OPEN MEETING AGENDA ITEM

ORIGINAL

0000080437

MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

Arizona Corporation Commission
DOCKETED
JAN 11 2008
DOCKETED BY

DATE: January 11, 2008

RE: PHASE-IN RATES FOR UTILITY SOURCE LLC (DOCKET NO. WS-04235A-06-0303).

Attached is Staff's Two Phase Rate Design for Utility Source LLC, as was requested by Commissioner Mayes in her December 21, 2007 docketed letter. Commissioner Mayes asked for both "Parties to break the rate increase into two phases, with the first phase lasting no less than nine months. The phased-in rates should maintain the revenue requirements set forth in the ROO."

Staff used the following assumption when preparing the two summary schedules for both the water and wastewater divisions of the Company (See Schedules JMM W-1 and JMM WW-1):

First, Staff to be consistent with the ROO, utilized the 350 projected customers in its calculations.

Second, Staff in year 1 phased in 50 percent of ROO revenue requirement, and the remainder (or 100 percent) in year 2, while year 3 represents the payback period.

Third, Staff used 50 percent of the ALJ's gross revenue increase which is $96,429 (i.e. 50 percent of $192,858) for the water division and $60,775 (i.e. 50 percent of $121,549) for the wastewater division.

Fourth, Staff used a 6.23 percent interest rate on the water division side, and an 8.9 percent interest rate on the wastewater division side to calculate the interest on the Company's forgone revenue.

As can be seen from the Schedules, Column A represents the current rates. Column B, which lasts for one year, represents the effective rates of only receiving 50 percent of the ALJ's revenue requirement. Column C represents 100 percent of the ALJ's revenue requirement. Column D represents the one year payback period of the revenue and interest which was deferred in year one. The Rows Surcharge for Principal and Surcharge for Interest depict the resulting surcharge on the 3/4 inch customer resulting from the deferral of revenue and interest in year 1. Note the surcharges are added to the typical monthly bill in year 3 only. Column E shows that in

year 4 the typical monthly bill is the same ($19.51) as year 2, Column C, because the deferred revenue and interest was paid back in year 3, Column D.

In any scenario in which revenue is deferred, the rate payers at some point will have to payback the revenue and interest that was forgone by the Company in an earlier period.

EGJ:JMM:tdp

Originator: Jeffrey M. Michlik

Utility Source LLC
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Schedule JMM WW-1

Summary Sheet of Phase-In Rates for Wastewater Division

Line No.	Phase in Schedule	[A]	[B] Year 1 Phase 1 rates	[C] Year 2 Phase 2 rates	[D] Year 3 Payback period	[E] Year 4
1	Rates per 1,000 gal water usage	Current Rates	(Jan 2008 - Dec 2008)	(Jan 2009 - Dec 2009)	(Jan 2010 - Dec 2010)	(Jan 2011 - Dec 2011)
2	Residential	$ 2.73	$ 4.34	$ 5.84	$ 5.84	$ 5.84
3	Car washes, Laundromats, Commercial, manufacturing	2.67	4.24	5.71	5.71	5.71
4	Hotel and Motels	3.58	5.69	7.66	7.66	7.66
5	Restaurants	4.42	7.02	9.46	9.46	9.46
6	Industrial Laundries	3.92	6.22	8.39	8.39	8.39
7	Waste haulers	80.00	127.04	171.20	171.20	171.20
8	Restaurant Grease	70.00	111.16	149.80	149.80	149.80
9	Treatment Plant Sludge	80.00	127.04	171.20	171.20	171.20
10	Mud Sump Waste	250.00	397.00	535.00	535.00	535.00
11						
12	Surcharge for Forgone Revenue					
15	Rates per 1,000 gal water usage	Current Rates	(Jan 2008 - Dec 2008)	(Jan 2009 - Dec 2009)	(Jan 2010 - Dec 2010)	(Jan 2011 - Dec 2011)
16	Residential	$ -	$ -	$ -	$ 7.61	$ -
25						
26	Surcharge for Interest on Forgone Revenue					
29	Rates per 1,000 gal water usage	Current Rates	(Jan 2008 - Dec 2008)	(Jan 2009 - Dec 2009)	(Jan 2010 - Dec 2010)	(Jan 2011 - Dec 2011)
30	Residential	$ -	$ -	$ -	$ 1.41	$ -
40						
43	Typical Monthly Bill				(19.51 + 7.61 + 1.41)	
44	Meter Sizes	Current Bill	(Jan 2008 - Dec 2008)	(Jan 2009 - Dec 2009)	(Jan 2010 - Dec 2010)	(Jan 2011 - Dec 2011)
45	3/4"	$ 12.29	$ 16.09	$ 19.51	$ 28.53	$ 19.51
46						

Utility Source LLC
Docket No. WS-04235A-06-0303
Test Year Ended December 31, 2005

Schedule JMM W-1

Summary Sheet of Phase-In Rates for Water Division

Line No.	Phase in Schedule	[A]	[B] Year 1 Phase 1 rates	[C] Year 2 Phase 2 rates	[D] Year 3 Payback period	[E] Year 4
1	Meter Sizes	Current Rates	(Jan 2008 - Dec 2008)	(Jan 2009 - Dec 2009)	(Jan 2010 - Dec 2010)	(Jan 2011 - Dec 2011)
2	5/8" x 3/4"	$ -	$ 13.75	$ 18.50	$ 18.50	$ 18.50
3	3/4"	6.48	13.75	18.50	18.50	18.50
4	1"	8.02	34.38	46.50	46.50	46.50
5	1 1/2"	9.62	68.75	92.50	92.50	92.50
6	2"	14.00	110.00	148.00	148.00	148.00
7	3"	-	220.00	296.00	296.00	296.00
8	4"	58.00	343.75	462.50	462.50	462.50
9	6"	89.80	687.50	925.00	925.00	925.00
10						
11	Surcharge for Forgone Revenue					
14	Meter Sizes	Current Rates	(Jan 2008 - Dec 2008)	(Jan 2009 - Dec 2009)	(Jan 2010 - Dec 2010)	(Jan 2011 - Dec 2011)
16	3/4"	-	-	-	12.07	-
23						
24	Surcharge for Interest on Forgone Revenue					
27	Meter Sizes	Current Rates	(Jan 2008 - Dec 2008)	(Jan 2009 - Dec 2009)	(Jan 2010 - Dec 2010)	(Jan 2011 - Dec 2011)
29	3/4"	-	-	-	1.55	-
37						
40	Typical Monthly Bill				(41.28 + 12.07 + 1.55)	
41	Meter Sizes	Current Bill	(Jan 2008 - Dec 2008)	(Jan 2009 - Dec 2009)	(Jan 2010 - Dec 2010)	(Jan 2011 - Dec 2011)
42	3/4"	$ 19.22	$ 30.47	$ 41.28	$ 54.90	$ 41.28
43						