



Transcript Exhibit(s)

Docket #(s): W-02886A-10-0369

Exhibit #: A1-A7, I1-I3, S1-S2.

Arizona Corporation Commission
DOCKETED
NOV 18 2010

DOCKETED BY 

AZ CORP COMMISSION
DOCKET CONTROL
2010 NOV 18 P 3:10

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Marta T. Hetzer
Administrator/Owner

Suite 502
2200 North Central Avenue
Phoenix, AZ 85004-1481
MAIN (602) 274-9944
FAX (602) 277-4264

To: Docket Control

Date: November 18, 2010

Re: Kohl's Ranch Water / Emergency Rates
W-02886A-10-0369
November 3, 2010

STATUS OF ORIGINAL EXHIBITS

FILED WITH DOCKET CONTROL

Kohl's Ranch Water (A Exhibits)

1 through 7

Kohl's Ranch Tonto Creek Subdivision HOA (I Exhibits)

1 through 3

Staff (S Exhibits)

1 and 2

EXHIBITS RETURNED TO PARTIES

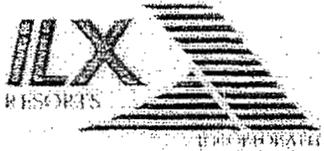
Staff (S Exhibits)

3

Not offered [by design or oversight]

Copy to:

Sarah N. Harpring, ALJ
Bridget Humphrey, Esq. - Staff



RECEIVED

2010 SEP -2 P 3: 27

September 2, 2010

AZ CORP COMMISSION
DOCKET CONTROL

Dear Arizona Corporation Commission,

Pursuant to Department of Law Opinion Number 71-17, we hereby respectfully request an interim emergency rate increase for Kohl's Ranch Water Company ("KRWC").

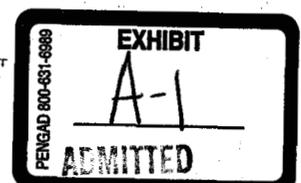
In 1995, ILX Resorts Incorporated ("ILX") acquired both Kohl's Ranch Lodge (the "Lodge") in Payson, Arizona and KRWC, and the water company that provides water to the Lodge and the 124 homes in the surrounding area. When ILX acquired KRWC, the tariffs established in 1972 were in effect, and KRWC has continued to operate under these tariffs ever since. These tariffs result in revenue that is insufficient to cover the actual cost of operating KRWC, and ILX has been subsidizing the utility with cash, labor, parts, supplies, and services.

On March 2, 2009, ILX and certain of its subsidiaries filed for protection from creditors under Chapter 11 of the US Bankruptcy Code. On July 23, 2010, the US Bankruptcy court approved a Plan of Reorganization and a Sale Order, which provide for the sale of substantially all of the assets of ILX. The remaining assets of ILX after wind-up of its affairs will be distributed to unsecured creditors.

Until shortly before the Sale Order date, ILX expected the Buyer of the assets of ILX (including the Lodge) would acquire and operate KRWC (contingent upon Commission approval). However, the Buyer of the Lodge has determined that it is unwilling to assume the risks and obligations of operating a water company, and refuses to acquire or operate KRWC. Since the Buyer is going ahead with the purchase of the rest of the ILX assets, KRWC will now have to operate as a stand-alone entity.

An emergency now exists as ILX will no longer be in a position to subsidize the KRWC operations. KRWC must begin to generate revenue and cash flow through its tariffs sufficient to fund operations in order to continue to provide water service to its customers. Therefore, KRWC makes this request for emergency interim rate relief.

In summary, based on the existing 1972 tariffs, KRWC cannot cover its costs and maintain service to its customers. KRWC was able to operate until now through subsidization from ILX. A sudden change has occurred because the Plan of Reorganization for ILX does not provide the ongoing subsidy of KRWC operations, and because the Buyer of the Lodge has refused to acquire KRWC, thereby necessitating that KRWC stand on its own financially. To do so, KRWC must immediately begin charging rates that will cover its costs.



KRWC is submitting three schedules with this request to support its position: a multi-column income statement including Proforma adjustments (SSR-1), details of how those adjustments were determined (SSR-2), and the surcharge calculation (SSR-3).

- SSR-1 – Column 1 contains actual operations information as reported on the 2009 annual report. That amount is then adjusted by column 2 to include utility expenses that were paid by ILX, which result in the actual 2009 cost to operate the utility during 2009 in column 3. Column 4 then adjusts those numbers for third party services to run the utility once ILX is closed, resulting in the estimated annual cost to run this utility as a stand-alone entity in column 5.
- SSR-2 – This schedule explains the 13 proforma adjustments to the income statement reflected on SSR-1.
- SSR-3 – Details of the surcharge calculation and resulting revenue are contained on this schedule.

Currently, all customers pay \$5.75 monthly for 5,000 gallons of water, and \$.50 per 1,000 gallons in excess of that. Although the resort uses substantially more water than the residential customers, KRWC only has a tariff rate for a 5/8 by 3/4-inch meter, resulting in the resort paying an average of \$65.52 for 124,542 gallons per month. Under the Company's proposal, the flat monthly surcharge would result in a much more equitable average cost per 1,000 gallons between the residential customers and the resort. In addition, this emergency surcharge will provide the company with the constant revenue it needs during this transition to a stand-alone utility.

We appreciate your attention to this emergency request, which will enable KRWC to continue to meet its financial obligations while continuing to provide water to its customers. Our consultant in this matter is Sonn Rowell of Desert Mountain Analytical Services, PLLC, so please feel free to contact her with questions on the application at 480.961.5484 or sonncpa@cox.net.

Very truly yours,



Nancy J. Stone
President

Kohl's Ranch Water Company, Inc.
2009 Statement Of Income and Loss Including Proforma Adjustments

Acct	Description	<u>1</u> Reported - Year Ended 31-Dec-09	<u>2</u> 2009 Expenses Paid by ILX	Ref	<u>3</u> 2009 Actual Utility Operations	<u>4</u> Adjustments to Stand Alone Entity	Ref	<u>5</u> 2009 Incl Proforma Adjustments
Operating Revenues:								
461	Metered Water Revenue	\$ 10,011			\$ 10,011	\$ 79,488	5	\$ 89,499
474	Other Water Revenue	-			-			-
474	Surcharge Revenue	-			-			-
	Total Operating Revenue	\$ 10,011	\$ -		\$ 10,011	\$ 79,488		\$ 89,499
Operating Expenses:								
601	Salaries & Wages	\$ 4,264			\$ 4,264	\$ (4,264)	6	\$ -
610	Purchased Water	-			-			-
615	Purchased Power	225			225	1,795	7	2,020
618	Chemicals	-			-			-
620	Repairs & Maintenance	4,315	2,004	1	6,319	996	8	7,315
621	Office Supplies and Expense	-	1,778	2	1,778			1,778
630	Outside Services	-	48,379	3	48,379	16,621	9	65,000
635	Water Testing	2,805			2,805			2,805
641	Rental Expense	-			-			-
650	Transportation Expense	-			-			-
657	Insurance - General Liability	2,810			2,810			2,810
659	Insurance - Health and Life	-			-			-
665	Regulatory Commission Exp	-			-			-
666	Rate Case Expense	-			-	2,500	10	2,500
675	Miscellaneous Expense	337	(208)	4	129			129
403	Depreciation & Amortization	833			833	977	11	1,810
408	Taxes Other Than Income	694			694	(694)	12	-
408	Property Taxes	402			402			402
409	Income Taxes	-			-	611	13	611
	Total Operating Expenses	\$ 16,685	\$ 51,953		\$ 68,638	\$ 18,541		\$ 87,179
	OPERATING INCOME/(LOSS)	\$ (6,674)	\$ (51,953)		\$ (58,627)	\$ 60,947		\$ 2,320
Other Income/(Expense):								
419	Interest and Dividend Income	\$ -			\$ -			\$ -
427	Interest Expense	-			-			-
	Total Other Income/(Exp)	\$ -	\$ -		\$ -	\$ -		\$ -
	NET INCOME/(LOSS)	\$ (6,674)	\$ (51,953)		\$ (58,627)	\$ 60,947		\$ 2,320

Adjustments 1 through 13 are explained on Schedule SSR-2

**Kohl's Ranch Water Company, Inc.
Summary of Income Statement Adjustments**

- Adjustment 1 Increase for repairs and maintenance labor provided by ILX.
- Adjustment 2 Increase to include reclassified expenses and office supplies provided by ILX.
- Adjustment 3 Increase for current daily operations, meter reading, billing and accounting, tax preparation and reporting, and management.
- Adjustment 4 Reclassify expenditures as office supplies.
- Adjustment 5 Proposed surcharge revenue as calculated on Schedule SSR-3.
- Adjustment 6 Adjust salaries and wages as utility no longer has employees.
- Adjustment 7 Increase purchased power per following calculation:

Total Gallons (in thousands)	5,049
Estimated pumping cost per thousand gallons	\$ 0.40
Estimated annual pumping cost (stand-alone)	<u>\$ 2,020</u>
- Adjustment 8 Increase repairs and maintenance to adjust ILX amount of \$2,004 to third party estimated amount of \$3,000.
- Adjustment 9 Increase outside services expense per estimated future costs:

	Monthly Amount	Annual Amount
Daily Operator	\$ 1,750	\$ 21,000
Billing/Accounting/Management	3,000	36,000
Annual Reporting/Tax Returns		2,000
Legal Expenses	500	<u>6,000</u>
Proposed Annual Outside Services		<u>\$ 65,000</u>
- Adjustment 10 Increase for estimated cost of emergency rate proceeding.
- Adjustment 11 Increase depreciation expense for 8" meter installed to serve resort and other related areas. (\$7,812 cost times 12.5% annual depreciation)
- Adjustment 12 Adjust payroll taxes as utility no longer has employees.
- Adjustment 13 Include income taxes for Federal and Arizona on \$2,931 income.

Kohl's Ranch Water Company, Inc.
 Calculation of Proposed Emergency Surcharge

	2009 Avg Monthly Gallons	Current Rates			Proposed Monthly Surcharge	Proposed Rates		
		Monthly Cost	Cost Per Gallon	Cost Per 1,000 Gals		Monthly Cost	Cost Per Gallon	Cost Per 1,000 Gals
Residential	2,389	\$ 5.75	\$ 0.0024	\$ 2.41	\$ 36.00	\$ 41.75	\$ 0.0175	\$ 17.48
Resort	124,542	\$ 5.75						
		<u>59.77</u>						
		\$ 65.52	\$ 0.0005	0.53	\$ 2,160.00	\$ 2,225.52	\$ 0.0179	17.87

Estimated monthly surcharge revenue from residential customers¹ \$ 4,464

Estimated monthly surcharge revenue from resort 2,160

Total estimated monthly surcharge revenue \$ 6,624

Total estimated annual surcharge revenue \$ 79,488

¹ 2009 year-end customer amount of 124 used.

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

COMMISSIONERS

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

2010 SEP 29 P 3:38

DOCKETED

AZ CORP COMMISSION
DOCKET CONTROL

SEP 29 2010

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION
OF KOHL'S RANCH WATER COMPANY
FOR AN EMERGENCY RATE INCREASE.

Docket No. W-02886A-10-0369.

CERTIFICATION OF PUBLIC
NOTICE

Pursuant to the Procedural Order dated September 24, 2010, Kohl's Ranch Water Company (KRWC) hereby certifies that the public notice was mailed and posted in accordance with the Procedural Order as detailed below.

1. KRWC sent public notice to each of its customers, including the new owner of Kohl's Ranch Lodge, by First Class Mail on Friday, September 24, 2010.
2. KRWC posted public notice along the roadside of Buenagua Road, North of the intersection of Buenagua Road and University Drive on Monday, September 27, 2010 (see Exhibit A);
3. KRWC posted public notice along the roadside of Short Road, South of its intersection with Buenagua Road on Monday, September 27, 2010 (see Exhibit B);
4. KRWC posted public notice in the bulletin board, near the mailboxes located just outside the Tall Pines Market on Monday, September 27, 2010 (see Exhibit C); and
5. KRWC requested and obtained permission from the Kohl's Tonto Creek Subdivision Homeowners Association, Inc. to post the notice on their website located at <http://krhoa.com/>. Counsel confirmed that the public notice appeared on the website on Monday, September 27, 2010 (see Exhibit D).

