



ORIGINAL

MEMORANDUM

20
A

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: April 2, 2010

RE: **AMENDED STAFF REPORT** FOR SUN LEISURE ESTATES UTILITIES COMPANY, INC.'S APPLICATIONS FOR A PERMANENT RATE INCREASE AND FINANCING APPROVAL (DOCKET NOS. W-02386A-09-0308 AND W-02386A-09-0554).

Attached is the Amended Staff Report for Sun Leisure Estates Utilities Company, Inc.'s applications for a permanent rate increase and financing approval. Staff recommends approval of the rate increase and financing request applications using Staff's amended rates and charges.

Any party who wishes may file comments to the Amended Staff Report with the Commission's Docket Control by 4:00 p.m. on or before April 19, 2010.

SMO:JMM:kdh

Originator: Jeffrey M. Michlik

Arizona Corporation Commission
DOCKETED
APR - 2 2010

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Service List for: Sun Leisure Estates Utilities Company, Inc.
Docket Nos. W-02386A-09-0308 and W-02386A-09-0554

Mr. Chuck Swysgood
President
Sun Leisure Estates Utilities Company, Inc.
Post Office Box 1074
Yuma, Arizona 85366-1074

**AMENDED STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

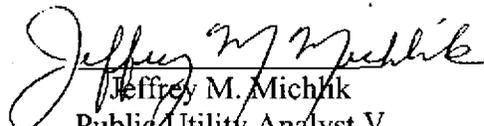
**SUN LEISURE ESTATES UTILITIES COMPANY, INC.
DOCKET NOS. W-02386A-09-0308 and W-02386A-09-0554**

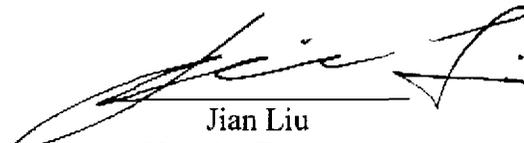
**APPLICATIONS FOR A
PERMANENT RATE INCREASE AND FINANCING APPROVAL**

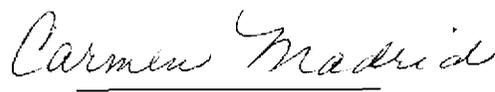
April 02, 2010

STAFF ACKNOWLEDGMENT

The Amended Staff Report for Sun Leisure Estates Utilities Company, Inc. ("Company"), Docket Nos. W-02386A-09-0308 and W-02386A-09-0554 was the responsibility of the Staff members listed below. Jeffrey M. Michlik was responsible for the financial review and analysis of the Company's applications, recommended revenue requirement, rate base and rate design. Jian Liu was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Commission's records on customer complaints filed with the Commission.


Jeffrey M. Michlik
Public Utility Analyst V


Jian Liu
Utilities Engineer


Carmen Madrid
Consumer Analyst I

EXECUTIVE SUMMARY
SUN LEISURE ESTATES UTILITIES COMPANY, INC.
APPLICATION FOR A PERMANENT RATE INCREASE AND FINANCING
DOCKET NOS. W-02386A-09-0308 AND W-02386A-09-0554

Sun Leisure Estates Utilities Company, Inc. ("Company") is engaged in the business of providing utility water services to customers near the City of Yuma, Yuma County, Arizona. The Company provides services to approximately 57 metered customers and its current rates were effective October 1, 1990, per Arizona Corporation Commission ("Commission") Decision No. 57078.

Rate Case:

The Company's rate application requested an increase in revenue of \$13,636, or 100.00 percent over test year revenue of \$13,636. The Company's proposed revenues of \$27,272 result in operating income of \$5,662, and a rate of return on rate base of 25.18 percent. The Company proposed an original cost rate base ("OCRB") of \$22,488. The Company is seeking a rate increase at this time to comply with Commission Amended Decision No. 70692, which ordered the Company to file a new rate case application based on a year-end 2008 test year. The Company's proposed rates would increase the typical residential bill with a median usage of 3,382 gallons from \$16.07 to \$32.14, for an increase of \$16.07 or 100.00 percent.

On February 22, 2010, a Procedural Order was issued ordering that the rate case, Docket No. W-02386A-09-0308, and the subsequent financing case Docket No. W-02386A-09-0554, be consolidated. It was further ordered that Staff file an Amended Staff Report to consider the impact of the financing case on the Company's rates, and to file that Report by April 2, 2010.

Staff's amended recommended rates would increase revenue by \$7,864 or 57.67 percent over adjusted test year revenues of \$13,636. Staff's amended revenues of \$21,500 result in operating income of \$7,948, and a rate of return on rate base of 33.44 percent. Staff recommends an OCRB of \$23,768. Staff's amended recommended rates would increase the typical residential bill with a median usage of 3,382 gallons from \$16.07 to \$22.86, for an increase of \$6.79 or 42.25 percent. The inclusion of debt service results in a higher rate of return and operating margin than Staff typically recommends.

Financing:

The Company requests authorization to issue debt in the form of a loan in the amount of \$25,000 for the addition of a new well, which will be financed by several individuals of the cooperative. Staff recommends authorization of the loan subject to certain restrictions.

Recommendations:

Staff recommends approval of its amended rates and charges as shown in Amended Schedule JMM-4. In addition to collection of its regular rates and charges, the Company may

collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends that the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

Staff further recommends that the Company maintain proper documentation for all plant in service, on a going-forward basis.

Staff further recommends that the Company be ordered to utilize the depreciation rates as delineated in the Amended Engineering Report on a going-forward basis.

Staff further recommends that the Company drill a back-up well. Staff further recommends that the Company file, as a compliance item in this Docket, by May 31, 2011, a copy of the Approval of Construction issued by Arizona Department of Environmental Quality for the new well.

Staff further recommends that the Commission authorize the Company to obtain a 5-year amortizing loan in an amount not to exceed \$25,000 and at an interest rate not to exceed 6 percent to finance the capital improvement discussed herein.

Staff further recommends that the Commission authorize the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Company be ordered to file copies of the executed loan documents, as a Compliance item in this docket, within 60 days of the execution of any transactions.

Staff further recommends that the Company be ordered to file a rate case no later than May, 2016 using a 2015 test year.

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ATTACHMENTS

AMENDED ENGINEERING REPORT..... A

Fact Sheet

Type of Ownership: Arizona Non-Profit Corporation.

