Balterra area which will see the construction of large-scale infrastructure to meet demand. In that  
4 decision, Tonopah is required to provide Approval of Construction (“AOC”) for the water plant  
5 and related infrastructure by December 4, 2009. Accordingly, 2009 will be another year of heavy  
6 infrastructure investment. Again, a rate case at this time will not be representative of the water  
7 system moving forward.

8 **V. Proposed Test Year.**

9 Tonopah proposes a test year ended December 31, 2014, with a rate case to be filed no later  
10 than June 30, 2015. The proposed test year is intended to match the likely test year for  
11 Hassayampa’s first rate case. There will be a substantial overlap in service area and customers for  
12 Tonopah and Hassyampa. Moreover, Global Parent believes that it is generally best for integrated  
13 water, wastewater and recycled water utilities to file joint rate cases. One important reason for  
14 joint rate cases is so that the overall rate structure for both utilities can be designed in conjunction  
15 to promote water conservation. In addition, a single rate case means that customers and local  
16 officials will only have to follow one case, rather than two or more.

17 Under Decision No. 68922 (August 29, 2006), Hassayampa is required to file a rate case  
18 “in its sixth year of operations, using the fifth year as the test year.”<sup>1</sup> Hassayampa anticipates  
19 serving its first customer in 2009. Thus, 2009 will likely be the first year of operations, resulting  
20 in a test year of 2014, with a rate case in 2015. Therefore, Tonopah proposes a test year ended  
21 December 31, 2014, with a rate case to be filed no later than June 30, 2015.

22 However, if such an extension is viewed as too long, in the alternative, Tonopah requests  
23 that the rate case at least be extended to beyond 2009, as substantial construction is anticipated in  
24 2008 and 2009.

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<sup>1</sup> Decision No. 68922 at page 9, lines 11-12.

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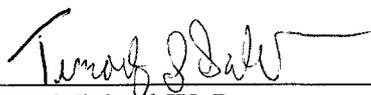
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**VI. Conclusion.**

It is prudent to defer a rate case until Tonopah has more customers, so that costs can be spread over a larger number of customers. Moreover, the large pending arsenic and system upgrade projects create the potential for a “yo-yo” effect on rate base, necessitating yet another rate case. In addition, the costs on Global’s and Staff’s resources do not justify the relatively small dollar increase from a rate case, and a small number of customers would have to bear a large percentage increase. Thus, Tonopah requests that the Commission issue a procedural order extending the rate case requirement until June 30, 2014 with a test year ending December 31, 2015. In the alternative, Tonopah requests that a rate case at least be no sooner than the end of 2009.

RESPECTFULLY SUBMITTED this \_\_\_\_ day of December 2007.

ROSHKA DEWULF & PATTEN, PLC

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1 Original and 13 copies of the foregoing  
2 filed this 12<sup>th</sup> day of December 2007 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington Street  
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7 Copy of the foregoing hand-delivered/mailed  
8 this 12<sup>th</sup> day of December 2007 to:

9 Lyn Farmer, Esq.  
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25  
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27

# EXHIBIT

"A"

**Computation of Increase in Gross Revenue Requirements**  
12/31/2006

Line No.	DESCRIPTION	ORIGINAL COST	FAIR VALUE
1	Adjusted Rate Base	\$ 178,178	\$ 178,178
2	Adjusted Operating Income (Loss)	\$ (17,945)	\$ (17,945)
3	Current Rate of Return (L2 / L1)	-10.07%	-10.07%
4	Required Rate of Return	8.10%	8.10%
5	Required Operating Income (L4 * L1)	\$ 14,432	\$ 14,432
6	Operating Income Deficiency (L5 - L2)	\$ 32,378	\$ 32,378
7	Gross Revenue Conversion Factor	1.6567	1.6567
8	Increase in Gross Revenue Requirements (L6 * L7)	\$ 53,641	\$ 53,641
9			
10		Present Rates	Proposed Rates
11		Rates	Rates
12		Dollar Increase	Percent Increase
13	Gross Revenues	\$ 210,438	\$ 264,079
14			
15	Avg. Monthly Bill Per Customer	\$ 50.48	\$ 63.86
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**RATE BASE - ORIGINAL COST**  
12/31/2006

Line No.		Original Cost Rate Base
1	Plant in Service	\$ 1,390,143
2	Less: Accumulated Depreciation	<u>633,296</u>
3		
4	Net Plant in Service	\$ 756,847
5		
6	<u>LESS:</u>	
7	Net CIAC	66,664
8	Advances in Aid of Construction (AIAC)	494,908
9	Customer Deposits	7,960
10	Deferred Income Tax Credits	9,137
11		
12	<u>ADD:</u>	
13	Unamortized Finance Charges	-
14	Deferred Tax Assets	-
15	Working Capital	-
16	Utility Plant Acquisition Adjustment	<u>-</u>
17		
18	Original Cost Rate Base	<u>\$ 178,178</u>
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**Adjusted Test Year Income Statement**  
12/31/2006