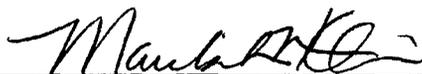
¹ Counsel for KRWC spoke with Ms. Debbie Aschbrenner, owner of the Tall Pines Market regarding posting of notice at the Tall Pines Market. Ms. Aschbrenner indicated that she was unwilling to post notice within her store, but represented that the Bulletin Board located just outside the store and next to the mailboxes was routinely viewed by local residents and would be the most appropriate place to post notice.

EXHIBIT
A-2
ADMITTED
REC'D 800-851-6889

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Dated this 29th day of September, 2010.

POLSINELLI SHUGHART PC

By: 
Margaret B. LaBianca
Maribeth M. Klein
One East Washington, Suite 1200
Phoenix, AZ 85004

ORIGINAL + 13 copies filed this 29th
day of September, 2010, with the
Arizona Corporation Commission

COPY mailed this same date to:

Nancy J. Stone, President
KOHL'S RANCH WATER COMPANY
c/o ILX Resorts Incorporated
2111 E. Highland Ave., Suite 200
Phoenix, AZ 85016
nstone2@ilxresorts.com

Janice Alward, Chief Counsel
Bridget Humphrey, Staff Attorney
Legal Division
ARIZONA CORPORATION
COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Steve Olea, Director
Utilities Division
ARIZONA CORPORATION
COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

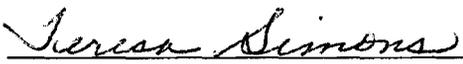
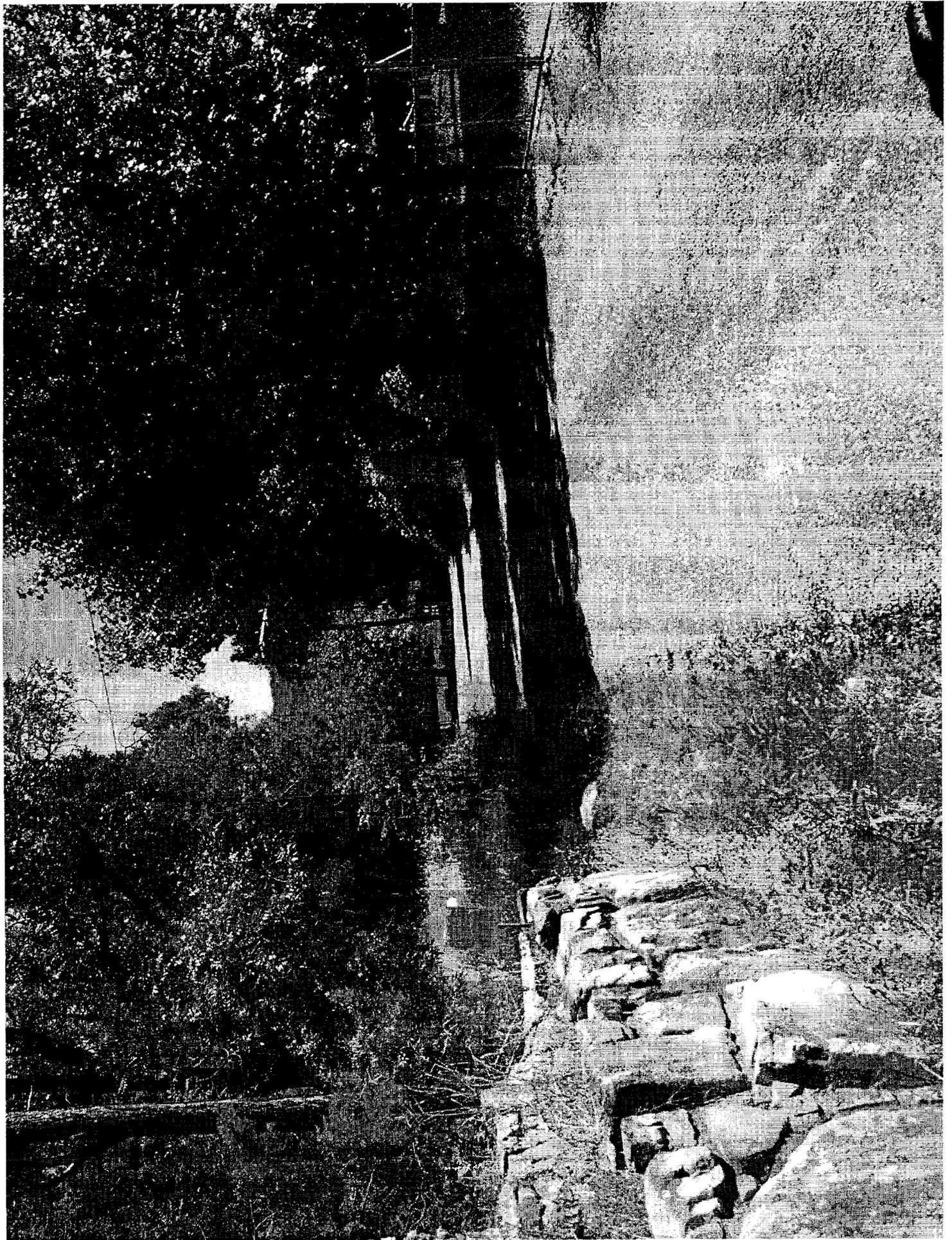
By: 

EXHIBIT A



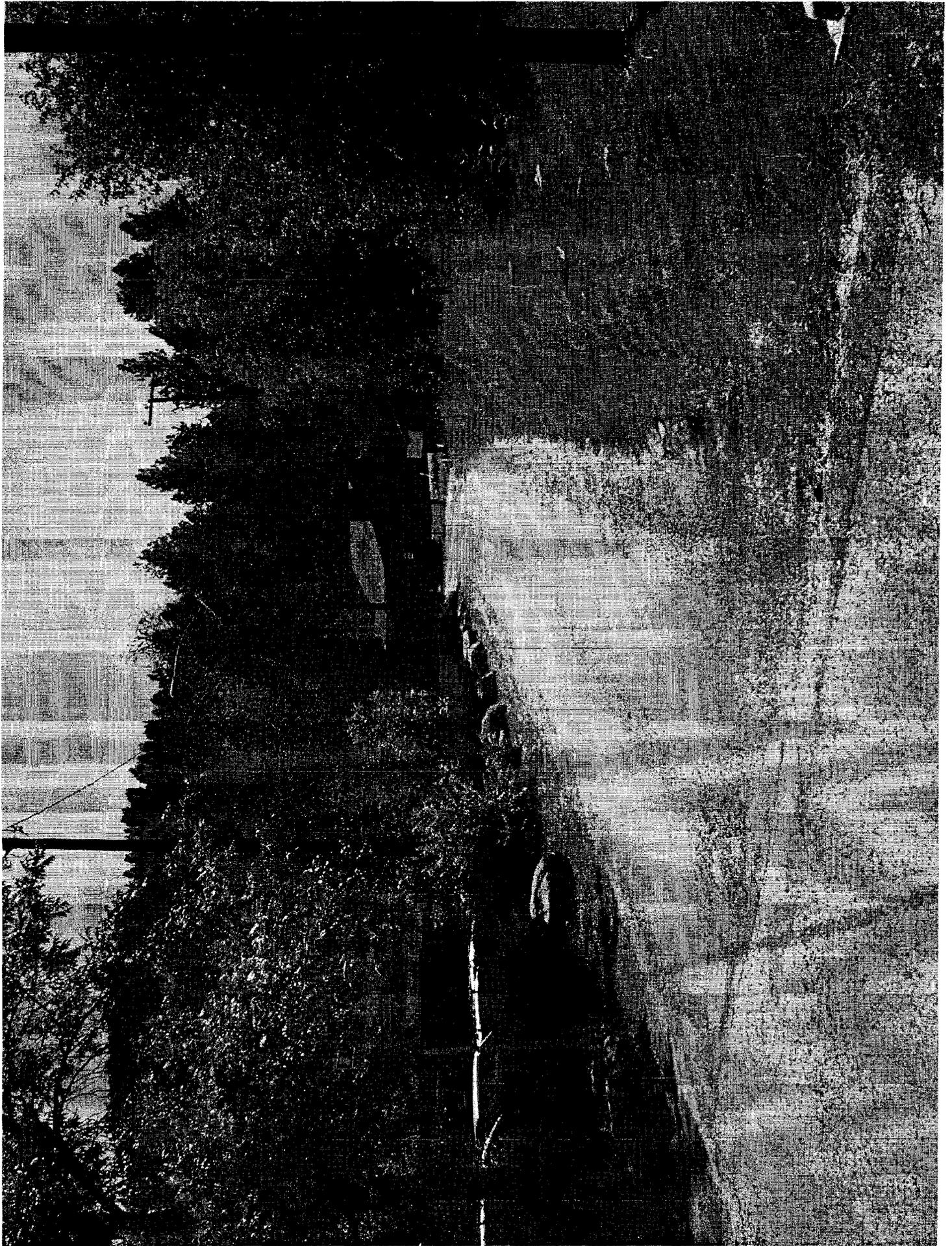
**PUBLIC NOTICE OF THE
HEARING ON KOHL'S RANCH
WATER COMPANY'S
APPLICATION FOR AN
EMERGENCY RATE
INCREASE**

(Docket no. W-02886A-10-0369)

Kohl's Ranch Water Company (Kohl's Ranch) has applied to the Arizona Corporation Commission ("Commission") for an emergency rate increase. In its application, Kohl's Ranch has proposed a surcharge of \$36.00 per month to be paid by each residential customer and a surcharge of \$2.00 per month to be paid by Kohl's Ranch's single resort customer, Kohl's Ranch Lodge. Based on evidence presented at a hearing, the Commission will determine whether an emergency exists and whether an interim rate increase should be granted. The Commission may deny the request for an emergency rate increase or approve an interim rate increase either higher or lower than that requested by Kohl's Ranch.

The Commission will hold a public hearing on the application beginning November 2, 2010, at 9:00 a.m. in the 2nd Floor Conference Room at the Commission's offices, 1300 West Washington Street, Phoenix, Arizona.