Location: The Company serves water customers near the City of Yuma, Yuma County, Arizona.

Rates: Permanent rate increase application filed: June 10, 2009. The application was deemed sufficient on September 11, 2009.

Current Rates: Decision No. 57078, dated September 19, 1990.

Prior Test Year: September 30, 1989

Current Test Year Ended: December 31, 2008.

Metered Rates:

Based on 5/8 x 3/4 inch meter

	Company Current <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
<u>Monthly Minimum Charge</u>	\$12.50	\$25.00	\$16.25
Gallons in minimum	1,000	1,000	0
<u>Commodity Rates Per 1,000 Gallons:</u>			
Single Tier	\$1.50	\$3.00	N/A
0 to 3,000 gallons	N/A	N/A	\$1.85
3,001 to 10,000 gallons	N/A	N/A	\$2.77
Over 10,001 gallons	N/A	N/A	\$3.45
<u>Typical residential bill</u>			
(based on median usage of 3,382 gallons)	\$16.07	\$32.14	\$22.86

Customers: The Company serves 57 customers.

Notifications:

Customer notification was filed with the Arizona Corporation Commission on June 10, 2009, for the rate case application.

Customer notification was filed with the Arizona Corporation Commission on March 9, 2010, for the financing application.

Complaints:

January 1, 2006 – March 3, 2010:

Zero Complaints
One Inquiry

Three Opinions (one opposed to the rate increase, and two in favor; one of the opinions was a petition with fifteen letters in favor of the increase)

Summary of Rate Filing

On June 10, 2009, Sun Leisure Estates Utilities Company, Inc. ("Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On September 19, 2009, the application was deemed sufficient by the Utilities Division Staff ("Staff").

Based on amended test year results, as adjusted by Staff, the Company had operating income of \$84, for a rate of return on rate base of 0.35 percent, as shown on Amended Schedule JMM-1.

The Company's proposed rates would produce operating revenues of \$27,272 and result in operating income of \$5,662, for a rate of return on rate base of 25.18 percent. The Company's proposed rates would increase the typical residential bill with a median usage of 3,382 gallons from \$16.07 to \$32.14, for an increase of \$16.07 or 100.00 percent.

Staff's amended recommended rates would produce operating revenues of \$21,500 and result in an operating income of \$7,948, for a rate of return on rate base of 33.44 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 3,382 gallons from \$16.07 to \$22.86, for an increase of \$6.79 or 42.25 percent.

The Company utilized a test year ending December 31, 2008.

Company Background

The Company is engaged in the business of providing utility water services to customers near the City of Yuma, Yuma County, Arizona. The Company provides services to approximately 57 metered customers and its current rates were effective September 19, 1990, per Commission Decision No. 57078.

An emergency surcharge was approved in Decision No. 62622, dated June 9, 2000. In that Decision, the Commission authorized an emergency surcharge to cover the costs of drilling a new well, installing a new pump and to make repairs to its present well. The Company was authorized to collect the \$382 per customer in 12 monthly installments of \$31.83.

On March 5, 2008, the Company filed an emergency rate increase request with the Commission, asking for a \$450 customer surcharge to cover the costs of installing a back-up well, pump, meter and attorney fees.

On June 13, 2008, in Decision No. 70375, the Commission denied the Company's request for an emergency surcharge, and ordered the Company to file a rate case. On January 20, 2009, the amended Decision ordered the Company to file a new rate case by July 31, 2009, using a December 31, 2008, test year.

On February 22, 2010, a Procedural Order was issued ordering that the rate case, Docket No. W-02386A-09-0308, and the subsequent financing case Docket No. W-02386A-09-0554, be consolidated. It was further ordered that Staff file an Amended Staff Report to consider the impact of the financing case on the Company's rates, and to file that Report by April 2, 2010.

Consumer Services

A review of the Consumer Services Section database for the Company from January 1, 2006, through March 3, 2010, revealed that from 2006 to the present there were zero complaints and one inquiry filed in 2007. In 2009 there were three opinions (one opposed to the rate increase, and two in favor of the rate increase). One of the opinions was a petition with fifteen letters in favor of the increase.

Compliance

The Utilities Division Compliance Section reflects no outstanding compliance issues.

The Company is not within an Active Management Area and is not subject to the Arizona Department of Water Resources monitoring and reporting requirements for groundwater withdrawals.

The Arizona Department of Environmental Quality ("ADEQ") regulates the Company's water system under ADEQ Public Water System ("PWS") #14-075. Based on compliance information submitted by the Company, ADEQ has determined that this system is in full compliance with its requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated April 30, 2009).

The Corporations Division of the Commission indicates the Company is in good standing.

The Company has a certificate of good standing from the Arizona Department of Revenue, dated June 3, 2009.

Engineering Analysis

The plant facilities were visited on October 22, 2009, by Mr. Jian Liu, Staff Utilities Engineer in the accompaniment of Mr. Chuck Swysgood, President of the Company. A complete discussion of Staff's technical findings and recommendations and a complete description of the Company's system is provided in Staff's Amended Engineering Report.

Rate Base

Staff increased rate base by \$1,280 from \$22,488 to \$23,768. The change was the result of the inclusion of the formula-method for cash working capital allowance in the amount of \$1,280. Staff noted a cell formula error in its original report, and has corrected it. See Amended Schedule JMM-2 page 1. For rate making purposes, the Company's Original Cost Rate Base is the same as its Fair Value Rate Base.

Plant-in-Service

The Company provided Staff with no invoices to support its plant in service costs. Staff Engineer Mr. Jian Liu, examined the plant in service, and has verified that the Company does indeed have the plant in service. Staff Engineer Mr. Jian Liu, did not conduct a reconstructive cost analysis; however, Mr. Liu believes the Company's plant in service amount of \$95,556 to be reasonable. Staff recommends that, on a going-forward basis, the Company maintain proper documentation for all plant in service.

Accumulated Depreciation

The Company was authorized to implement new depreciation rates in Decision No. 70981 (March 5, 2009). Staff notes that, without Commission authorization, the Company applied those rates retroactively to recalculate its accumulated depreciation. Staff is not recommending a correcting adjustment to accumulated depreciation in this case; however, Staff recommends that the Company be admonished that it is not authorized to apply any rate changes retroactively and may only carry rate changes forward.

