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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

- KRISTIN K. MAYES - Chairman
- GARY PIERCE
- PAUL NEWMAN
- SANDRA D. KENNEDY
- BOB STUMP

2009 AUG 26 A 10:39

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY, AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE AND FOR CERTAIN RELATED APPROVALS BASED THEREON.

DOCKET NO. W-01445A-08-0440

STAFF'S NOTICE OF ERRATA

Staff of the Arizona Corporation Commission ("Staff") hereby gives notice of filing Errata Schedules AII-1, AII-2, AII-3, AII-4, and AII-5 for the Casa Grande system in the above referenced matter. Staff inadvertently omitted the 2005 tank maintenance expense for the Casa Grande system.

RESPECTFULLY SUBMITTED this 26th day of August, 2009.

Wesley C. Van Cleve, Staff Counsel
 Ayesha Vohra, Staff Counsel
 Legal Division
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007
 (602) 542-3402

Original and thirteen (13) copies of the foregoing were filed this 26th day of August, 2009 with:

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

Arizona Corporation Commission
DOCKETED

AUG 26 2009

DOCKETED BY

1 Copy of the foregoing mailed this
26th day of August, 2009 to:

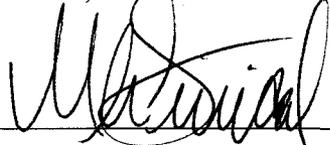
2 Robert W. Geake
3 ARIZONA WATER COMPANY
Post Office Box 29006
4 Phoenix, Arizona 85038-9006

5 Norman D. James
Jay L. Shapiro
6 FENNEMORE CRAIG
3003 North Central Avenue, Suite 2600
7 Phoenix, Arizona 85012

8 Michelle L. Wood
RUCO
9 1110 West Washington, Suite 220
Phoenix, Arizona 85007

10
11 Nicholas J. Enoch
Jarrett J. Haskovec
LUBIN & ENOCH, P.C.
12 349 North Fourth Avenue
Phoenix, Arizona 85003

13
14 Michele Van Quathem
RYLEY, CARLOCK & APPLEWHITE
One North Central Avenue, Suite 1200
15 Phoenix, Arizona 85004-4417

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REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY REBUTTAL ORIGINAL COST	[B] STAFF ERRATA ORIGINAL COST
1	Adjusted Rate Base	\$ 41,008,611	\$ 40,554,691
2	Adjusted Operating Income (Loss)	\$ 637,288	\$ 955,236
3	Current Rate of Return (L2 / L1)	1.55%	2.36%
4	Required Rate of Return	9.20%	8.10%
5	Required Operating Income (L4 * L1)	\$ 3,772,629	\$ 3,284,930
6	Operating Income Deficiency (L5 - L2)	\$ 3,135,341	\$ 2,329,694
7	Gross Revenue Conversion Factor	1.6286	1.6629
8	Required Revenue Increase (L7 * L6)	\$ 5,106,325	\$ 3,873,946
9	Adjusted Test Year Revenue	\$ 10,934,894	\$ 10,934,894
10	Proposed Annual Revenue (L8 + L9)	\$ 16,041,219	\$ 14,808,840
11	Required Increase in Revenue (%)	46.70%	35.43%
12	Rate of Return on Common Equity (%)	12.40%	10.00%

References:

Column (A): Company Schedule B-1
Column (B): Company Schedule B-1
Column (C): Company Schedules A-1, A-2, & D-1
Column (D): Staff Schedules BKB-1, DCP-1, AII-2, & AII-3
Column (E): Staff Schedules BKB-1, DCP-1, AII-2, & AII-3
Column (F): Staff Schedules BKB-1, DCP-1, AII-2, & AII-3