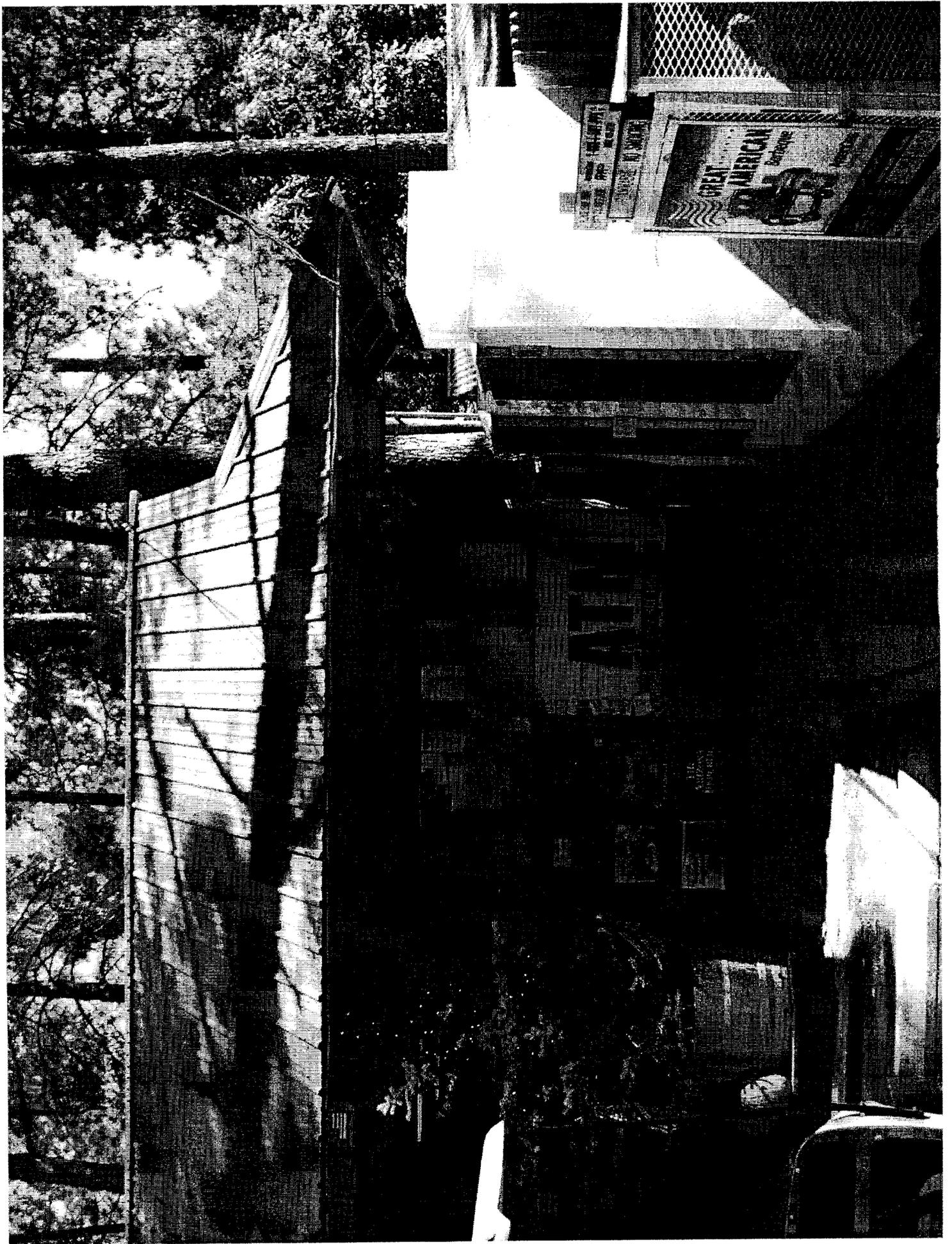
EXHIBIT B



PUBLIC NOTICE OF BILL
 HEARING ON KOEHL'S RANCH
 WATER COMPANY'S
 APPLICATION FOR AN
 FEE INCREASE
 (BOOKING # W-02886A-10-15-95)



EXHIBIT C



PUBLIC NOTICE OF THE
HEARING ON KOHL'S RANCH
WATER COMPANY'S
APPLICATION FOR AN
EMERGENCY RATE
INCREASE

(Docket No. W-02886A-11-1369)

BUILDING

FALLS CHURCH

EXHIBIT D



**Welcome to Kohls Tonto Creek Subdivision Homeowners
Association, Inc.**

This site was last updated on September 24 (Scroll Down)

**Articles of
Incorporation
Bylaws
Burn Pit
Classifieds
Dave's
Weather
Shack
Firewise/Fuel
Reduction
Grant
HOA Info
Meeting
Minutes
New
Resident Info
Real Estate
Stables Info**

**Link to
Facebook
Page**

**Link to Live
Web Cams**

**Link to
Payson
Roundup**

**Link to
Stories by**

Stan

Skunk Spray Removal Recipe

Water Company Rate Increase: Public Notice

[Link to all Documents](#)

PUBLIC NOTICE OF THE HEARING ON KOHL'S RANCH WATER COMPANY'S APPLICATION FOR AN EMERGENCY RATE INCREASE

(Docket no. W-02886A-10-0369)

Kohl's Ranch Water Company (Kohl's Ranch") has applied to the Arizona Corporation Commission ("Commission") for an emergency rate increase. In its application, Kohl's Ranch has proposed a surcharge of \$36.00 per month to be paid by each residential customer and a surcharge of \$2,160.00 per month to be paid by Kohl's Ranch's single resort customer, Kohl's Ranch Lodge. Based on evidence presented at a hearing, the Commission will determine whether an emergency exists and whether an interim rate increase should be granted. The Commission may deny the request for an emergency rate increase or approve an interim rate increase either higher or lower than that requested by Kohl's Ranch.

The Commission will hold a public hearing on the application beginning November 3, 2010, at 9:00 a.m. in the 2nd Floor Conference Room at the Commission's offices, 1200 West Washington Street, Phoenix, Arizona. Customers may attend the hearing and make public comments and/or file written comments with the Commission. Written comments may be submitted by e-mail or by mailing a letter referencing Docket No. W-02886A-10-0369 to:

Arizona Corporation Commission
Consumer Services Section
1200 West Washington St.
Phoenix, AZ 85007

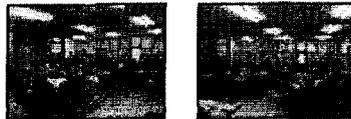
For a form to use and instructions on how to e-mail comments to the Commission, go to https://www.azcc.gov/divisions/utilitiesest/forms/public_comments.pdf. If you require assistance, you may contact the Consumer Services Section at 1-800-222-7000 or 602-542-4251.

Interested parties may intervene by filing a written motion to intervene with the Commission no later than October 21, 2010. If representation by counsel is required by Rule 31 of the Rules of the Arizona Supreme Court, intervention will be conditioned upon the intervenor obtaining counsel to represent the intervenor. For information about requesting intervention, visit the commission's website at <https://www.azcc.gov/divisions/utilities/forms/intervene.pdf> or contact the Commission's Consumer Services Section at 1-800-222-7000 or 602-542-4251. Failure to intervene will not preclude a customer from appearing at the hearing and making a statement on the customer's own behalf.

The application and all filings are available on the Commission's website (www.azcc.gov) using the e-Docket function.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, and may request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, at SBernal@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodations.

Summer Meeting Photos



Have you Paid Your 2009-10 Dues?

Many neighbors have not yet paid their dues for this year. Please forward your \$100 check, payable to KTCSHOA to:

Dave Midlick
10096 E. Circlestone Court
Gold Canyon, AZ. 85118

Longtime Resident Philip Liggett Passes Away

[Click Here](#) for more information

Longtime Resident Bennie Urrea Passes Away

[Click Here](#) for information

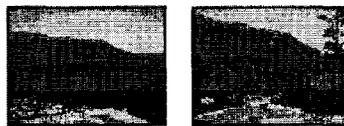
7/8 - Loch Ness in Tonto Creek?

It was gliding smoothly through the water...over three feet long...and feasting on a fish...was it Nessie?



6/21 - Fire Near Kohls Ranch

Update 6/21 430PM - Fire almost out and no smoke visible. A helicopter with bucket has been dousing hot spots all day, refilling at the Indian Gardens water bladder. The following pictures were taken along Hwy 260 near the Paleo site and near the KR exit looking East. Puts in perspective how close this one was. The dark color is retardant released by the air tankers on Sunday.



Update 6/20 7PM - Smoke from the fire has decreased. Air tankers continue to operate and are flying right over Kohls Ranch. Ground crews still working the area. APS crews now onsite as fire is near the main power lines. The winds we had today have decreased dramatically and should help in the effort.



6/20 3:30PM - A fire is burning approximately one mile NE of Kohls Ranch and is visible from KR and Hwy 260. Air tankers and

helicopters with buckets are currently fighting the blaze; ground crews are hiking to the area.



4/26 - New Website for Christopher Creek Activities

<http://www.christophercreekloop.com>

4/15 - Christopher Kohl Fire Dept. New Rating

The ISO Grade has been improved from 8B/10 to 6/8B.
Read about it [here](#).

3/22 - Star Valley Adding New Speed Cameras

Read about it [here](#).

3/18 - Diamond Resorts Acquires Lodge

Read about it [here](#).

Pony Rides Offered by Lodge - [Click here for details](#)

Tonto Creek Pollution [Click Here](#)

12/09/08 - [Click here](#) for information regarding ASU sale of Tontozona.

[Click here](#) for Addendum to ASU Request for Proposal

[Click here](#) for Site Plan of Proposed Sale land

Kohls Ranch Receives 2009 Firewise Designation!

SNOW / RAIN / SUNSHINE???

The webcam at [Forest Lakes](#) give a glimpse of the current conditions.

30551



September 27, 2010

VIA E-MAIL
AND FIRST CLASS MAIL

Bridget A. Humphrey
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

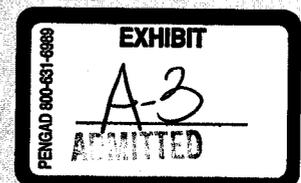
Re: Staff First Set of Data Requests, Kohl's Ranch Water Company
Emergency Rate Increase, Docket No. W-02886A-10-0369

Dear Ms. Humphrey,

We are in receipt of your request dated September 17, 2010 regarding the above matter and provide the following response:

- KS 1.1 a) and b) - please see the attached forms for each of the Lodge System and KR system.
- KS 1.1 c) and d) - yes the Company will continue ownership of the Lodge water system and the emergency rate increase requests include both water systems.
- KS 1.1 e) - please see the attached letter.
- KS 1.2 - yes the newly installed meter does relate to the Lodge system. The new meter itself is a 6" meter on an 8" line. We have modified the wording on Adjustment 11 on the revised application to clarify the size.
- KS 1.3 - yes the rate increase is requested to provide revenue to cover the regular operations of the two water systems and does not include costs associated with future capital improvements.

Information responsive to KS 1.1 was prepared from data previously provided by Mary Webster (former clerical staff for ILX Resorts Incorporated at Kohl's Ranch), from information provided by Michael Stone (compliance manager for ILX Resorts Incorporated), various accounting staff of ILX Resorts Incorporated and Nancy Stone (President of ILX Resorts Incorporated). Please see the ILX address below for these current and former ILX employees.



Bridget A. Humphrey
Attorney, Legal Division
Arizona Corporation Commission
September 27, 2010
Page 2

Information responsive to KS 1.2 and KS 1.3 was provided by Michael Stone and Nancy Stone, respectively.

Sincerely,



Nancy J. Stone
President
ILX Resorts Incorporated

NJS/mp
Enclosures

cc: Katrin Stukov
Margaret LaBianca
Sonn S. Rowell, CPA
(with enclosures)

Company Name: Kohl's Ranch Water Company	Test Year Ended: 2009
--	-----------------------

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
N/A						

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
Flowing Spring	N/A	N/A
System 04-089 if required	N/A	-0-

BOOSTER PUMPS

Horsepower	Quantity
N/A	

FIRE HYDRANTS

Quantity Standard	Quantity Other
N/A	

STORAGE TANKS

Capacity	Quantity
None	

PRESSURE TANKS

Capacity	Quantity
None	

WATER COMPANY PLANT DESCRIPTION CONTINUED

MAINS		
Size (in inches)	Material	Length (in feet)
2	Galvanized	3,280 FT
3	Cement	5,320 FT
4	Cement	2,240 FT
5		
6	Cast Iron	100 FT
8		
10		
12		

CUSTOMER METERS	
Size (in inches)	Quantity
5/8 x 3/4	
3/4	
1	133
1 1/2	
2	
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, please list the utility owned assets in each category.

TREATMENT EQUIPMENT:

- (1 ea) chlorinating pump
- (1 ea) chlorine tank
- (4 ea) filter tanks and backwash valves
- _____
- _____
- _____

STRUCTURES:

- Chlorination Building: frame
- Filter Building - frame
- _____
- _____
- _____

OTHER:

- _____
- _____
- _____
- _____
- _____

WATER USE DATA SHEET

NAME OF COMPANY	Kohl's Ranch Water Company
ADEQ Public Water System Number:	04-013 - Serving Homes

MONTH/YEAR (12 Months of Test Year)	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)
1. January	122	72,820	Gravity Flow
2. February	122	63,060	
3. March	122	329,370	
4. April	122	170,970	
5. May	122	482,480	
6. June	122	545,390	
7. July	123	518,630	
8. August	123	575,380	
9. September	123	298,173	
10. October	123	283,700	
11. November	123	113,580	
12. December	123	100,750	
TOTAL	N/A	3,554,303	*

Is the water utility located in an ADWR Active Management Area ("AMA")?

YES NO

Does the Company have an ADWR gallons per capita day ("GPCD") requirement?