Staff has reviewed the Company's accumulated depreciation schedules. Since Staff is not recommending a correcting adjustment for the Company's retroactive application of rates, Staff concurs with the Company's proposed amount.

Contributions in Aid of Construction (CIAC)

In its original Staff Report, Staff did not recognize CIAC on its Schedule JMM-2, page 1, because the CIAC amount was fully amortized with a net balance of zero. For clarification

purposes, Staff has included the amount of CIAC reported by the Company, \$57,826, as well as the accumulated amortization of CIAC, also \$57,826, for a net balance of zero. See Amended Schedule JMM-2 page 1.

Working Capital

The Company neglected to claim any cash working capital allowance. Staff included a cash working capital allowance of \$1,280, calculated using the formula-method.

Operating Expenses

Staff's adjustments to operating expenses resulted in a decrease of \$8,058, from \$21,610 to \$13,552, as shown on Amended Schedule JMM-3, page 1. The adjustments are explained below.

Outside Services Expense – Adjustment A decreased outside services expense by \$8,999, from \$12,599 to \$3,600. These services relate to legal expenses incurred in the 2008 emergency rate case. Staff does not consider these expenses to be ongoing.

Water Testing Expense – Adjustment B increased water testing expense by \$534, from \$2,064 to \$2,598, to reflect the amount recommended by Staff.

Insurance-General Liability – Adjustment C increased insurance-general liability expense by \$207, from \$1,693 to \$1,900. In its Response to the Staff Report (“Response”),¹ the Company indicated that in 2009 its insurance premium had increased by \$207 over the test year amount, an increase of which the Company had not previously made Staff aware. The Company subsequently provided documentation for the increase and, as indicated in Staff's Reply to the Response (“Reply”),² Staff now makes this adjustment to reflect a known and measureable change that represents an ongoing expense.

Rate Case Expense – Adjustment D increased rate case expense by \$200, from \$0 to \$200. Staff indicated in its Reply that Staff would be willing to consider any proposal by the Company for a reasonable allowance for rate case expense related to the instant proceeding. The Company did not subsequently propose any estimate of the costs it incurred in preparing the current rate and financing cases. Nevertheless, Staff has estimated a reasonable rate case expense of \$1,000, based on its experience with similarly-situated small-size companies, and Staff now makes this adjustment to reflect Staff's estimate of \$1,000 normalized over 5 years.

¹ Filed in the docket on Nov. 30, 2009.

² Filed in the docket on Jan. 8, 2010.

Revenue Requirement

Staff now recommends total operating revenue of \$21,500, an increase of \$7,864 over test year revenue of \$13,636. Staff's recommendation provides operating income of \$7,948. See Amended Schedule JMM-1. This income provides the Company with sufficient funds to cover its debt service from the financing request, as well as adequate cash flows for contingencies. The inclusion of debt service results in a higher rate of return and operating margin than Staff typically recommends.

Rate Design

The Company's proposed rates would increase the typical residential bill with a median usage of 3,382 gallons from \$16.07 to \$32.14, for an increase of \$16.07 or 100.00 percent.

Staff's recommended rates would increase the typical residential bill with a median usage of 3,382 gallons from \$16.07 to \$22.86, for an increase of \$6.79 or 42.25 percent.

Staff recommends service line and meter installation charges consistent with Table J of the Amended Engineering Report. For service charges, Staff recommends charges that are consistent with other water companies' approved tariffs.

Financing

Introduction

As a result of Staff's initial site inspection, Staff recommended that, within one year of the effective date of the order in this proceeding, the Company either install a storage tank with a minimum storage capacity of 65,000 gallons or drill a back-up well.

After discussions with the Company regarding alternatives for funding the recommended capital improvements, the Company filed a financing application for a new well on December 10, 2009.

Public Notice

On March 9, 2010, the Company filed confirmation in this docket that on March 4, 2010, it mailed public notice of the financing to its customers.

Purpose and Terms of the Proposed Financing

The purpose of the proposed financing is to fund the drilling of a new back-up well.

The Company stated that it has a commitment for loans from several individuals for a total of up to \$25,000, which is the estimated cost of installing a new well. The duration of the loan would be five years at an interest rate of 6 percent.

The Company also listed several conditions, comments and concerns about the \$25,000 loan, which are as follows:

- The loans would be at a 6 percent interest rate.
- The duration of the loans would be for up to five years.
- The loans would be repaid monthly from the Company's operating revenues.
- The Company's assets would not be encumbered by the financing.
- The loans would be contingent upon the Commission approving an increase in the Company's current rates, sufficient enough to satisfy the loan requirements.
- The Company submitted a rate increase application to the Commission (Docket No. W-02386A-09-0308).
- The Company estimated that it would require a rate increase of a least fifty percent above its current rates to satisfy the loan requirements.
- The Company requested that the financing application be included in the rate increase application that is before the Commission (Docket No. W-02386A-09-0308)

The Company's request regarding consolidation of the two dockets has already been addressed through the Procedural Order issued February 22, 2010.

Engineering Analysis of the Proposed Financing

Staff has determined that the construction of a new well and the associated costs are reasonable and appropriate. A complete discussion of the project and costs is included in the attached Amended Engineering Report.

Financial Analysis

Since the construction of a new well was deemed reasonable and appropriate, Staff has completed a financial analysis to ensure that the Company will have the wherewithal to finance the new well.

Based on its analysis, Staff recommends approval of the requested loan, subject to the conditions as presented under the Staff Recommendations section below.

Times Interest Earned Ratio ("TIER") and Debt Service Coverage ("DSC") Ratio

TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest

expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

DSC represents the number of times internally generated cash (i.e. earnings before interest, income tax, depreciation and amortization expenses) covers required principal and interest payments on debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

The pro forma TIER and DSC show that, under Staff's recommended rates, the Company would have adequate cash flow to meet all obligations including debt service on the new well. See Schedule JMM-6.

Staff Recommendations

Staff recommends approval of its amended rates and charges as shown in Amended Schedule JMM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends that the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

Staff further recommends that the Company maintain proper documentation for all plant in service, on a going-forward basis.

Staff further recommends that the Company be ordered to utilize the depreciation rates as delineated in the Amended Engineering Report on a going-forward basis.