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
<i>Calculation of Gross Revenue Conversion Factor:</i>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	39.8625%			
5	Subtotal (L3 - L4)	60.1375%			
6	Revenue Conversion Factor (L1 / L5)	1.662856371			
<i>Calculation of Uncollectible Factor:</i>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0			
<i>Calculation of Effective Tax Rate:</i>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 44)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	0.3163088			
17	Combined Federal and State Income Tax Rate (L13 +L16)	38.5989%			
<i>Calculation of Effective Property Tax Factor</i>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18 - L19)	61.4011%			
21	Property Tax Factor (All-12, L24)	2.0580%			
22	Effective Property Tax Factor (L 21 * L 22)	0.01263635			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		39.8625%		
24	Required Operating Income (Schedule All-1, Line 5)	\$ 3,284,930			
25	Adjusted Test Year Operating Income (Loss) (Schedule All-3, Line 30)	\$ 955,236			
26	Required Increase in Operating Income (L24 - L25)		\$ 2,329,694		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 1,157,432			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ (307,095)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 1,464,527		
30	Recommended Revenue Requirement (Schedule All-1, Line 10)	\$ 14,808,840			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ -		
35	Property Tax with Recommended Revenue (All-12, L19)	\$ 754,846			
36	Property Tax on Test Year Revenue (All-12, L 16)	\$ 675,120			
37	Increase in Property Tax Due to Increase in Revenue (All-12, L21)		\$ 79,726		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		\$ 3,873,946		
<i>Calculation of Income Tax:</i>					
39	Revenue (Schedule All-3, Col.[D], Line 4 & Sch. All-1, Col. [E], Line 10)	\$ 10,934,894	\$ 3,873,946	\$ 14,808,840	
40	Operating Expenses Excluding Income Taxes	\$ 10,286,753		\$ 10,366,478	
41	Synchronized Interest (L47)	\$ 1,443,747		\$ 1,443,747	
42	Arizona Taxable Income (L36 - L37- L38)	\$ (795,606)		\$ 2,998,615	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L39 x L40)		\$ (55,438)		\$ 208,943
45	Federal Taxable Income (L33 - L35)	\$ (740,168)		\$ 2,789,671	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ (6,250)		\$ 6,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (91,650)		\$ 91,650	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ (137,757)		\$ 834,588	
51	Total Federal Income Tax	\$ (251,657)		\$ 948,488	
52	Combined Federal and State Income Tax (L35 + L42)	\$ (307,095)		\$ 1,157,432	
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				34.00%
<i>Calculation of Interest Synchronization:</i>					
54	Rate Base (Schedule BKB-1, Col. [D])	\$ 40,554,691			
55	Weighted Average Cost of Debt (Schedule DCP-1)	3.56%			
56	Synchronized Interest (L45 X L46)	\$ 1,443,747			

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] STAFF ADJUSTED TEST YEAR AS FILED	[B] STAFF SURREBUTTAL ADJUSTMENTS	[C] STAFF SURREBUTTAL TEST YEAR ADJUSTED	[D] STAFF AMENDMENTS	[E] STAFF ERRATA RECOMMENDED
1	REVENUES:					
2	Metered Revenues	\$ 10,345,212	\$ -	\$ 10,345,212	\$ 3,873,946	\$ 14,219,158
3	Miscellaneous	589,682	-	589,682	-	589,682
4	Total Operating Revenues	\$ 10,934,894	\$ -	\$ 10,934,894	\$ 3,873,946	\$ 14,808,840
	OPERATING EXPENSES:					
5	Source of Supply Expenses					
6	Purchased Water	\$ 374,207	\$ -	\$ 374,207	\$ -	\$ 374,207
7	Other	76,178	-	76,178	-	76,178
8	Pumping Expenses					
9	Purchased Power	1,387,878	-	1,387,878	-	1,387,878
10	Purchased Gas	509	-	509	-	509
11	Other	537,890	-	537,890	-	537,890
12	Water Treatment Expenses	531,617	-	531,617	-	531,617
13	Transmission and Distribution Expenses	1,584,407	120,196	1,704,603	-	1,704,603
14	Customer Accounting Expenses	909,384	-	909,384	-	909,384
15	Sales Expense	4,312	-	4,312	-	4,312
16	Administrative and General Expenses	1,761,682	-	1,761,682	-	1,761,682
17	Total Operation and Maintenance Expense	\$ 7,168,065	\$ 120,196	\$ 7,288,261	\$ -	\$ 7,288,261
18	Depreciation and Amortization Expenses	2,104,025	-	2,104,025	-	2,104,025
19	Taxes					
20	Federal Income Taxes	(213,638)	(38,019)	(251,657)	1,200,145	948,488
21	State Income Taxes	(47,063)	(8,375)	(55,438)	264,381	208,943
22	Property Taxes	675,120	-	675,120	79,726	754,846
23	Other	219,346	-	219,346	-	219,346
24	Total Taxes	\$ 633,765	\$ (46,394)	\$ 587,372	\$ 1,544,252	\$ 2,131,624
25	Total Operating Expenses	\$ 9,905,855	\$ 73,802	\$ 9,979,658	\$ 1,544,252	\$ 11,523,910
26	Operating Income (Loss)	\$ 1,029,039	\$ (73,802)	\$ 955,236	\$ 2,329,694	\$ 3,284,930

References:

Column [A]: Company Schedule C-1 Pg. 7 of 11
Column [B]: Schedule All-4
Column [C]: Column [A] + Column [B]
Column [D]: Schedules All-1 and All-2
Column [E]: Column [C] + Column [D]