YES NO

If Yes, please provide the GPCD amount: _____

Note: If you are filing for more than one system, please provide separate data sheets for each system. For explanation of any of the above, please contact the Engineering Supervisor at 602-542-7277.

** Gallons pumped cannot equal or be less than the gallons sold.*

Company Name: Kohl's Ranch Water Company	Test Year Ended: 2009
--	-----------------------

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
55-508295	3	37	185	8" to 21"	1½"	1984
				5" to 185'		

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
None		

BOOSTER PUMPS

Horsepower	Quantity
15 HP	1
40 HP	1

FIRE HYDRANTS

Quantity Standard	Quantity Other
2	

STORAGE TANKS

Capacity	Quantity
200,000 GAL	1

PRESSURE TANKS

Capacity	Quantity
5,000 GAL	1

WATER COMPANY PLANT DESCRIPTION CONTINUED

MAINS

Size (in inches)	Material	Length (in feet)
2	PVC	1,385
3	PVC	400
4		
5		
6		
8	PVC	1,050
10		
12		
3	Galvanized Iron	275
1	Galvanized Iron	550

CUSTOMER METERS

Size (in inches)	Quantity
5/8 x 3/4	
3/4	
1	
1 1/2	
2	
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	
8 inch*	1

* at 12/31/2009

For the following three items, please list the utility owned assets in each category.

TREATMENT EQUIPMENT:

- (1 ea) Chlorinating Pump _____
- (1 ea) Chlorine Tank _____
- _____
- _____
- _____

STRUCTURES:

- Pump Building - Block 1,280 SF (64' X 20') _____
- Water Storage Tank - 38' Diameter X 24' High _____
- _____
- _____

OTHER:

- _____
- _____
- _____
- _____

WATER USE DATA SHEET

NAME OF COMPANY	Kohl's Ranch Water Company
ADEQ Public Water System Number:	04-089 - Serving Resort

MONTH/YEAR (12 Months of Test Year)	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)
1. January	1	83,900	
2. February	1	115,100	
3. March	1	147,900	
4. April	1	105,500	
5. May	1	150,600	
6. June	1	136,200	
7. July	1	143,000	
8. August	1	160,900	
9. September	1	117,000	
10. October	1	137,500	
11. November	1	95,800	
12. December	1	101,100	
TOTAL	N/A	1,494,500	*

Is the water utility located in an ADWR Active Management Area ("AMA")?

YES NO

Does the Company have an ADWR gallons per capita day ("GPCD") requirement?

YES NO

If Yes, please provide the GPCD amount: _____

Note: If you are filing for more than one system, please provide separate data sheets for each system. For explanation of any of the above, please contact the Engineering Supervisor at 602-542-7277.

** Gallons pumped cannot equal or be less than the gallons sold.*



September 27, 2010

Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Re: Kohl's Ranch Water Company Emergency Rate Increase
Docket No. W-02886A-10-0369

Dear Arizona Corporation Commission:

Pursuant to Staff's First Set of Data Request KS 1.1 (e) in the above-captioned matter, we submit this letter as a revision and clarification to our original application filed September 2, 2010.

The sale of ILX's assets according to the court-approved Plan of Reorganization and a Sale Order did not include the assets related to the operation of Kohl's Ranch Water Company ("KRWC") as the water provider to the Lodge and to the 124 homes in the surrounding area. The Lodge is served by the KRWC well system, which is ADEQ public water system no. 04-089. The homes are served primarily by the KRWC spring system, which is ADEQ public water system no. 04-013. The purpose of the application for the emergency rate increase is so that KRWC can operate as a stand-alone entity as to continued service for the Lodge and the homes.

Very truly yours,

A handwritten signature in cursive script that reads "Nancy J. Stone".

Nancy J. Stone
President
ILX Resorts Incorporated

NJS/mp

**Kohl's Ranch Water Company, Inc.
Summary of Income Statement Adjustments**

- Adjustment 1 Increase for repairs and maintenance labor provided by ILX.
- Adjustment 2 Increase to include reclassified expenses and office supplies provided by ILX.
- Adjustment 3 Increase for current daily operations, meter reading, billing and accounting, tax preparation and reporting, and management.
- Adjustment 4 Reclassify expenditures as office supplies.
- Adjustment 5 Proposed surcharge revenue as calculated on Schedule SSR-3.
- Adjustment 6 Adjust salaries and wages as utility no longer has employees.
- Adjustment 7 Increase purchased power per following calculation:
- | | |
|---|-----------------|
| Total Gallons (in thousands) | 5,049 |
| Estimated pumping cost per thousand gallons | <u>\$ 0.40</u> |
| Estimated annual pumping cost (stand-alone) | <u>\$ 2,020</u> |
- Adjustment 8 Increase repairs and maintenance to adjust ILX amount of \$2,004 to third party estimated amount of \$3,000.
- Adjustment 9 Increase outside services expense per estimated future costs:
- | | <u>Monthly
Amount</u> | <u>Annual
Amount</u> |
|---|---------------------------|--------------------------|
| Daily Operator | \$ 1,750 | \$ 21,000 |
| Billing/Accounting/Management | 3,000 | 36,000 |
| Annual Reporting/Tax Returns | | 2,000 |
| Legal Expenses | 500 | <u>6,000</u> |
| Proposed Annual Outside Services | | <u>\$ 65,000</u> |
- Adjustment 10 Increase for estimated cost of emergency rate proceeding.
- Adjustment 11 Increase depreciation expense for 6" meter installed to serve resort and other related areas. (\$7,812 cost times 12.5% annual depreciation)
- Adjustment 12 Adjust payroll taxes as utility no longer has employees.
- Adjustment 13 Include income taxes for Federal and Arizona on \$2,931 income.

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BEFORE THE ARIZONA CORPORATION COMMISSION
RECEIVED

COMMISSIONERS

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

2010 OCT 27 P 4:45

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

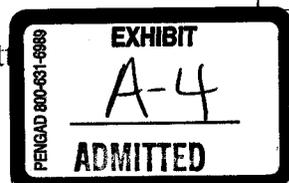
IN THE MATTER OF THE APPLICATION
OF KOHL'S RANCH WATER COMPANY
FOR AN EMERGENCY RATE INCREASE.

Docket No. W-02886A-10-0369

APPLICANT KOHL'S RANCH
WATER COMPANY'S RESPONSE
TO STAFF REPORT

Kohl's Ranch Water Company (KRWC) submits this response (Response) to the Staff Report docketed October 21, 2010, (Staff Report) concerning KRWC's application with the Arizona Corporation Commission (ACC) for an emergency rate increase. The Staff Report demonstrates that Staff and KRWC are in agreement as to almost all of KRWC's application. As explained in the following memorandum, however, the differences are critical in that they represent the margin between KRWC being able to maintain service to customers pending a formal rate increase and KRWC not being able to maintain service.

In addition to addressing KRWC's disagreements with the Staff Report in Section II of the Response, Section III presents revisions to numbers submitted in KRWC's initial application. These revisions reflect (1) increased water usage by one of KRWC's customers, the Kohl's Ranch Lodge (Resort); (2) increased water testing costs; (3) more break down of purchased power costs; (4) amortization of costs related to the emergency rate increase; and (5) an adjustment to income tax expense. At the bot



1 revisions, KRWC seeks monthly surcharge rates of \$28.50 for its 5/8-inch by 3/4-inch
2 metered (residential) customers, and \$3,200 for its 6-inch metered (Resort) customer.

4 MEMORANDUM

5 I. Introduction

6 A. KRWC operates pursuant to a 1972 tariff with subsidies from its 7 owner, ILX.

8 KRWC is a Class D water company with a service area largely surrounded by the
9 Tonto National Forest off of State Route 260 in Payson, Arizona. KRWC serves 124 5/8-
10 inch by 3/4-inch metered stand-alone residences, most of which are primarily occupied on
11 weekends and seasonally. KRWC's one 6-inch metered customer, the Resort, is comprised
12 of a lodge and stand-alone cabins, as well as various resort amenities.

13 KRWC utilizes two water systems. One is a spring system that pipes water from the
14 Indian Gardens Spring on United States Forest Land to the residential customers. The other
15 is a well system that pumps water from a well to a storage tank, and is the primary source of
16 water to the Resort. The well system also provides water to the residential customers in
17 times when production from the spring does not meet demand.

18 As noted in the Staff Report, KRWC is in compliance with the requirements of the
19 Arizona Department of Water Resources (ADWR) and the Arizona Department of
20 Environmental Quality (ADEQ). Moreover, KRWC has a history of compliance, and has
21 not been the subject of complaints to the ACC.

22 KRWC was acquired by ILX Resorts Incorporated (ILX) in 1995. At that time and
23 continuing until today, KRWC operated pursuant to rates in effect since November 1972, as
24 authorized in ACC Decision No. 42881. The 1972 tariff authorizes a \$5.75 monthly
25

1 customer charge for customers with 5/8-inch by 3/4-inch meters includes the first 5,000
2 gallons at no additional cost. For all gallons over 5,000, the cost is \$0.50 per thousand
3 gallons. The same rate applies to the 6-inch metered customer. Revenues generated by the
4 1972 tariff are insufficient to cover the actual cost of operating KRWC, and ILX has been
5 subsidizing the utility with cash, labor, parts, supplies and services.
6

7 **B. Due to bankruptcy, ILX is no longer available to subsidize KRWC.**

8 On March 2, 2009, ILX and certain of its subsidiaries -- not including KRWC -- filed
9 for protection from creditors under Chapter 11 of the United States Bankruptcy Code. On
10 July 23, 2010, the Bankruptcy Court approved a Plan of Reorganization and issued an order
11 that provides for the sale of substantially all of the assets of ILX.¹ The remaining assets of
12 ILX after wind-up of its affairs will be distributed to unsecured creditors. The assets
13 necessary to operate KRWC were expressly retained by ILX and not sold.
14
15

16 **C. KRWC must now generate sufficient revenue to cover all of its**
17 **costs.**

18 To continue to maintain service without the ILX subsidy, as KRWC must now do,
19 requires sufficient revenue for KRWC to stand alone. Standing alone means paying every
20 cost involved in operating a water company. And KRWC must do so without relying on the
21 convenient availability of Resort management and staff, as KRWC was able to do when
22 (until the bankruptcy) ILX owned both KRWC and the Resort.
23
24
25

26 ¹
27 *In re ILX Resorts Inc.*, U.S. Bankruptcy Ct. Ariz. Case No. 2:09-bk-03594-RTB,
28 "Order Authorizing: (1) Sale of Substantially All Assets of the Debtors Free and Clear of
All Liens, Claims, Interests and Encumbrances; and (2) Assumption and Assignment of
Certain Executory Contracts and Unexpired Leases," July 23, 2010; "Order Confirming
First Amended Joint Plan of Reorganization by Textron Financial Corporation and
Debtors," July 23, 2010.

1 Now KRWC needs personnel to travel to the KRWC service area to check the
2 systems daily, read the meters, do maintenance and repairs. KRWC needs personnel to
3 generate monthly bills, do banking and accounting and prepare taxes. KRWC needs
4 personnel to hire and manage other personnel, to be available for customer calls, to make
5 decisions on major repairs and capital needs. These personnel are no longer Resort
6 employees performing these functions as part of a 40-hour work week. These are third-
7 party contractors who, even if being paid for one hour of work and travel time, must track
8 their time, submit invoices, wait to be paid, carry insurance; and all of this will be reflected
9 in their hourly rates. KRWC also needs cash to buy parts to repair the water systems, to
10 buy office supplies, to mail water bills. These are current, non-speculative, non-
11 extraordinary needs.

12 **II. KRWC Response to Staff's Analysis and Recommendations**

13
14
15
16 With respect to the emergency determination, staff concludes (and KRWC agrees)
17 that KRWC meets the criterion for qualification for emergency rate relief on the grounds
18 that KRWC's conditions brings into serious doubt its ability to maintain service during the
19 pendency of a formal rate application. In addition, KRWC believes the circumstances
20 qualify for the insolvency criterion for emergency rate relief in that KRWC, absent ILX
21 support, is unable to meet its month-to-month financial obligations.