Staff further recommends that the Company drill a back-up well. Staff further recommends that the Company file, as a compliance item in this Docket, by May 31, 2011, a copy of the Approval of Construction issued by Arizona Department of Environmental Quality for the new well.

Staff further recommends that the Commission authorize the Company to obtain a 5-year amortizing loan in an amount not to exceed \$25,000 and at an interest rate not to exceed 6 percent to finance the capital improvement discussed herein.

Staff further recommends that the Commission authorize the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Company be ordered to file copies of the executed loan documents, as a Compliance item in this docket, within 60 days of the execution of any transactions.

Staff further recommends that the Company be ordered to file a rate case no later than May, 2016 using a 2015 test year.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$13,636	\$13,636	\$27,272	\$21,500
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$13,636	\$13,636	\$27,272	\$21,500
Operating Expenses:				
Operation and Maintenance	\$18,874	\$10,816	\$18,874	\$10,816
Depreciation	1,389	1,389	1,389	1,389
Property & Other Taxes	1,302	1,302	1,302	1,302
Income Tax	45	45	45	45
Total Operating Expense	\$21,610	\$13,552	\$21,610	\$13,552
Operating Income/(Loss)	(\$7,974)	\$84	\$5,662	\$7,948
Rate Base O.C.L.D.	\$22,488	\$23,768	\$22,488	\$23,768
Rate of Return - O.C.L.D.	N/M	0.35%	25.18%	33.44%
Times Interest Earned Ratio (Pre-Tax)	N/M	0.09	4.11	5.81
Debt Service Coverage Ratio (Pre-Tax)	N/M	1.10	1.19	1.58
Operating Margin	N/M	0.62%	20.76%	36.97%

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
 2. The debt service coverage ratio (DSC) represents the number of times internally generated cash will cover the required principal and interest payments on short-term and long-term debt.
 3. Operating margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

RATE BASE

	----- Original Cost -----		Staff
	Company	Adjustment	
Plant in Service	\$95,556	\$0	\$95,556
Less:			
Accum. Depreciation	73,068	0	73,068
Net Plant	\$22,488	\$0	\$22,488
Less:			
Plant Advances	\$0	\$0	\$0
Accumulated Deferred Income Taxes	0	0	0
Total Advances	\$0	\$0	\$0
Contributions Gross	\$57,826	\$0	\$57,826
Less:			
Amortization of CIAC	57,826	0	57,826
Net CIAC	\$0	\$0	\$0
Total Deductions	\$0	\$0	\$0
Plus:			
1/24 Power	\$0	\$63 A	\$63
1/8 Operation & Maint.	0	1,217 A	1,217
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$0	\$1,280	\$1,280
Rate Base	\$22,488	\$1,280	\$23,768

Explanation of Adjustment:

- A Staff's inclusion of the formula-method for determining cash working capital based on Staff's recommended operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted	RCN
301 Organization	\$0	\$0	\$0	\$0
302 Franchises	0	0	0	
303 Land & Land Rights	5,000	0	5,000	0
304 Structures & Improvements	3,437	0	3,437	0
307 Wells & Springs	24,490	0	24,490	0
311 Pumping Equipment	20,654	0	20,654	0
320 Water Treatment Equipment	0	0	0	0
330 Distribution Reservoirs & Standpipe	12,231	0	12,231	0
331 Transmission & Distribution Mains	19,293	0	19,293	0
333 Services	5,194	0	5,194	0
334 Meters & Meter Installations	1,339	0	1,339	0
335 Hydrants	2,712	0	2,712	0
336 Backflow Prevention Devices	0	0	0	0
339 Other Plant and Misc. Equipment	0	0	0	0
340 Office Furniture & Equipment	1,206	0	1,206	0
340.1 Computers & Software	0	0	0	
341 Transportation Equipment	0	0	0	0
343 Tools Shop & Garage Equipment	0	0	0	0
344 Laboratory Equipment	0	0	0	0
345 Power Operated Equipment	0	0	0	
346 Communication Equipment	0	0	0	
347 Miscellaneous Equipment	0	0	0	
348 Other Tangible Plant	0	0	0	
105 C.W.I.P.	0	0	0	0
TOTALS	\$95,556	\$0	\$95,556	\$0

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$73,068
Accumulated Depreciation - Per Staff	<u>73,068</u>
Total Adjustment	<u><u>\$0</u></u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$13,636	\$0	\$13,636
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$13,636	\$0	\$13,636
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	1,507	0	1,507
618 Chemicals	0	0	0
620 Repairs and Maintenance	209	0	209
621 Office Supplies & Expense	310	0	310
630 Outside Services	12,599	(8,999) A	3,600
635 Water Testing	2,064	534 B	2,598
641 Rents	0	0	0
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	1,693	207 C	1,900
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	200 D	200
675 Miscellaneous Expense	492	0	492
403 Depreciation Expense	1,389	0	1,389
408 Taxes Other Than Income	426	0	426
408.11 Property Taxes	876	0	876
409 Income Tax	45	0	45
Total Operating Expenses	\$21,610	(\$8,058)	\$13,552
OPERATING INCOME/(LOSS)	(\$7,974)	\$8,058	\$84
Other Income/(Expense):			
419 Interest and Dividend Income	\$19	\$0	\$19
421 Non-Utility Income	197	0	197
427 Interest Expense	0	1,376	1,376
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	\$216	(\$1,376)	(\$1,160)
NET INCOME/(LOSS)	(\$7,758)	\$6,682	(\$1,076)

STAFF ADJUSTMENTS

A -	OUTSIDE SERVICES - Per Company	\$12,599	
	Per Staff	3,600	(\$8,999)

These services relate to legal expenses incurred in the 2008 emergency rate case.
Staff does not consider these expenses to be ongoing.

B -	WATER TESTING - Per Company	\$2,064	
	Per Staff	2,598	\$534

To reflect the amount recommended by the Staff Engineer.

C -	INSURANCE GENERAL LIABILITY - Per Company	\$1,693	
	Per Staff	1,900	\$207

Staff has increased insurance expense - (general liability) to reflect a known
and measureable ongoing expense.

D -	RATE CASE EXPENSE - Per Company	\$0	
	Per Staff	200	\$200

Staff has increased rate case expense by \$200 to reflect Staff's estimate of total
rate case expense to be \$1,000 normalized over 5 years.