LINE NO.	DESCRIPTION	[A] Actual Test Year	[B] Pro Forma Adjustments	[C] Adjusted Test Year	[D] Proposed Rate Increase	[E] Adjusted With Rate Increase
1	Revenues					
2	Metered Water Sales	\$ 202,327	\$ -	\$ 202,327	\$ 53,641	\$ 255,968
3	Water Sales - Unmetered	-	-	-	-	-
4	Other Operating Revenue	8,111	-	8,111	-	8,111
5	Total Operating Revenues	\$ 210,438	\$ -	\$ 210,438	\$ 53,641	\$ 264,079
6						
7	Operating Expenses					
8	Salaries & Wages	\$ 15,543	\$ -	\$ 15,543	\$ -	\$ 15,543
9	Employee Pension & Benefits	1,829	-	1,829	-	1,829
10	Purchased Water	-	-	-	-	-
11	Purchased Power	14,962	-	14,962	-	14,962
12	Chemicals	5,780	-	5,780	-	5,780
13	Repairs & Maint	6,770	-	6,770	-	6,770
14	Office Supplies & Exp	2,379	-	2,379	-	2,379
15	Outside Services	99,879	-	99,879	-	99,879
16	Water Testing	5,134	-	5,134	-	5,134
17	Rents	1,800	-	1,800	-	1,800
18	Rental Equipment	3,466	-	3,466	-	3,466
19	Transportation Expense	-	-	-	-	-
20	Insurance - General Liability	-	-	-	-	-
21	Regulatory Commission Exp - Rate Case	-	-	-	-	-
22	Misc Expense	6,417	-	6,417	-	6,417
23	Depreciation & Amortization	61,211	(4,308)	56,903	-	56,903
24	Taxes Other than Income	1,378	-	1,378	-	1,378
25	Property Taxes	5,554	589	6,143	909	7,052
26	Income Tax	-	-	-	20,354	20,354
27	Total Operating Expenses	\$ 232,102	\$ (3,719)	\$ 228,383	\$ 21,263	\$ 249,646
28						
29	Utility Operating Income (Loss)	\$ (21,664)	\$ 3,719	\$ (17,945)	\$ 32,378	\$ 14,432
30						
31	Other Income and Deductions	\$ -	\$ -	\$ -	\$ -	\$ -
32	Interest Expense	14,238	-	14,238	-	14,238
33	Other Expense	-	-	-	-	-
34	Total Other Income and Deductions	\$ (14,238)	\$ -	\$ (14,238)	\$ -	\$ (14,238)
35						
36	Net Income (Loss)	\$ (35,902)	\$ 3,719	\$ (32,183)	\$ 32,378	\$ 194
37						
38						
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LINE NO.	Item of Capital	End of Test Year			Weighted Cost Rate	End of Proj	
		Dollar Amount	Percent of Total	Cost Rate		Dollar Amount	Percent of Total
1	Short-term Debt	\$ -	0.00%	0.00%	0.00%	\$ -	0.00%
2	Long-term Debt	\$ 303,115	47.70%	6.01%	2.87%	\$ 303,115	47.70%
3	Preferred Stock	\$ -	0.00%	0.00%	0.00%	\$ -	0.00%
4	Common Equity	\$ 332,322	52.30%	10.00%	5.23%	\$ 332,322	52.30%
5	Deferrals	\$ -	0.00%	0.00%	0.00%	\$ -	0.00%
6	Total Capital	<u>\$ 635,437</u>	<u>100.00%</u>		<u>8.10%</u>	<u>\$ 635,437</u>	<u>100.00%</u>

EXHIBIT

"B"

**Computation of Increase in Gross Revenue Requirements**  
9/30/2007

Line No.	DESCRIPTION	ORIGINAL COST	FAIR VALUE		
1	Adjusted Rate Base	\$ (462,474)	\$ (462,474)		
2	Adjusted Operating Income (Loss)	\$ (40,987)	\$ (40,987)		
3	Current Rate of Return (L2 / L1)	N/A	N/A		
4	Required Operating Margin	15.00%	15.00%		
5	Required Operating Income (L4 * L1)	\$ 66,251	\$ 66,251		
6	Operating Income Deficiency (L5 - L2)	\$ 107,237	\$ 107,237		
7	Gross Revenue Conversion Factor	1.6567	1.6567		
8	Increase in Gross Revenue Requirements (L6 * L7)	\$ 177,663	\$ 177,663		
9					
10	Customer	Present	Proposed	Dollar	Percent
11	Classification	Rates	Rates	Increase	Increase
12					
13	Gross Revenues	\$ 264,463	\$ 442,126	\$ 177,663	67.18%
14					
15	Avg. Monthly Bill Per Customer	\$ 60.88	\$ 103.18	\$ 42.30	69.49%
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**RATE BASE - ORIGINAL COST**  
9/30/2007