22
23 With respect to Staff's Recommendations, KRWC does not object except with
24 respect to Recommendations Nos. 1, 5 and 9. The bases of KRWC's objections are
25 discussed next.
26
27
28

1 **A. KRWC Response to Staff Recommendation No. 1**

2 In Staff Recommendation No.1, Staff recommends a \$26.37 monthly surcharge for
3 5/8-inch x 3/4-inch metered customers (residential) and \$2,200 monthly surcharge for 6-inch
4 metered customers (Resort), which are surcharge amounts below those sought by KRWC.
5 The difference in surcharge amounts arise from Staff's reduction in the amounts KRWC
6 requested for (1) purchased power; (2) repairs and maintenance; (3) outside services/legal
7 fees; (4) rate case costs; and (5) income taxes. KRWC responds to Staff's changes as to
8 each of these as follows:
9

10 **1. Purchased Power**

11 In Staff Adjustment A, Staff reduces KRWC's requested purchased power expense
12 by \$1,422: from \$2,020 to \$598 annually. In its application, KRWC estimated annual
13 power costs of \$2,020 by multiplying the total annual demand of 5,050 gallons (in
14 thousands) by \$0.40 per thousand. Staff strikes the power expense with respect to
15 3,555,000 of these gallons for the stated reason that "the spring system uses gravity flow
16 and does not utilize a pump."
17
18

19 But to the contrary, the spring system does require purchased power. The system
20 includes a constantly-running chlorinator pump that is housed in a building that has electric
21 lights and that is heated in colder months so the pipes do not freeze. Indeed, in August, as
22 part of the effort to separate the Resort from KRWC, KRWC installed an electric meter on
23 the spring system at a cost of more than \$1,000 that is not reflected in KRWC's requested
24 surcharges.
25
26

27 Moreover, circumstances here do not call for a differentiation between power costs
28 allocated to the spring system and the well system. While it is true that the residential

1 customers primarily receive water from the spring system, they also are served by the well
2 system when production from the spring is not sufficient to meet demand. This back up
3 water supply to the residential customers from the well system is critical to continuous
4 service to the residential customers.
5

6 **2. Repairs and Maintenance**

7 In Staff Adjustment B, Staff strikes the \$996 KRWC seeks beyond its 2009 actual
8 repair and maintenance costs, which were \$2,004 or approximately \$167 per month. As
9 described in Section I of this Response, the additional \$996 is necessary because all service
10 and labor will need to be contracted out to third parties. It can very reasonably be assumed
11 that third-party contractors will charge KRWC a higher hourly rate than ILX paid to its full-
12 time employees. KRWC estimates this increase to be \$83 per month (\$996 per year) and
13 result in \$3,000 per year, or \$250 per month.
14
15

16 **3. Outside Services: Legal Fees**

17 Staff Adjustment C removes a requested \$6,000 (\$500 per month) in legal expenses
18 for KRWC going forward. It should be noted that Staff wrongly asserts that the \$6,000
19 reflects ILX's costs in the bankruptcy. The \$6,000 does not include legal fees from the
20 bankruptcy or, importantly, any of the legal fees associated with this emergency rate case,
21 including those additional fees generated due to entry of the intervenors.
22

23 The \$6,000 is strictly for KRWC's on-going operations. Water companies regularly
24 face legal and regulatory questions, for example regarding service obligations, water quality
25 and employment contractor agreements. Previously these had been handled for KRWC by
26 ILX counsel. Now, on an ongoing basis, KRWC must be able to retain and pay counsel
27 until the permanent rate case is resolved.
28

1 **4. Rate Case Costs**

2 Staff Adjustment D removes \$2,500 requested by KRWC for rate case expense as
3 "not essential" and because "a normalized level of rate case expense will be provided for in
4 the Company's permanent rate case." The undeniable reality is, however, that it is unlikely
5 KRWC will have new, permanent rates in effect before early 2013. KRWC will have to
6 operate for more than two years without recovering the cost of the consultant for the
7 emergency case. In addition, in the past, Staff has recommended and the ACC has adopted,
8 rate case expense related to emergency rate cases. As a compromise here, however, KRWC
9 proposes to amortize rate case expense for this emergency case over the two years until the
10 interim rates are expected to be in place.
11

12 **5. Income Taxes**

13 Staff Adjustment E eliminates \$611 of income tax expense based upon Staff's
14 elimination of any income for KRWC. KRWC had requested minimal operating income
15 (\$2,320) to address the necessity of using estimations in its operating costs calculations.
16 Obviously, no one can know the actual expenses of KRWC operating without subsidy until
17 the actual expenses are incurred. Staff's assertion that its recommended surcharge based on
18 a break-even methodology "is sufficient to allow the Company to pay for all of its
19 operations and maintenance costs" truly has no basis. Unfortunately, there is greater
20 certainty in the fact that a water company trying to stand on its own for the first time will
21 fail, given no margin for error. An operating margin of 2.59%, or \$2,320 (less than \$200
22 per month) is reasonable, necessary, and in the best interests of the ratepayers. Restoring
23 this margin would result in an expense to KRWC of \$611 for income taxes.
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1 **B. KRWC Response to Staff Recommendation No. 5**

2 In Recommendation No. 5, Staff recommends KRWC be required to post a bond or
3 irrevocable letter of credit in the amount of \$145,800. As addressed throughout this
4 Response, KRWC is not in a position to satisfy this recommendation and requests that the
5 requisite bond be set at \$10 as is frequently done in similar circumstances.
6

7 **C. KRWC Response to Staff Recommendation No. 9**

8 In Recommendation No. 9, Staff recommends that KRWC be required to install a
9 water meter to track the gallons obtained through the spring system. Reduced maintenance
10 expense for labor, no depreciation expense related to this asset, and zero income would
11 make it very difficult for KRWC to comply with this recommendation. Moreover, Staff
12 states in its Report that there are not operational problems with the system, and the meter is
13 not required by ADWR or ADEQ. For these reasons, KRWC contends that a
14 recommendation for capital improvements of this nature are more appropriate in the
15 permanent rate case.
16
17

18 **III. KRWC's Revised Position**

19 KRWC has made several changes from its original filing. These changes are
20 discussed below and reflected on Rebuttal Schedules SSR-1 through SSR-4. The most
21 significant change arises from the installation of a new meter on September 1, 2010, on the
22 water line to the Resort. As a result of the new metering, the Resort's metered water usage
23 increased by approximately 96,000 gallons for September 2010, the first month of metering.
24 The impacts of these additional metered gallons (Additional Resort Gallons) are discussed
25 in detail below.
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1 **A. Rebuttal Schedule SSR-4 – Usage Adjustments**

2 Rebuttal Schedule SSR-4 is the foundational schedule that projects the impact of the
3 Additional Resort Gallons. Rebuttal Schedule SSR-4 uses September of 2009 and 2010 to
4 set a baseline to determine the additional number of gallons that should be attributed to the
5 Resort throughout 2009. In column (c), the difference between each month in the year 2009
6 and September 2009 is calculated, and column (d) expresses that amount as a percentage of
7 the September 2009 amount. In column (f), that percentage is then applied to the actual
8 usage for September 2010 in column (e) to estimate the difference between each month for
9 the year in 2009. Columns (e) and (f) are then added together to determine the estimated
10 monthly gallons for 2009 if the new meter had been in place throughout 2009. This
11 calculation projects an additional 1,120,747 gallons, or a total of 2,615,247 gallons for the
12 Resort in 2009.

13 The total usage of the Resort in 2009 was compared to the total usage of the
14 residential customers. The residential usage amount for the month of March was adjusted
15 downward by 199,910 gallons to account for a leak in a customer's system because the
16 usage attributable to the leak is expected to be non-recurring. In May 2009, four residential
17 customers had adjustments that resulted in negative gallons totaling 23,460 gallons.
18 Because it is impossible to use negative gallons, this amount has been normalized for
19 accuracy. Both adjustments result in a total decrease of 176,450 gallons resulting in an
20 adjusted total residential usage of 3,377,853 gallons.

21 These revised total usage amounts for 2009 for both the Resort and the residential
22 customers were then used to calculate a revised average month gallons for each user as
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1 detailed in Revised Schedule SSR-4. As detailed on Revised Schedule SSR-4, the
2 residential customers used approximately 56.36% of the total water used during 2009.

3
4 **B. Rebuttal Schedule SSR-3 – Surcharge Calculation**

5 Rebuttal Schedule SSR-3 details the calculation determining the revised surcharge
6 revenue that accounts for Additional Resort Gallons as projected on Rebuttal Schedule
7 SSR-4. Rebuttal Schedule SSR-3 also provides additional relevant facts and statistics to
8 help assess the surcharge allocation between the Resort and the residential customers.
9 Consistent with SSR-3, the proposed monthly surcharges were calculated to reach the
10 estimated annual surcharge revenue needed to cover the deficit between the estimated
11 revenue and the estimated expenses. The proposed surcharge allocation results in both
12 Resort and residential customers paying, on average, approximately the same cost per
13 gallon used.
14
15

16 In comparison, as reflected on Rebuttal Schedule SSR-3, during 2009, the 124
17 residential customers used an average of 2,270 gallons per month at a cost of \$5.75 per
18 month, or \$2.53 per thousand gallons under the current tariff. The Resort required an
19 average of 217,937 gallons per month, based on the adjusted gallons calculated on Rebuttal
20 Schedule SSR-4, at a cost of \$112.22 per month (\$5.75 plus \$0.50 per 1,000 gallons after
21 the first 5,000 gallons) or \$0.51 per thousand gallons.
22

23 KRWC now proposes a more equitable cost distribution. KRWC seeks a revised
24 monthly surcharge of \$28.50 for the residential customers. This will result in the average
25 monthly residential customer paying \$34.25 per month, or \$15.09 per thousand gallons.
26 Although the monthly average gallons for residential customers is 2,270 gallons (27,241
27 gallons annually), approximately 29% of the customers on this system exceed that level,
28

1 some by a substantial amount. As a result, the average cost per thousand gallons for those
2 customers would be substantially less under the surcharge rate.

3 KRWC also proposes a revised monthly surcharge amount for the Resort of \$3,200
4 per month. This surcharge amount will result in the Resort paying \$3,312.22 per month, or
5 approximately \$15.20 per thousand gallons.
6

7 Based upon the revised proposed surcharge rates in Rebuttal Schedule SSR-3,
8 52.48% of the requisite monthly surcharge revenue would come from the residential
9 customers, and 47.52% would be generated by the Resort. The residential customers,
10 however, account for 56.36% of the total water usage on average. KRWC believes that its
11 proposed surcharges are a fair and equitable way to distribute water system the costs
12 among its customers in this interim emergency situation, while balancing ability to pay
13 concerns with usage demands.
14
15

16 **C. Rebuttal Schedules SSR-1 and SSR-2 – Statement of Income and Loss**
17 **Including Proforma Adjustments**

18 KRWC's changes to Adjustments 3, 5, 7, 9, 10 and 13 are reflected in
19 Rebuttal Schedules SSR-1 and SSR-2. These are explained next.

20 **1. Adjustments 5 and 7 – Reflecting the Additional Resort Gallons**

21 Adjustment 5 in Rebuttal Schedule SSR-1, identifies an additional \$560 in revenue
22 for 2009 attributable to the Resort. This value is based upon the estimated 1,120,747
23 additional gallons consumed by the Resort as detailed in Rebuttal Schedule SSR-4.
24 Rebuttal Schedule SSR-2 regarding Adjustment 5 shows the calculation underlying the
25 previously unrecognized \$560 in revenue. Because of the projected additional metered
26 gallons, Adjustment 5 also further increases the projected metered water revenue from
27
28

1 \$79,488 in SSR-1 to \$80,808 in Rebuttal Schedule SSR-1 based upon the revised proposed
2 surcharge amounts calculated on Rebuttal Schedule SSR-3.