RATE DESIGN

Monthly Usage Charge	Present	Company	Staff
	Rates	Proposed	Recommended
<u>5/8" x 3/4" Meter</u>	\$12.50	\$25.00	\$16.25
3/4" Meter	18.75	31.25	24.38
1" Meter	31.25	43.75	40.63
1½" Meter	62.50	75.00	81.25
2" Meter	100.00	112.50	130.00
3" Meter	N/A	N/A	260.00
4" Meter	N/A	N/A	406.25
6" Meter	N/A	N/A	812.50
Gallons included in Minimum	1,000	1,000	0.00
Commodity Charge in Excess of Minimum (Charge Per 1,000 Gallons)	\$1.50	\$3.00	N/A
<u>5/8" x 3/4" Meter and 3/4" Meter (Residential)</u>			
0 - 3,000 gallons	N/A	N/A	\$1.85
3,001 - 10,000 gallons	N/A	N/A	2.77
Over 10,000 gallons	N/A	N/A	3.45
<u>5/8" x 3/4" Meter and 3/4" Meter (Industrial & Commercial)</u>			
0 - 10,000 gallons	N/A	N/A	2.77
Over 10,000 gallons	N/A	N/A	3.45
<u>1" Meter (Residential, Industrial & Commercial)</u>			
0 - 35,000 gallons	N/A	N/A	2.77
Over 35,000 gallons	N/A	N/A	3.45
<u>1 1/2" Meter (Residential, Industrial & Commercial)</u>			
0 - 100,000 gallons	N/A	N/A	2.77
Over 100,000 gallons	N/A	N/A	3.45
<u>2" Meter (Residential, Industrial & Commercial)</u>			
0 - 180,000 gallons	N/A	N/A	2.77
Over 180,000 gallons	N/A	N/A	3.45
<u>3" Meter (Residential, Industrial & Commercial)</u>			
0 - 390,000 gallons	N/A	N/A	2.77
Over 390,000 gallons	N/A	N/A	3.45
<u>4" Meter (Residential, Industrial & Commercial)</u>			
0 - 635,000 gallons	N/A	N/A	2.77
Over 635,000 gallons	N/A	N/A	3.45
<u>6" Meter (Residential, Industrial & Commercial)</u>			
0 - 1,300,000 gallons	N/A	N/A	2.77
Over 1,300,000 gallons	N/A	N/A	3.45
<u>Standpipe/Construction - All Usage per 1,000 Gallons</u>	N/A	N/A	3.45

RATE DESIGN - (Cont.)

	Present Charges	Company Proposed	Staff Recommended		
			Service Line Charge	Meter Installation	Total Recommended
<u>Service Line and Meter Installation Charges</u>					
5/8" x 3/4" Meter	\$250.00	\$280.00	\$200.00	\$80.00	\$280.00
3/4" Meter	275.00	305.00	\$200.00	\$105.00	\$305.00
1" Meter	300.00	330.00	\$200.00	\$130.00	\$330.00
1½" Meter	345.00	375.00	\$200.00	\$175.00	\$375.00
2" Meter	625.00	655.00	\$290.00	\$365.00	\$655.00
3" Meter	N/A	N/A	Cost	Cost	Cost
4" Meter	N/A	N/A	Cost	Cost	Cost
6" Meter	N/A	N/A	Cost	Cost	Cost
<u>Service Charges</u>					
Establishment	\$25.00	\$35.00	\$35.00		
Establishment (After Hours)	40.00	50.00	50.00		
Reconnection (Delinquent)	25.00	35.00	35.00		
Reconnection (Delinquent) after hours	N/A	55.00	55.00		
Meter Test (If Correct)	25.00	35.00	35.00		
Deposit	*	*	*		
Deposit Interest	*	*	*		
Re-Establishment (Within 12 Months)	**	**	**		
NSF Check	15.00	30.00	30.00		
Deferred Payment (Per Annum)	15.00%	18.00%	18.00%		
Meter Re-Read (If Correct)	10.00	15.00	15.00		
Late Fee (Per Month)	N/A	N/A	1.50%		

* Per Commission Rules (R14-2-403.B)

** Months off system times the monthly minimum (R14-2-403.D)

TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 57

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,907	\$19.86	\$39.72	\$19.86	100.00%
Median Usage	3,382	\$16.07	\$32.14	\$16.07	100.00%
<u>Staff Recommend</u>					
Average Usage	5,907	\$19.86	\$29.85	\$9.99	50.30%
Median Usage	3,382	\$16.07	\$22.86	\$6.79	42.25%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

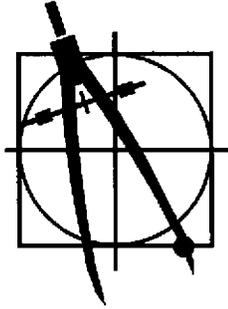
<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$12.50	\$25.00	100.00%	\$16.25	30.00%
1,000	12.50	25.00	100.00%	18.10	44.80%
2,000	14.00	28.00	100.00%	19.95	42.50%
3,000	15.50	31.00	100.00%	21.80	40.65%
4,000	17.00	34.00	100.00%	24.57	44.53%
5,000	18.50	37.00	100.00%	27.34	47.78%
6,000	20.00	40.00	100.00%	30.11	50.55%
7,000	21.50	43.00	100.00%	32.88	52.93%
8,000	23.00	46.00	100.00%	35.65	55.00%
9,000	24.50	49.00	100.00%	38.42	56.82%
10,000	26.00	52.00	100.00%	41.19	58.42%
15,000	33.50	67.00	100.00%	58.44	74.45%
20,000	41.00	82.00	100.00%	75.69	84.61%
25,000	48.50	97.00	100.00%	92.94	91.63%
50,000	86.00	172.00	100.00%	179.19	108.36%
75,000	123.50	247.00	100.00%	265.44	114.93%
100,000	161.00	322.00	100.00%	351.69	118.44%
125,000	198.50	397.00	100.00%	437.94	120.62%
150,000	236.00	472.00	100.00%	524.19	122.11%
175,000	273.50	547.00	100.00%	610.44	123.20%
200,000	311.00	622.00	100.00%	696.69	124.02%

FINANCIAL ANALYSIS

Selected Financial Information
Pro forma Includes Immediate Effects of the Proposed Long-term Debt

	[A] 12/31/2008 Test Year Operating Results <u>Without Loan</u>	[B] 3/3/2010 With Staff Recommended Operating Income and Staff Recommended Loan Amount of \$25,000 <u>Pro Forma</u>
1 Operating Income/(Loss)	\$84	\$7,948
2 Depreciation Expense	1,389	1,389
3 Income Tax Expense	45	45
4 Interest Expense	-	1,376
5 Principal Repayment	-	4,559
TIER & DSC Calculation		
TIER		
6 [1+3] ÷ [4]	N/M	5.81
DSC		
7 [1+2+3] + [4+5]	N/M	1.58

N/M = Not meaningful since the Company currently does not have any loans outstanding.