Line No.		Original Cost Rate Base
1	Plant in Service	\$ 1,436,344
2	Less: Accumulated Depreciation	<u>668,194</u>
3		
4	Net Plant in Service	\$ 768,150
5		
6	<u>LESS:</u>	
7	Net CIAC	67,729
8	Advances in Aid of Construction (AIAC)	1,236,790
9	Customer Deposits	11,120
10	Deferred Income Tax Credits	-
11		
12	<u>ADD:</u>	
13	Unamortized Finance Charges	-
14	Deferred Tax Assets	85,015
15	Working Capital	-
16	Utility Plant Acquisition Adjustment	<u>-</u>
17		
18	Original Cost Rate Base	<u>\$ (462,474)</u>
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## Adjusted Test Year Income Statement

9/30/2007

LINE NO.	DESCRIPTION	[A] Actual Test Year	[B] Pro Forma Adjustments	[C] Adjusted Test Year	[D] Proposed Rate Increase	[E] Adjusted With Rate Increase
1	Revenues					
2	Metered Water Sales	\$ 255,678	\$ -	\$ 255,678	\$ 177,663	\$ 433,341
3	Water Sales - Unmetered	-	-	-	-	-
4	Other Operating Revenue	8,785	-	8,785	-	8,785
5	Total Operating Revenues	\$ 264,463	\$ -	\$ 264,463	\$ 177,663	\$ 442,126
6						
7	Operating Expenses					
8	Salaries & Wages	\$ -	\$ -	\$ -	\$ -	\$ -
9	Employee Pension & Benefits	-	-	-	-	-
10	Purchased Water	-	-	-	-	-
11	Purchased Power	18,207	-	18,207	-	18,207
12	Chemicals	-	-	-	-	-
13	Repairs & Maint	28,216	-	28,216	-	28,216
14	Office Supplies & Exp	-	-	-	-	-
15	Outside Services	169,460	-	169,460	-	169,460
16	Water Testing	-	-	-	-	-
17	Rents	5,994	-	5,994	-	5,994
18	Rental Equipment	-	-	-	-	-
19	Transportation Expense	-	-	-	-	-
20	Insurance - General Liability	-	-	-	-	-
21	Regulatory Commission Exp - Rate Case	-	-	-	-	-
22	Misc Expense	9,099	-	9,099	-	9,099
23	Depreciation & Amortization	54,370	2,533	56,903	-	56,903
24	Taxes Other than Income	4,794	-	4,794	-	4,794
25	Property Taxes	-	12,777	12,777	2,270	15,047
26	Income Tax	-	-	-	67,700	67,700
27	Total Operating Expenses	\$ 290,140	\$ 15,310	\$ 305,450	\$ 69,970	\$ 375,420
28						
29	Utility Operating Income (Loss)	\$ (25,677)	\$ (15,310)	\$ (40,987)	\$ 107,693	\$ 66,706
30						
31	Other Income and Deductions	\$ 7,953	\$ -	\$ 7,953	\$ -	\$ 7,953
32	Interest Expense	24,160	-	24,160	-	24,160
33	Other Expense	-	-	-	-	-
34	Total Other Income and Deductions	\$ (16,207)	\$ -	\$ (16,207)	\$ -	\$ (16,207)
35						
36	Net Income (Loss)	\$ (41,884)	\$ (15,310)	\$ (57,194)	\$ 107,693	\$ 50,499
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LINE NO.	Item of Capital	End of Test Year			Weighted Cost Rate	End of Proje	
		Dollar Amount	Percent of Total	Cost Rate		Dollar Amount	Percent of Total
1	Short-term Debt	\$ -	0.00%	0.00%	0.00%	\$ -	0.00%
2	Long-term Debt	\$ 265,050	23.69%	6.01%	1.42%	\$ 265,050	23.69%
3	Preferred Stock	\$ -	0.00%	0.00%	0.00%	\$ -	0.00%
4	Common Equity	\$ 853,608	76.31%	10.00%	7.63%	\$ 853,608	76.31%
5	Deferrals	\$ -	0.00%	0.00%	0.00%	\$ -	0.00%
6	Total Capital	<u>\$ 1,118,658</u>	<u>100.00%</u>		<u>9.05%</u>	<u>\$ 1,118,658</u>	<u>100.00%</u>