3 Adjustment 7 on Rebuttal Schedule SSR-1 reflects the additional purchased power
4 costs attributable to the additional gallons allocated to the Resort. Consistent with SSR-1
5 and SSR-2, and as discussed in Section II of this Response, Rebuttal Schedules SSR-1 and
6 SSR-2 estimate that it costs approximately \$0.40 to pump 1,000 gallons of water. KRWC's
7 revised amount for purchased power expense is detailed on Rebuttal Schedule SSR-2. The
8 revised figure amounts to less than \$200 per month to power both systems – an amount
9 KRWC believes to be an extremely conservative estimate.

12 **2. Adjustments 3 and 9– Reclassification of Vendor Water Testing**
13 **Services**

14 In SSR-1, KRWC originally identified \$48,379 in outside services (see account no.
15 630). Adjustment 3 identified in Rebuttal Schedule SSR-1 reflects the reclassification of
16 \$3,030 originally identified as outside services in SSR-1 to water testing services (compare
17 account no. 630 with account no. 635) in Rebuttal Schedule SSR-1. Upon further
18 investigation, KRWC determined that ILX paid \$3,030 for this individual to visit the site
19 and draw water samples to meet regulatory testing requirements. Invoices for services
20 during 2009 ranged between \$345 and \$190 per month, and included time to travel and
21 draw water samples and well as the cost of the tests by the lab. Thus, KRWC has
22 determined that this vendor's services are more appropriately classified as water testing
23 instead of outside services.

26 As a result of Adjustment 3, KRWC now requests annual water testing expense of
27 \$5,835 which reflects the costs of testing both of KRWC's water systems. The original
28

1 amount requested for water testing services in SSR-1, \$2,805 reflects the costs of the daily
2 testing of the water system, including labor and laboratory tests for the water system. The
3 reclassified \$3,030 reflects costs of the testing and certification required by the ADEQ.
4

5 Adjustment 9 on Rebuttal Schedule SSR-1 reflects the reduction in the reclassified
6 water testing services performed by an outside vendor (\$3,030) in accordance with
7 Adjustment 3 and thus reduces the amount attributable to outside services from \$48,379 in
8 SSR-1 to \$45,349 in Rebuttal Schedule SSR-1. KRWC continues to project a total of
9 \$65,000 per year in outside services expenses in Rebuttal Schedule SSR-1, despite the
10 reclassification. SSR-2 which originally calculated the proposed annual outside services
11 costs did not account for the reclassified water services when estimating the likely costs of
12 stand-alone services. Rather this figure was based solely upon estimated daily operator
13 fees, billing/accounting/management services, annual reporting/tax returns fees, and legal
14 expenses.
15 expenses.²
16

17 3. Other Adjustments

18 As discussed previously, Adjustment 10 on Rebuttal Schedule SSR-1 reflects a
19 decrease in the costs of the emergency rate proceedings to amortize costs related to this
20 emergency rate proceeding over a two year period when permanent rates are expected to be
21 determined in a rate case.
22

23 Adjustment 13 on Rebuttal Schedule SSR-1 adjusts income tax expenses to reflect
24 estimated taxes due on the minimal level of income proposed by KRWC.
25
26

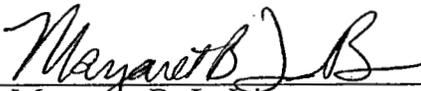
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28 ² The value in Column 4 of SSR-1 and Rebuttal Schedule SSR-1 was determined
based solely on the difference between the projected \$65,000 and the amount attributable to
outside services that were paid by ILX.

1 **IV. Conclusion**

2 For all of these reasons, KRWC urges adoption of the terms of its rebuttal schedule.

3
4 Dated this 27th day of October, 2010.

5 POLSINELLI SHUGHART PC

6
7
8 By: 
9 Margaret B. LaBianca
10 Maribeth M. Klein
1 East Washington, Suite 1200
Phoenix, AZ 85004

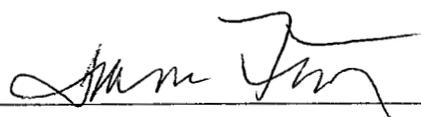
11 **ORIGINAL + 13 copies filed this**
12 **27th day of October, 2010, with the**
13 **Arizona Corporation Commission**

14 **COPY mailed this same date to:**

15 Janice Alward, Chief Counsel
16 Bridget Humphrey, Staff Attorney
17 Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

18 Steve Olea, Director
19 Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
20 Phoenix, AZ 85007

21 Grady Gammage, Jr.
22 Gammage & Burnham PLC
Two North Central Avenue, Suite 1800
Phoenix, AZ 85004
23 Intervenor

24
25 
26

Kohl's Ranch Water Company, Inc.
2009 Statement Of Income and Loss Including Proforma Adjustments
Docket No. W-02886A-10-0369

Acct	Description	<u>1</u> Reported - Year Ended 31-Dec-09	<u>2</u> 2009 Expenses Paid by ILX	Ref	<u>1+2=3</u> 2009 Actual Utility Operations	<u>4</u> Adjustments to Stand Alone Entity	Ref	<u>3+4=5</u> 2009 Incl Proforma Adjustments
Operating Revenues:								
461	Metered Water Revenue	\$ 10,011	\$ 560	5	\$ 10,571	\$ 80,808	5	\$ 91,379
474	Other Water Revenue	-			-			-
474	Surcharge Revenue	-			-			-
Total Operating Revenue		\$ 10,011	\$ 560		\$ 10,571	\$ 80,808		\$ 91,379
Operating Expenses:								
601	Salaries & Wages	\$ 4,264			\$ 4,264	\$ (4,264)	6	\$ -
610	Purchased Water	-			-			-
615	Purchased Power	225			225	2,172	7	2,397
618	Chemicals	-			-			-
620	Repairs & Maintenance	4,315	2,004	1	6,319	996	8	7,315
621	Office Supplies and Expense	-	1,778	2	1,778			1,778
630	Outside Services	-	45,349	3	45,349	19,651	9	65,000
635	Water Testing	2,805	3,030	3	5,835			5,835
641	Rental Expense	-			-			-
650	Transportation Expense	-			-			-
657	Insurance - General Liability	2,810			2,810			2,810
659	Insurance - Health and Life	-			-			-
665	Regulatory Commission Exp	-			-			-
666	Rate Case Expense	-			-	1,250	10	1,250
675	Miscellaneous Expense	337	(208)	4	129			129
403	Depreciation & Amortization	833			833	977	11	1,810
408	Taxes Other Than Income	694			694	(694)	12	-
408	Property Taxes	402			402			402
409	Income Taxes	-			-	553	13	553
Total Operating Expenses		\$ 16,685	\$ 51,953		\$ 68,638	\$ 20,641		\$ 89,279
OPERATING INCOME/(LOSS)		\$ (6,674)	\$ (51,393)		\$ (58,067)	\$ 60,167		\$ 2,101
Other Income/(Expense):								
419	Interest and Dividend Income	\$ -			\$ -			\$ -
427	Interest Expense	-			-			-
Total Other Income/(Exp)		\$ -	\$ -		\$ -	\$ -		\$ -
NET INCOME/(LOSS)		\$ (6,674)	\$ (51,393)		\$ (58,067)	\$ 60,167		\$ 2,101

Company Proposed Operating Margin 2.30%

Adjustments 1 through 13 are explained on Rebuttal Schedule SSR-2

Kohl's Ranch Water Company, Inc.
Summary of Income Statement Adjustments
Docket No. W-02886A-10-0369

- Adjustment 1 Increase for repairs and maintenance labor provided by ILX.
- Adjustment 2 Increase to include reclassified expenses and office supplies provided by ILX.
- Adjustment 3 Increase for current daily managerial operations, meter reading, billing and accounting, tax preparation and reporting, and management to Outside Services (\$45,349), and increase water testing (\$3,030) for third party water sampling and testing.
- Adjustment 4 Reclassify expenditures as office supplies.
- Adjustment 5 Increase metered water revenue for untracked well gallons per SSR-4. (1,120,747 gallons divided by 1000, times \$0.50 per thousand = \$560), and then by the surcharge revenue as calculated on Schedule SSR-3.
- Adjustment 6 Eliminate salaries and wages as utility no longer has employees.
- Adjustment 7 Increase purchased power per following calculation:
- | | |
|---|-----------------|
| Revised Total Gallons (in thousands) | 5,993 |
| Estimated pumping cost per thousand gallons | \$ 0.40 |
| Estimated annual pumping cost (stand-alone) | <u>\$ 2,397</u> |
- Adjustment 8 Increase repairs and maintenance to adjust ILX amount of \$2,004 to third party estimated amount of \$3,000.
- Adjustment 9 Increase outside services expense per estimated stand-alone costs:
- | | <u>Monthly
Amount</u> | <u>Annual
Amount</u> |
|---|---------------------------|--------------------------|
| Daily Operator | \$ 1,750 | \$ 21,000 |
| Billing/Accounting/Management | 3,000 | 36,000 |
| Annual Reporting/Tax Returns | | 2,000 |
| Legal Expenses | 500 | <u>6,000</u> |
| Proposed Annual Outside Services | | <u>\$ 65,000</u> |
- Adjustment 10 Increase for estimated cost of emergency rate proceeding amortized over a two year period. (\$2,500 divided by 2)
- Adjustment 11 Increase depreciation expense for 6" meter installed to serve resort and other related areas. (\$7,812 cost times 12.5% annual depreciation)
- Adjustment 12 Adjust payroll taxes as utility no longer has employees.
- Adjustment 13 Include income taxes for Federal and Arizona on \$2,654 of income.

Kohl's Ranch Water Company, Inc.
 Calculation of Proposed Emergency Surcharge
 Docket No. W-02886A-10-0369

2009 Revised Avg Monthly Gallons	Current Rates			Proposed		Proposed Rates		
	Monthly Cost	Cost Per Gallon	Cost Per 1,000 Gals	Monthly Surcharge	Monthly Cost	Cost Per Gallon	Cost Per 1,000 Gals	
Residential System 2,270	\$ 5.75	\$ 0.0025	\$ 2.53	\$ 28.50	\$ 34.25	\$ 0.0151	\$ 15.09	
Resort System 217,937	\$ 5.75							
	<u>106.47</u>							
	\$ 112.22	\$ 0.0005	\$ 0.51	\$ 3,200.00	\$ 3,312.22	\$ 0.0152	\$ 15.20	

	% of Surcharge Revenue	% of Water Usage
--	------------------------------	------------------------

Estimated monthly surcharge revenue from Residential system customers ¹	\$ 3,534	52.48%	56.36%
Estimated monthly surcharge revenue from Resort system	3,200	47.52%	43.64%
Total estimated monthly surcharge revenue	\$ 6,734	100.00%	100.00%
Total estimated annual surcharge revenue	\$ 80,808		

¹ 2009 year-end customer amount of 124 used.