**Amended Engineering Report for:
Sun Leisure Estates Utilities Company
Docket No. W-02386A-09-0308 (Rate) and
W-02386A-09-0554 (Financing)**

By: Jian W Liu
Utilities Engineer

March 23, 2010

EXECUTIVE SUMMARY

CONCLUSIONS:

1. Sun Leisure Estates Utilities Company, Inc. ("Sun Leisure" or "Company") is not located in any Arizona Department of Water Resources ("ADWR") Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements. ADWR reported that it has determined that Sun Leisure is currently in compliance with departmental requirements governing water providers and/or community water systems.
2. The Arizona Department of Environmental Quality ("ADEQ") regulates the Sun Leisure's Water System under ADEQ Public Water System ("PWS") #14-075. ADEQ has determined that this system is in full compliance with its requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.
3. A check with the Arizona Corporation Commission ("Commission") Utilities Division Compliance Section showed no delinquent compliance items for the Company.
4. Sun Leisure has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.
5. The existing water system's current storage capacity of 15,000 gallons is inadequate to serve its 57 connections. Staff believes it is reasonable to allow the Company to add a new backup well in lieu of adding additional storage capacity.

RECOMMENDATIONS

1. Staff recommends annual water testing expense of \$2,598 be used for purposes of this application.
2. Staff recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category as delineated in Table H-1.

3. On December 9, 2009, the Company filed an application with the Commission requesting authority to get a loan up to \$25,000 from several individuals for the purpose of drilling a new back-up well. Staff concludes that the well addition and its associated cost is reasonable and appropriate given that Staff's financial review and analysis supports approval of the financing. Staff recommends that the Company file, as a compliance item in this docket, by May 31, 2011, a copy of the Approval of Construction ("AOC") issued by ADEQ for the back-up well.
4. Staff recommends that the Service Line and Meter Installation Charges listed under "Staff's Recommendation" in Table J-1 be adopted.

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A. LOCATION OF THE COMPANY

Sun Leisure Estates Utilities Company, Inc. (“Sun Leisure” or “Company”) is located in an unincorporated portion of Yuma County near the City of Yuma, Arizona. Figure A-1 shows the location of Sun Leisure within Yuma County and Figure A-2 shows the certificated area. On June 10, 2009, the Company filed in Docket No. W-02386A-09-0308 an application with the Arizona Corporation Commission (“Commission”) requesting approval of a rate increase.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on October 22, 2009, by Jian W. Liu, Staff Utilities Engineer, in the accompaniment of Chuck Swysgood, President of the Company.

The Company’s system serves approximately 57 customers and consists of one well (producing 130 gallons per minute), one storage tank (capacity 15,000 gallons), two booster pumps and a distribution system. Detailed plant facility descriptions follow:

Well Data

Well Number	ADWR ID No.	Pump HP	Pump GPM	Casing Size(in) & Depth(ft)	Meter Size(in)	Year Drilled
1	55-584795	7.5	130	8 and 260	1	2001

Note: GPM = gallons per minute.

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
15,000	1	1,000	1	75	2
Total 15,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	220	5/8x3/4	57	3
4	312	3/4		
6	1,700	1		
		1.5		
		Total	57	

Water System Analysis

The existing water system's current storage capacity of 15,000 gallons is inadequate to serve its 57 connections. Staff believes it is reasonable to allow the Company to add a new backup well in lieu of adding additional storage capacity.

On December 9, 2009, the Company filed in Docket No. W-02386A-09-0554 an application with the Commission requesting authority to get a loan up to \$25,000 from several individuals for the purpose of drilling a new back-up well.

The Company's estimated cost for the proposed new back-up well is as follows:

Total Cost for a new back-up well:	\$25,000
Including:	
Drilling a new back-up well	\$20,000
Engineering Costs	\$ 2,000
Piping, Valves, and Electrical	\$ 1,000
Others	\$ 2,000
Total:	\$25,000

Staff concludes that the well addition and its associated cost is reasonable and appropriate given that Staff's financial review and analysis supports approval of the financing. However, no "used and useful" determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

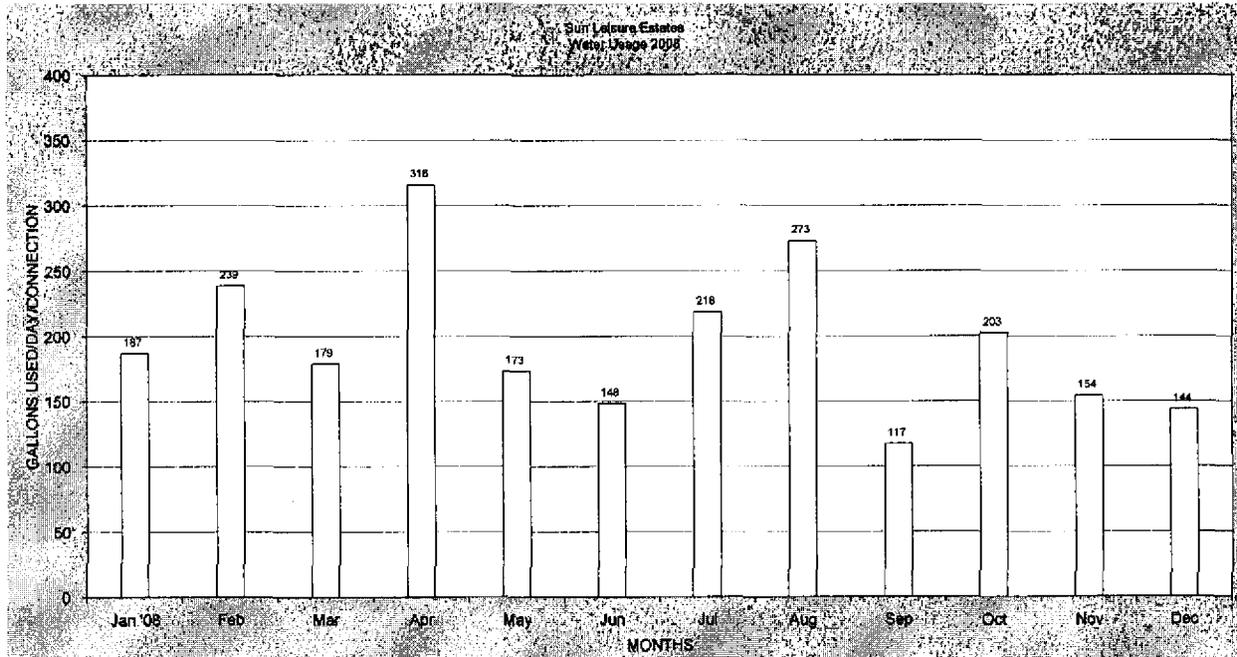
Staff recommends that the Company file, as a compliance item in this docket, by May 31, 2011, a copy of the Approval of Construction ("AOC") issued by ADEQ for the new back-up well.

