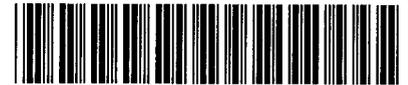


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NOV - 2 2010

MEMORANDUM

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DOCKETED BY	<i>RJS</i>
TO:	Docket Control

2010 NOV -2 P 4: 08

FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

AZ CORP COMMISSION
DOCKET CONTROL

DATE: November 2, 2010

RE: SUPPLEMENT TO THE STAFF REPORT FOR KOHL'S RANCH WATER COMPANY'S APPLICATION FOR AN EMERGENCY RATE INCREASE (DOCKET NO. W-02886-10-0369)

Attached is the Supplement to the Staff Report for Kohl's Ranch Water Company's application for an emergency rate increase written in reply to the Company's Response dated October 27, 2010.

Staff has reviewed the Company's filing and makes the following changes:

1. Staff reflects the Company's revised revenue and expense amounts in Staff's Revised Schedule CSB-1.
2. Staff reflects the Company's revised number of gallons for residential customers and the Lodge in Staff's calculation of purchased pumping power. Also, Staff adds \$1,000 for other purchased power needs such as, but not limited to, the chlorinator.
3. Staff removes \$3,030 from water testing expense to reflect Staff's recommended amount for the expense.
4. Staff removes \$1,250 in normalized rate case expense proposed by the Company as the amount is not an on-going expense.
5. Staff removes \$553 to reflect that Staff recommends no operating margin and, therefore, the minimum income tax expense of \$50 remains.
6. Staff utilizes the Company's proposed surcharges in its recommendation. Staff adopts the Company's proposed \$3,200 surcharge for the Lodge and reduces the Company's recommended surcharge of \$28.50 to \$19.09 in order to generate Staff's revenue requirement. Staff also reduces the number of residential customers used to calculate the surcharge from 124 (in the original Staff Report) to 123 (in the Supplement to the Staff Report).

These changes result in Staff's revised recommended surcharge of \$19.09 for residential customers and \$3,200 for the Lodge. Staff's revised Schedules CSB-1 and CSB-2 are attached.

SMO:CSB:tdp

Originator: Crystal Brown

Service List for: Kohl's Ranch Water Company
Docket No. W-02886-10-0369

Ms. Nancy J. Stone, President.
President of the Board
c/o ILX Resorts Incorporated
2111 East Highland Avenue, Suite 200
Phoenix, Arizona 85012

Ms. Margaret B. LaBianca
Ms. Maribeth M. Klein
Polsinelli Shugart PC
One East Washington, Suite 1200
Phoenix, Arizona 85004

Mr. Grady Gammage, Jr.
Two North Central Avenue, 15th Floor
Phoenix, Arizona, 85004

INCOME STATEMENT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED 12/31/2009	[B] STAFF ADJUSTMENTS REF	[C] STAFF AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Metered Water Sales	\$ 91,379	\$ -	\$ 91,379	\$ (14,231)	\$ 77,148
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenues	-	-	-	-	-
4	Total Revenues	<u>\$ 91,379</u>	<u>\$ -</u>	<u>\$ 91,379</u>	<u>\$ (14,231)</u>	<u>\$ 77,148</u>
EXPENSES:						
7	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-	-	-
9	Purchased Power	2,397	(351) A	2,046	-	2,046
11	Chemicals	-	-	-	-	-
12	Repairs and Maintenance	7,315	(996) B	6,319	-	6,319
13	Office Supplies and Expense	1,778	-	1,778	-	1,778
14	Outside Services	65,000	(6,000) C	59,000	-	59,000
16	Water Testing	5,835	(3,030) D	2,805	-	2,805
18	Rents	-	-	-	-	-
19	Transportation Expenses	-	-	-	-	-
20	Insurance - General Liability	2,810	-	2,810	-	2,810
21	Insurance - Health and Life	-	-	-	-	-
23	Reg. Comm. Exp. - Rate Case	1,250	(1,250) E	-	-	-
24	Miscellaneous Expense	129	-	129	-	129
26	Depreciation Expense	1,810	-	1,810	-	1,810
27	Taxes Other Than Income	-	-	-	-	-
28	Property Taxes	402	-	402	-	402
29	Income Taxes	553	(503) F	50	-	50
31	Rounding	(1)	-	(1)	-	(1)
32	Total Operating Expenses	<u>\$ 89,278</u>	<u>\$ (12,130)</u>	<u>\$ 77,148</u>	<u>\$ -</u>	<u>\$ 77,148</u>
33						
34	Operating Income (Loss)	<u>\$ 2,101</u>	<u>\$ 12,130</u>	<u>\$ 14,231</u>	<u>\$ (14,231)</u>	<u>\$ 0</u>