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) STAFF ADJUSTED TEST YEAR AS FILED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) ADJ #8	(J) STAFF ERRATA TEST YEAR ADJUSTED
1	<i>Operating Revenues:</i>										
2	Residential	\$ 6,578,320	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,578,320
3	Commercial	2,217,689	-	-	-	-	-	-	-	-	2,217,689
4	Industrial	1,085,224	-	-	-	-	-	-	-	-	1,085,224
5	Private Fire Service	13,268	-	-	-	-	-	-	-	-	13,268
6	Other Water Revenues	450,711	-	-	-	-	-	-	-	-	450,711
7	Total Water Revenues	\$ 10,345,212	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,345,212
8											
9	Miscellaneous	589,682	-	-	-	-	-	-	-	-	589,682
10	Total Operating Revenues	\$ 10,934,894	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,934,894
11											
12	<i>OPERATING EXPENSES:</i>										
13	Source of Supply Expenses										
14	Purchased Water	\$ 374,207	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 374,207
15	Other	76,178	-	-	-	-	-	-	-	-	76,178
16	Pumping Expenses										
17	Purchased Power	1,387,878	-	-	-	-	-	-	-	-	1,387,878
18	Purchased Gas	509	-	-	-	-	-	-	-	-	509
19	Other	537,890	-	-	-	-	-	-	-	-	537,890
20	Water Treatment Expenses	531,617	-	-	-	-	-	-	-	-	531,617
21	Transmission and Distribution Expenses	1,584,407	120,196	-	-	-	-	-	-	-	1,704,603
22	Customer Accounting Expenses	909,384	-	-	-	-	-	-	-	-	909,384
23	Sales Expense	4,312	-	-	-	-	-	-	-	-	4,312
24	Administrative and General Expenses	1,761,682	-	-	-	-	-	-	-	-	1,761,682
25	Total Operation and Maintenance Expense	\$ 7,168,065	\$ 120,196	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,288,261
26											
27	Depreciation and Amortization Expenses	2,104,025	-	-	-	-	-	-	-	-	2,104,025
28											
29	Taxes										
30	Federal Income Taxes	(213,838)	-	-	-	-	-	-	-	-	(251,657)
31	State Income Taxes	(47,063)	-	-	-	-	-	-	-	-	(55,438)
32	Property Taxes	675,120	-	-	-	-	-	-	-	-	675,120
33	Other	219,346	-	-	-	-	-	-	-	-	219,346
34	Total Taxes	\$ 633,765	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 587,372
35											
36	Total Operating Expenses	\$ 9,805,855	\$ 120,196	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,979,658
37	Operating Income (Income)	\$ 1,029,039	\$ (120,196)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 955,235

ADJ #	DESCRIPTION	REFERENCES
1	Transmission & Distribution Expense	Schedule AII-5

OPERATING INCOME ADJUSTMENT NO. 4 - TRANSMISSION & DISTRIBUTION EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Transmission and Distribution Expenses	\$ 1,584,407	\$ (183,392)	\$ 1,401,015
2	Total	\$ 1,584,407	\$ (183,392)	\$ 1,401,015
3				
4	Normalization of Three Year Actual Tank Maintenance Expense			
5		Year		Expense
6	Tank Maintenance expense	2005		360,588
7	Tank Maintenance expense	2006		211,298
8	Tank Maintenance expense	2007		29,191
9	Total			601,078
10				
11	Normalized Three Year Actual Tank Maint.			\$ 200,359
12	Company Proposed			\$ 156,985
13	Staff Adjustment - Tank Maintenance Expense			\$ 43,374
14				
15	Normalization of Transmission and Distribution Expenses - Account Nos. 663 & 673			
16		Year	Account	Expense
17	Transmission & Distribution Expense - Meters	2005	663	342,211
18	Transmission & Distribution Expense - Meters	2006	663	452,164
19	Transmission & Distribution Expense - Meters	2007	663	562,900
20	Total			1,357,274
21				
22	Normalized over 3 years			452,425
23	Company Proposed			562,900
24	Staff Adjustment			(110,475)
25				
26	Transmission & Distribution Expense - Meters	2005	673	216,203
27	Transmission & Distribution Expense - Meters	2006	673	238,946
28	Transmission & Distribution Expense - Meters	2007	673	402,011
29	Total			\$ 857,159
30				
31	Normalized over 3 years			\$ 285,720
32	Company Proposed			\$ 402,011
33	Staff Adjustment			\$ (116,291)
34				
35	Total Staff Adjustments (L15 + L26 +L35)			\$ (183,392)
36	Staff's Surrebuttal Adjustment			\$ (303,588)
37	Staff Errata Adjustment			\$ 120,196

References:

Col [A]: Company Schedule C-1 Page 7
Col [B]: All Testimony, Company General Ledger
Col [C]: Col. [A] + Col. [B]