C. WATER USE

Water Sold

Based on the information provided by Sun Leisure, water use for the test year is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 316 gallons per day ("GPD") per connection and a low monthly average water use of 117 GPD per connection for an average annual use of 196 GPD per connection.

Figure C-1. Water Use



Non-Account Water

Non-account water should be 10% or less. The Sun Leisure reported that the water pumped in 2008 was 4.01 million gallons (“MG”), and water sold was 4.00 MG. Therefore, the Company’s water loss during the test year was approximately 0.23 percent¹. Non-account water is within acceptable limits.

D. GROWTH

During the test year, the Company had 57 customers and it is projected that there will be minimal growth because Sun Leisure is somewhat land locked by the Marine Air Base located to the north of the Company’s service area and there are very few unbuilt lots in the subdivision.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE

Compliance

ADEQ regulates the Sun Leisure’s Water System as ADEQ Public Water System (“PWS”) #14-075. ADEQ has determined that this system is in full compliance with its

¹ The Company was not aware that the meter on the pump must be read until June 2008. Therefore, the gallons pumped were estimated from January to May, 2008.

requirements and is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated April 30, 2009).

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an additional fee of \$2.57 per service connection, regardless of meter size for participation in MAP. Participation in the MAP program is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$2,064 during the test year. Table A shows Staff's annual monitoring expense estimated at \$2,598 with participation in the MAP. Staff recommends annual water testing expense of \$2,598 be used for purposes of this application.

Table A Water Testing Expense

Monitoring PWS#14-075 (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total Coliform – monthly	\$ 30	36	1,080	\$360
Inorganics	\$252	6	\$1,512	\$504
Nitrates – annual	\$45	3	\$135	\$45
Lead & Copper – semi-annual	\$45	6	\$270	\$90
Certified Operator				\$1,200
MAP fees (annual)				\$399
Total				\$2,598

F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Company is not located in any Active Management Area (“AMA”) and is not subject to any AMA reporting and conservation requirements. ADWR reported that it has determined that Sun Leisure is currently in compliance with departmental requirements governing water providers and/or community water systems.²

² ADWR compliance status report dated January 2009.

G. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items for the Company.³

H. DEPRECIATION RATES

In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by National Association of Regulatory Utility Commissioners (“NARUC”) category. (For example, a uniform 2.50 percent composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table H-1 and it is recommended that Sun Leisure use these depreciation rates by individual NARUC category.

I. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFF

Sun Leisure has an approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

J. SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested to change its service line and meter installation charges. These charges are refundable advances and the Company’s proposed charges are below Staff’s recommended range for these charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to be charged only for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff recommends that the charges listed under “Staff’s Recommendation” in Table J-1 be adopted.

³ Compliance status report dated on October 21, 2009.

Table J-1. Service Line and Meter Installation Charges

Meter Sizes	Current Charges	Company Proposed Charges	Staff recommended Service Line Charges	Staff recommended *Meter Charges	Staff recommended Total Charges
5/8" x 3/4"	250	280	\$200	\$80	\$280
3/4"	275	305	\$200	\$105	\$305
1"	300	330	\$200	\$130	\$330
1-1/2"	345	375	\$200	\$175	\$375
2"	625	655	\$290	\$365	\$655
3"	NT	NT	At Cost	At Cost	At Cost
4"	NT	NT	At Cost	At Cost	At Cost
6"	NT	NT	At Cost	At Cost	At Cost