Kohl's Ranch Water Company, Inc.
 Calculation of Adjustments to Gallons Used
 Docket No. W-02886A-10-0369

2009 Actual Resort Usage Adjusted for New Meter

Month/Year	Resort system 2009 Actual Gallons (a)	September 2009 Actual Gallons (b)	Difference from Sept (gallons) (c)=(a)-(b)	Difference from Sept (percentage) (d)=(c)/(a)	September 2010 Actual Gallons (e)	Difference By Month from 2009 Actual (f)=(e)*(d)	Estimated Gallons Incl New Gallons (g)=(e)+(f)
Jan-09	83,900	117,000	(33,100)	-39.45%	213,000	(84,032)	128,968
Feb-09	115,100	117,000	(1,900)	-1.65%	213,000	(3,516)	209,484
Mar-09	147,900	117,000	30,900	20.89%	213,000	44,501	257,501
Apr-09	105,500	117,000	(11,500)	-10.90%	213,000	(23,218)	189,782
May-09	150,600	117,000	33,600	22.31%	213,000	47,522	260,522
Jun-09	136,200	117,000	19,200	14.10%	213,000	30,026	243,026
Jul-09	143,000	117,000	26,000	18.18%	213,000	38,727	251,727
Aug-09	160,900	117,000	43,900	27.28%	213,000	58,115	271,115
Sep-09	117,000	117,000	-	0.00%	213,000	-	213,000
Oct-09	137,500	117,000	20,500	14.91%	213,000	31,756	244,756
Nov-09	95,800	117,000	(21,200)	-22.13%	213,000	(47,136)	165,864
Dec-09	101,100	117,000	(15,900)	-15.73%	213,000	(33,499)	179,501
Totals	1,494,500	1,404,000	90,500		2,556,000	59,247	2,615,247

Revised gallonage amount for 2009 Resort system: 2,615,247

Estimated increase in 2009 Resort gallons (above amount less (a) total): 1,120,747

2009 Actual Residential Usage Adjusted for Non-Recurring and Negative Gallons

Month/Year	Residential 2009 Actual Gallons (a)	Adjustments to 2009 Amounts (b)	Adjusted 2009 Usage (c)=(a)+(b)		
Jan-09	72,820		72,820		
Feb-09	63,060		63,060	March resident actual usage	204,060
Mar-09	329,370	(199,910)	129,460	Average of February and April usage	(4,150)
Apr-09	170,970		170,970	Reduction in March usage due to leak	199,910
May-09	482,480	23,460	505,940	May negative gallons adjustments	(1,960)
Jun-09	545,390		545,390		(10,000)
Jul-09	518,630		518,630		(10,010)
Aug-09	575,380		575,380		(1,490)
Sep-09	298,173		298,173	Total May adjustment for negative gallons	(23,460)
Oct-09	283,700		283,700		
Nov-09	113,580		113,580		
Dec-09	100,750		100,750		
	3,554,303	(176,450)	3,377,853		

		% of Total
Revised gallonage amount for 2009 Residential usage:	3,377,853	56.36%
Revised gallonage amount for 2009 Resort usage:	2,615,247	43.64%
Total Kohl's Ranch revised gallonage amount for 2009 usage:	5,993,100	100.00%

Revised gallonage amount for 2009 Residential usage:	3,377,853
Number of Residential customers:	124
Residential Average Annual Gallons/Customer:	27,241
Residential Average Monthly Gallons/Customer:	2,270

Revised gallonage amount for 2009 Resort usage:	2,615,247
Resort Average Monthly Gallons:	217,937

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION
OF KOHL'S RANCH WATER COMPANY
FOR AN EMERGENCY RATE INCREASE.

Docket No. W-02886A-10-0369

APPLICANT KOHL'S RANCH
WATER COMPANY'S COMBINED
RESPONSES TO KOHL'S RANCH
TONTO CREEK SUBDIVISION
HOMEOWNER'S ASSOCIATION'S
(1) MOTION TO INTERVENE AND
(2) RESPONSE TO STAFF REPORT

Kohl's Ranch Water Company (KRWC) files this response to two filings made by Kohl's Ranch Tonto Creek Subdivision Homeowner's Association's, also known as Kohl's Ranch Homeowner's Association, (HOA): (1) Motion to Intervene (HOA Motion), and (2) Response to Staff Report and to KRWC Amended Proposal (HOA Response).

I. Introduction

KRWC has no objection to HOA's intervention in proceedings concerning KRWC's application for an emergency rate increase. As customers of KRWC, HOA members have important interests in assuring that KRWC's application result in a reasonable and effective temporary surcharge and, ultimately, a fair permanent rate structure. KRWC strongly objects, however, to HOA's injection of erroneous and irrelevant assertions that include baseless attacks on KRWC and/or ILX.

EXHIBIT
A-5
ADMITTED
PENGAD 800-631-6868

1 In addition, KRWC regrets that HOA has opted to intervene (as opposed to
2 submitting written comments to the record or making comments at the hearing) without
3 investing the effort to understand the law and facts involved in an emergency rate case.
4 Certainly, intervention is HOA's right but without fully engaging, HOA's intervention
5 comes at significant cost to the ACC and KRWC without much benefit to the effectiveness
6 of the proceeding.
7

8 Particularly troubling is HOA's argument that KRWC's proposed emergency rates
9 are unfair based on a cursory presentation of the base rates of other nearby water
10 companies. (HOA Motion p. 5) As discussed in Section III(B) of this Response, the
11 comparison is apples to oranges. It is unclear whether HOA make this argument out of a
12 failure to sufficiently research the mechanics of rate making or out of an intent to mislead
13 the ACC -- but it is disturbing and costly in either case.
14
15

16 Moreover, KRWC admits confusion as to why customers who have received water
17 service at their remote mostly seasonal homes¹ at an unheard of discount for almost 40
18 years, and who claim to want such service, go to such effort to attack KRWC and block
19 KRWC's ability to continue operations. HOA admits that "year in and year out service has
20 been maintained and has been extremely inexpensive," and that "it is not in a good
21 position" to dispute the costs KRWC claims. (HOA Motion at 6; HOA Response p.2) And
22 yet, HOA shows no compunction about and expends considerable energy attempting to
23 blame KRWC management for the fact that KRWC customers must now pay a just and
24 reasonable rate for its water. HOA refers to the emergency surcharge as 'penalizing'
25
26

27
28 ¹ According to HOA, all but 10 of the 124 residential customers use their homes in the KRWC service areas as weekend and/or summer homes.

1 residential customers. (HOA Motion p.6) (Strikingly, on the other hand, HOA contends the
2 ACC should require KRWC's one commercial customer, the Kohl's Ranch Lodge (Resort)
3 to pay a penalty to the benefit of residential customers, although for what wrongdoing is not
4 clear.) All this considered, it is difficult to avoid the conclusion that HOA's opposition
5 arises primarily out of resentment that ILX is no longer available to subsidize KRWC at a
6 level that has provided these second-home owners some of the lowest water rates in the
7 state.
8

9
10 The purpose of this Response is twofold: first, to review the basic legal framework
11 of the emergency rate case so as to outline the bounds of what issues and facts are relevant
12 to this proceeding and to note where the parties agree and disagree on key issues; and,
13 second, to respond to some of the erroneous and baseless statements made in the HOA
14 Motion and HOA Response.²
15

16 **II. Legal Framework**

17 An emergency rate increase requires two primary findings by the ACC. First, the
18 ACC must find there is an "emergency" as defined in Attorney General Opinion No. 71-17.
19 Second, the ACC must find that the rate increase is just and reasonable.
20

21 **A. The ACC must determine whether there is an emergency.**

22 For purposes of an emergency rate increase, an emergency exists in three
23 circumstances: (1) when sudden change brings hardship to a company; (2) when the
24

25
26 ² To the extent KRWC does not here respond in full to every assertion in the HOA
27 Motion and HOA Response, such omission should not be interpreted as a waiver of
28 KRWC's disagreement with the assertion, or a waiver of KRWC's opportunity to respond
in full. In addition, KRWC does not here repeat its response to matters in the HOA Motion
and HOA Response that KRWC has addressed in KRWC's Response to Staff Report.

1 company is insolvent; and (3) when the condition of the company is such that its ability to
2 maintain service pending a formal rate determination is in serious doubt.³ KRWC has
3 demonstrated in its filings, and ACC Staff has concurred, that KRWC's current rates do not
4 generate sufficient revenue for KRWC to continue to maintain service. (Staff Report, Exec.
5 Sum. p. 1) It appears HOA also agrees there is an emergency. (HOA Response p. 1 ("The
6 Association also recognizes the existing rate schedule is insufficient for the continued
7 operation of the utility."))
8
9

10 **B. The ACC must determine what is a just and reasonable emergency**
11 **surcharge.**

12 The ACC will allow only a just and reasonable emergency surcharge. The principles
13 underlying whether a surcharge is just and reasonable is whether total revenue, including
14 income from rates and charges, are sufficient to meet a utility's operating costs. Due to the
15 underlying emergency condition, an emergency rate case is not meant to require the
16 elaborate process of a normal rate proceeding.⁴
17

18 Differences regarding operating costs are the primary focus of the Staff Report on
19 KRWC's application and of KRWC's Response to Staff Report. For its part, HOA
20 concedes that it "is not in a good position to analyze these projected costs, and is willing to
21 accept the ultimate ACC determination." (HOA Response p. 2) Thus, by its own
22 assessment, HOA has no relevant information as to KRWC costs.
23

24
25 ³ Attorney General Opinion No. 71-17.

26 ⁴ See *In re Application of Indiada Water Company for an Emergency Rate Increase*,
27 2009 WL 3722695 *5 (Ariz. C.C. Oct. 30, 2009) ("for purposes of its review of an
28 emergency surcharge application, Staff performs its evaluation based on financial
information submitted by a company, rather than conducting a full audit of a company's
financial status").

1 HOA does have opinions on the share of the emergency surcharge to be paid by the
2 residential customers as compared to the Resort.⁵ But its assertions in this respect are
3 incorrect and unsupported and, therefore, irrelevant. For example, HOA starts off with the
4 completely baseless statement that KRWC reached its originally-proposed surcharge based
5 on 60 rooms in the Resort multiplied by the residential surcharge amount. (HOA Response
6 p. 3) While it is true that the initial proposed surcharge amount for the Resort was 60 times
7 the amount proposed for the residential users, it is not due to the number of rooms at the
8 Resort.
9
10

11 HOA then contends the Resort uses more water than the 124 residential customers
12 combined and, therefore, the Resort should bear more of the surcharge than residential
13 customers. The entire argument is irrelevant. First it is simply wrong; as discussed in
14 Section III(A) of this Response, the residential customers combined use more water than the
15 Resort.
16

17 Second, it is not relevant because it is based upon the erroneous assumption that it is
18 the amount of water usage that drives KRWC's costs.⁶ Whether or not KRWC's residential
19 customers opt to visit their second homes, KRWC must, for example, read meters monthly,
20 send out bills, do accounting and banking, inspect and test the systems, make repairs and
21 prepare tax returns. All of this must be done so that when customers decide to enjoy a
22
23
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25 ⁵ HOA claims the "need for additional revenue should be much more heavily placed
26 on the Resort since it is the primary user of the water system, since it operates year round,
27 and since its use is much more for landscaping." (HOA Motion p. 6)

28 ⁶ In some circumstances, large water users require capital improvements that would
not otherwise be necessary but this is not KRWC's current circumstance.

1 weekend in their homes in a remote swath of Arizona forest, they can turn their tap and
2 receive water. All of this convenience and reliability requires ongoing costs.⁷

3
4 **III. Corrections of Some of HOA's Erroneous and Misleading Assertions**

5 **A. Residential Customers together use more water than the Resort.**

6 Based upon actual 2009 numbers adjusted to include the Additional Resort Gallons
7 presented in KRWC's Response to Staff Report, residential customers combined used
8 3,377,853 gallons and the Resort used 2,615,247 gallons. (Response to Staff Report p. 9)
9 HOA opines that it does not find KRWC's numbers to be "credible" but gives no showing
10 that KRWC has misrepresented the numbers or an explanation as to why KRWC would
11 provide false numbers. (HOA Response p. 3)
12

13 HOA also opines that the average monthly use by residential customers of 2,270
14 "seems high." (HOA Response p. 3) But 2,270 gallons per month is a very low average
15 usage amount, and it clearly reflects the summer home status of some of the residential
16 customers. In addition, it should be noted that 2,270 gallons per month is an *average*
17 among residential customers. Many customers demand very little water while others
18 demand a lot. In 2009, six residential meters showed no usage. On the other hand, 18
19 customers had an average usage in excess of the 5,000 gallons included in the monthly
20 minimum charge with the largest residential customer using an average of 17,969 per
21 month. There were 47 residential customers that used more than the 5,000 gallons included
22
23
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26 ⁷ Illustratively, the ACC has recognized that servicing seasonal homes costs utilities
27 throughout the year. In the case a customer stops service when it is not using its residence
28 and then begins service again within 12 months of termination, the ACC practice is to allow
a "re-establishment charge" to reestablish service that equates to the number of months off
the system times the monthly minimum charge.

1 in the monthly minimum at least once during 2009, with the highest one-month use at
2 56,270 gallons in October 2009. Total residential usage during May, June, July and August
3 of 2009 exceeded 500,000 gallons each month.