References:

- Column (A): Company Schedule SSR-1
- Column (B): Schedule CSB-1, page 2
- Column (C): Column (A) + Column (B)
- Column (D): Column (E) + Column (C)
- Column (E): Column (C) + Column (D)

STAFF ADJUSTMENTS

A - PURCHASED POWER EXPENSE - Per Company \$ 2,397
Per Staff 2,046 (\$351)

The Company's calculation for purchased pumping power costs included gallons for both the spring system and the well system. However, because the spring system uses gravity flow and does not utilize a pump, Staff removed the gallons related to the spring system (i.e., 3,378) as shown below. Staff also added \$1,000 for other purchased power needs such as, but not limited to, the chlorinator.

	Per Company	Adjustment	Per Staff
Spring System (Residential) - Gallons in '000's	3,378	(3,378)	0
Well System (Lodge) - Gallons in '000's	2,615	(0)	2,615
Total Annual Gallons	5,993	(3,378)	2,615
Estimated Purchased Pwr cost per 1,000 gals	\$ 0.40		\$ 0.40
Purchased Pumping Power Expense	\$ 2,397	(1,351)	\$ 1,046
Other Purchased Power Expense	\$ -	1,000	\$ 1,000
	\$ 2,397	(351)	\$ 2,046

B - MATERIAL AND SUPPLIES - Per Company \$ 7,315
Per Staff 6,319 (\$996)

The Company added \$996 in estimated repair and maintenance costs (Schedule SSR-2, Adjustment 8) in addition to the \$6,319 in actual repair and maintenance expense. Staff removed \$996 to reflect only actual repair and maintenance costs as follows:

	Per Company	Adjustment	Per Staff
Actual repair and maintenance costs	6,319	0	6,319
Estimated repair and maint. costs	996	(996)	0
Total Repair and Maint Expense	7,315	(996)	6,319

C - OUTSIDE SERVICES - Per Company \$ 65,000
Per Staff 59,000 (\$6,000)

Per discussion with the Company's consultant, Staff determined that \$6,000 in legal costs were related to the bankruptcy. Staff removed this cost as Staff believes the amount has been paid and is not an on-going expense.

	Per Company	Adjustment	Per Staff
Operator	21,000	0	21,000
Billing, Accounting, Management	36,000	0	36,000
Annual reports, Tax return preparation	2,000	0	2,000
Legal expenses	6,000	(6,000)	0
	65,000	(6,000)	59,000

D - WATER TESTING EXPENSE - Per Company \$ 5,835
Per Staff 2,805 (\$3,030)

To reflect Staff's recommendation for water testing expense.

E - REGULATORY COMMISSION EXPENSE, RATE CASE - Per Company \$ 1,250
Per Staff 0 (\$1,250)

Staff removed rate case expense as the expense is not essential and is not on-going in the short-term. Further, a normalized level of rate case expense will be provided for in the Company's permanent rate case.

F - INCOME TAXES - Per Company \$ 553
Per Staff 50 (\$503)

To reflect Staff's income tax calculation.

Line
 No.

- 1 **Annual Revenue Increase**
- 2 \$ 77,148 Staff recommended total revenue
- 3 \$(10,011) Actual total revenue
- 4 \$ (560) Additional revenue discussed in Company's response (page 11, line 21 1/2)
- 5 \$ 66,577 Staff recommended increase in revenue

6
 7
 8

9 **Calculation of Annual Surcharge Revenue**

	Number of Customers		Monthly Surcharge		Number of Months		Annual Surcharge Revenue
12	5/8" x 3/4" Meter (Residential)	123	x	\$ 19.09	x	12	= \$ 28,177
13	6" Meter (Lodge)	1	x	\$ 3,200.00	x	12	= \$ 38,400
14		124		Total Annual Surcharge Revenue			\$ 66,577