*Note: Meter charge includes meter box or vault.
NT: No Tariff

YUMA COUNTY

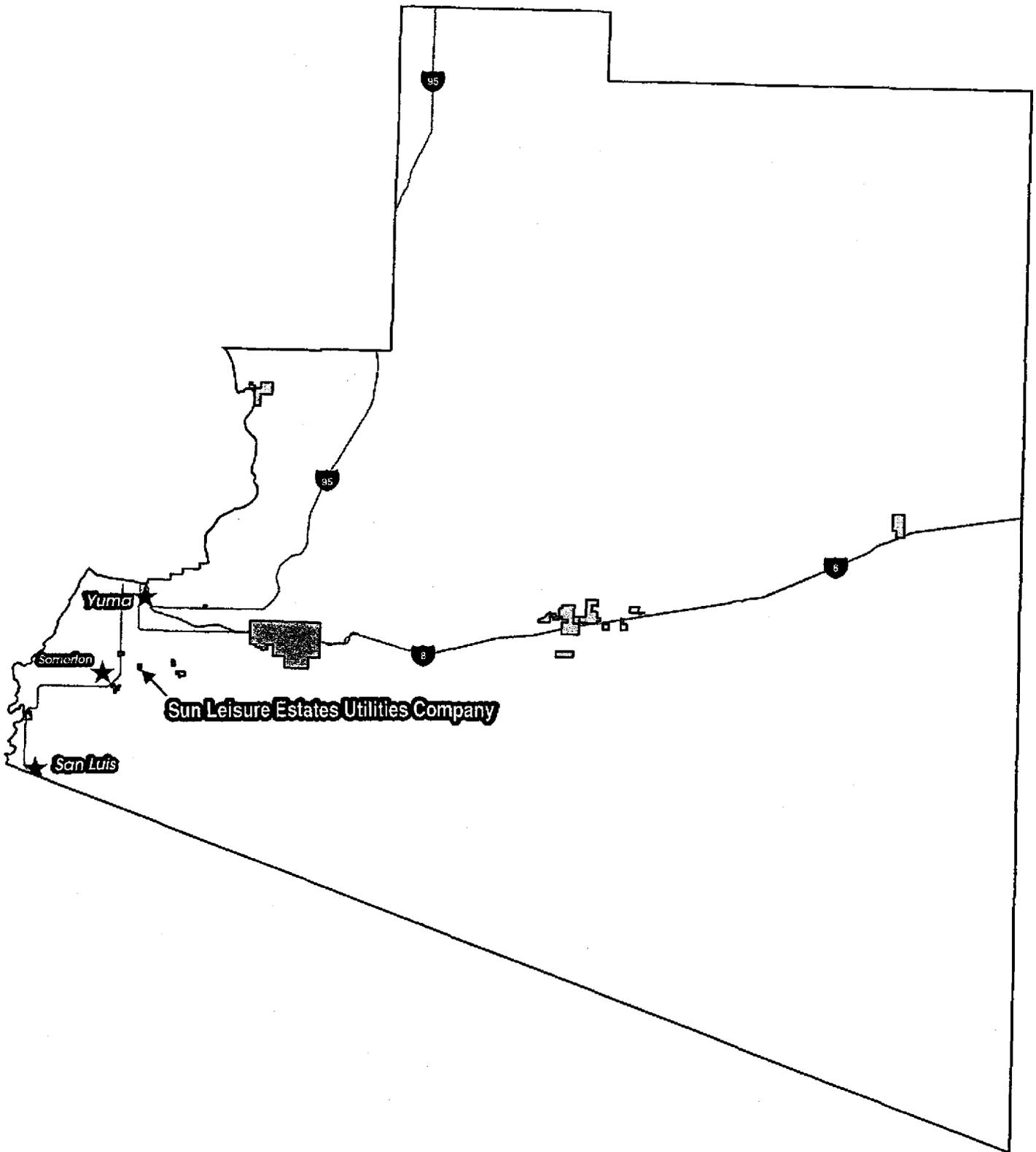


Figure 1: County Map

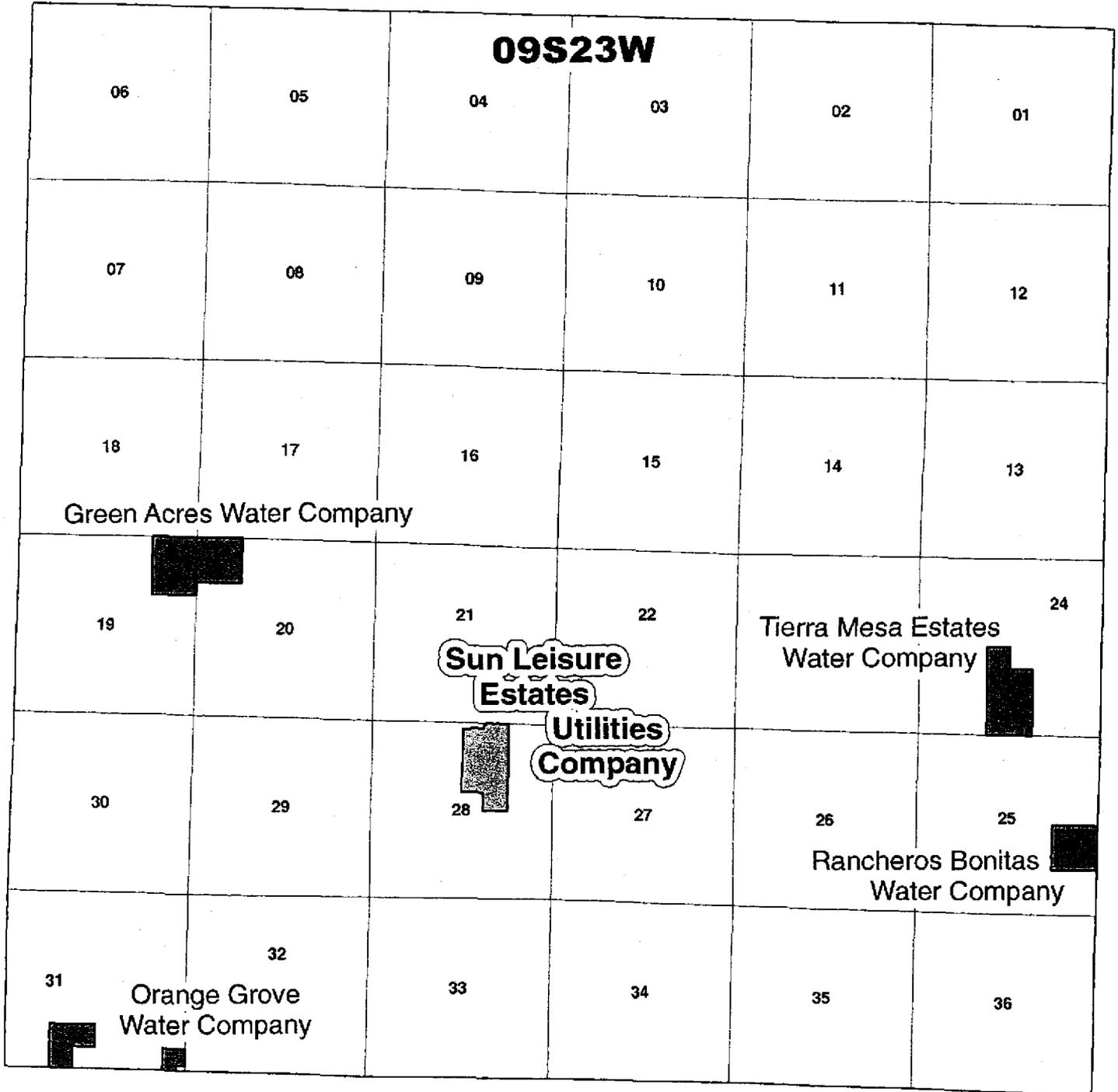


Figure 2: Certificated Area

Table H-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	10	10.00