4
5 **B. HOA's comparison to other companies' base rates has no**
6 **relevance.**

7 HOA's comparison of KRWC rates to other water companies represents either an
8 alarming lack of understanding of rate making in a party that has intervened in a rate case or
9 a brazen attempt to excite and confuse. HOA compares KRWC's total cost per customer to
10 the other companies' base rates and neglects to inform the ACC of other key information
11 such as the commodity rates, the average monthly cost for customers, or the number of
12 customers on the system.

13
14 KRWC maintains that discussion of other companies' rates are irrelevant to the
15 proceeding but as a courtesy to HOA and in an attempt to put these comparisons to rest,
16 KRWC provides the following information about the other companies -- all of which this is
17 publically-available.

18
19 **Tonto Village Water Company**

- 20
- 21 • The utility has 198 customers to share the costs.
 - 22 • The utility filed a rate case on December 27, 2007 requesting that the monthly
23 minimum charge be raised from \$10.00 to \$24.00, based upon a 2006 test year.
 - 24 • The commodity tiers are \$1.05 per thousand for the first 3,000 gallons, \$2.15 for the
25 next 4,000 gallons, and \$3.50 for each 1,000 gallons in excess of 7,000.
 - 26 • A financing application followed in April 2008.
 - 27 • The case has been riddled with problems. The last activity was in July 2009 and
28 appears to be stalled due to a stale test year.
 - Many poor service complaints have been filed against the utility.

27 **Tonto Creek Water Company**

- 28
- The utility has 71 customers.
 - The utility was sold in 2009 right after new rates were authorized.

- 1 • The current monthly minimum is \$24.00.
2 • The commodity tiers are \$1.70 per thousand for the first 3,000 gallons, \$3.40 for the
3 next 4,000 gallons, and \$6.00 for each 1,000 gallons in excess of 7,000

4 **Christopher Creek/Utility System/Gardner Water**

- 5 • The utility has 266 customers.
6 • Christopher Creek Haven Water Company and Gardner Water Company were both
7 sold to Utility Systems, LLC.
8 • Rate cases for both systems were filed in 2008 and the systems consolidated into
9 one.
10 • The owner of the consolidated utility was dissatisfied with the ACC Decision on the
11 rate cases. ACC Decision 71446, page 35, includes the following statement:
12 "Utility Systems states that should the Commission adopt Staff's
13 rates and charges, Utility Systems will most likely face
14 bankruptcy, and the Companies will be foreclosed upon and
15 repossessed by the previous owner."
16 • The ACC suggested the purchaser did not conduct proper due diligence prior to the
17 purchase of the small water companies.
18 • The current monthly minimum is \$18.80.
19 • The commodity tiers are \$4.00 per thousand for the first 2,000 gallons, \$5.00 for the
20 next 6,000 gallons, and \$7.00 for each 1,000 gallons in excess of 8,000.

21 **Brook Utilities – Tonto Basin**

- 22 • Brook Utilities-Tonto Basin has 799 customers, but as part of the larger United
23 Utilities, LLC, spreads its costs among 9,240 customers.
24 • Settlement rates in the United Utilities, LLC sale applied the same rates to Payson,
25 Strawberry, and Tonto Basin (3,872 total customers).
26 • The current monthly minimum is \$16.00, set in 1999.
27 • The commodity tiers are \$1.55 per thousand for the first 4,000 gallons, and \$2.33 for
28 each 1,000 gallons in excess of 4,000.

22 In addition, KRWC appends to this filing Schedule SSR-5 that provides a detailed
23 comparison of KRWC's rates with those of the utilities referenced by HOA and data from a
24 public document published by WIFA that compares water rates across Arizona for all entity
25 types. As can be readily seen by reviewing this information, KRWC's proposed surcharge
26 puts rates well within the parameters charged by other companies.
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C. ILX, not the Resort, has subsidized KRWC.

In apparent disregard of the plain statements in KRWC's filings, HOA continually confuses the Resort with ILX. It is ILX that has subsidized KRWC, not the Resort, which was one of many other properties, including KRWC, owned and/or managed by ILX prior to its bankruptcy. At least since 1995, when ILX purchased the Resort and KRWC, the Resort never subsidized KRWC. Thus, HOA's many statements about the Resort getting some unfair advantage on past water costs due to its subsidization of KRWC are nonsensical and irrelevant.

D. KRWC has met its public filing obligations.

HOA repeatedly asserts that the past common ownership of KRWC and the Resort has somehow interfered with the ability of KRWC's residential customers to access information about KRWC to which they are entitled. The assertion is irrelevant to these proceedings but it is also unfounded. KRWC is a corporation regulated by the ACC, the Arizona Department of Water Resources (ADWR) and the Arizona Department of Environmental Quality (ADEQ). KRWC makes all of the public filings required of any private water company. HOA has not demonstrated otherwise.

E. KRWC is not entitled to be subsidized in perpetuity.

For reasons not clear to KRWC, HOA seems to assume that if the Resort and KRWC had continued under the same ownership, then residential customers would continue to be subsidized. KRWC is aware of no reason to believe that if the new owner of the Resort had also purchased the assets of KRWC, that the new owner would not also have sought a rate increase to make KRWC able to stand alone.

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F. Assets necessary for the operation of KRWC are intact.

HOA contends that there is “complete confusion of what the water company actually owns.” (HOA Motion p.1) It appears HOA prefers to inflame rather than figure out the facts. KRWC’s filings in this case list the equipment utilized by KRWC and informs the ACC that the sale of ILX assets pursuant to bankruptcy proceedings did not include the assets related to the operation of KRWC.⁸

G. The proposed surcharge does not provide for capital improvements.

HOA incorrectly states that KRWC’s requested emergency surcharge allows for capital improvements but it does not. Indeed, ACC rules require that capital improvements be placed into service before a rate case is filed to recover the cost of that asset. As is usually the case, Staff did not here recommend an expenditure for capital improvements. In fact, to the contrary, Staff Recommendation 9 contends KRWC should install a meter to track the water from the spring system, yet did not provide for the cost of the meter and installation, or depreciation expense, in Staff’s recommended surcharge.

H. HOA and the Resort pay the same rates for water, as required by the tariff.

Based upon HOA’s assertions, it bears repeating that all KRWC customers, including the Resort, pay the same rates for water established by the 1972 tariff:

- \$5.75 per month for the first 5,000 gallons
- \$0.50 per thousand gallons in excess of 5,000

⁸ Relatedly, ILX is currently in discussions with the United States Forest Service regarding the special use permit that allows the spring system to cut across Forest Service land. While it is true that the permit itself is not transferable, the Forest Service has a routine process for transferring an existing permit to a new owner of the assets.

1 According to these rates, in 2009, the Resort paid an average of about \$65 per month.
 2 However, HOA makes several difficult-to-follow-numerical assertions regarding what the
 3 Resort paid or should have paid. For example, HOA states that the Resort "should have
 4 paid" approximately \$4,000 to \$5,000 for water during 2009. (HOA Response p.4) But
 5 based on the usage by the Resort, and the current extremely low rates for water, this would
 6 be near impossible. In any event, the Resort's past payments and whether the Resort as a
 7 high water user should bear more of the revenue burden on the high water users are issues
 8 for the permanent rate case, and not relevant here. Table A shows the revenue distribution
 9 for 2009 between residential customers and the Resort:
 10
 11

Residential Users:	
\$5.75 monthly minimum X 124 connections X 12 months/year	\$ 8,556
Gallons in excess of 5,000 included in monthly minimum divided by 1,000 1,338.82 X \$0.50	\$ 669
Resort:	
\$5.75 monthly minimum X 12 months/year	\$ 69
Gallons in excess of 5,000 included in monthly minimum divided by 1,000 1,434.50 X \$0.50	\$ 717
2009 Revenue	\$10,011

Table A

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I. Percentage increase numbers are misleading.

HOA has asserted an assortment of three-digit percentage numbers as representing the percent increase to residential customers' rates. Here again, it is difficult to avoid the feeling that such statements are only meant to inflame, as percentage increase is intrinsically relative. When beginning with a 1972-based minimum charge that includes a 5000 gallons usage, it is not difficult to have a percentage increase in the hundreds. But looking at the material terms, a monthly rate of less than \$35 is very reasonable under the circumstances, and is temporary until a permanent rate case is filed and new rates are established according to ACC procedure.

IV. Conclusion

In the past, ILX has subsidized KRWC; now it cannot. In order to continue service, KRWC must generate sufficient revenue to cover its operating costs. Delaying or preventing KRWC's reasonable interim rate increase so it can operate as a stand-alone entity, ultimately, will impact service and infrastructure.

Dated this 1st day of November, 2010.

POLSINELLI SHUGHART PC

By: 
Margaret B. LaBianca
Maribeth M. Klein
1 East Washington, Suite 1200
Phoenix, AZ 85004

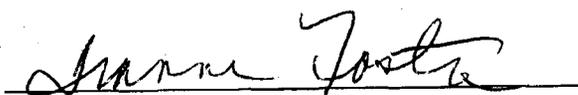
1 ORIGINAL + 13 copies filed this
2 1st day of November, 2010, with the
3 Arizona Corporation Commission

4 COPY mailed this same date to:

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SCHEDULE SSR-5

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KOHL'S RANCH WATER COMPANY, INC.
 COMPARISON OF RATES
 DOCKET NO W-02886A-10-0369

Amounts in Gallons	Kohls Ranch Current	Kohls Ranch Proposed	Tonto Village Water	Tonto Creek Water	Utility System LLC	Brooke Utility - Tonto Bsn	Arizona 2009 Average*	Municipal 2009 Average*	District 2009 Average*	Investor 2009 Average*	Assoc. 2009 Average*
	KRW/C Total Average - 2,270 ¹	\$ 5.75	\$ 34.25	\$ 12.38	\$ 27.86	\$ 28.15	\$ 19.52	\$ 28.75	\$ 20.85	\$ 39.06	\$ 28.91
5,000	5.75	34.25	17.45	35.90	41.80	24.53	28.75	20.85	39.06	28.91	28.67
7,500	7.00	35.50	23.50	45.70	54.30	30.36	35.97	25.86	50.46	35.89	36.19
KRW/C High Average - 8,121 ²	7.31	35.81	25.67	49.43	57.65	31.80	43.52	31.47	62.85	43.01	44.13
10,000	8.25	36.75	32.25	60.70	70.80	36.18	43.52	31.47	62.85	43.01	44.13

* Figures taken from Exhibit B, Page 25 of the Water Infrastructure Finance Authority of Arizona (WIFA) 2009 Water and Wastewater Residential Rate Survey for the State of Arizona

¹ KRW/C Total Average is the average monthly usage of all the water customers on the spring (residential) system.

² KRW/C High Average is the average monthly usage of only the 18 customers whose total annual 2009 usage exceeds 60,000 gallons. (5,000 X 12 months) (1,754,090 gallons divided by 18 customers = 97,449.44 divided by 12 months = 8,120.79)

Water Infrastructure Finance Authority of Arizona



2009

Water and Wastewater

Residential Rate Survey for the State of Arizona

Water Infrastructure Finance Authority of Arizona

1110 West Washington, Suite 290

Phoenix, Arizona 85007

Telephone: 602.364.1310

Toll Free: 877.298.0425

Website: www.azwifa.gov

**EXHIBIT B
2009 RESIDENTIAL RATE SURVEY
STATISTICAL SUMMARY**



		ARIZONA DRINKING WATER SYSTEMS - 2009			
		Monthly Charges - Varying Levels of Usage by Ownership			
		Average Monthly Charge	Median Monthly Charge	Highest Monthly Charge	Lowest Monthly Charge
Municipal					
	5,000 Gallons	\$20.85	\$20.53	\$66.25	\$6.64
	7,500 Gallons	\$25.86	\$25.23	\$74.38	\$7.71
	10,000 Gallons	\$31.47	\$29.67	\$82.50	\$11.50
Districts					
	5,000 Gallons	\$39.06	\$34.24	\$123.26	\$12.75
	7,500 Gallons	\$50.46	\$40.25	\$201.78	\$19.13
	10,000 Gallons	\$62.85	\$49.00	\$310.50	\$25.30
Investors					
	5,000 Gallons	\$28.91	\$27.50	\$83.00	\$5.00
	7,500 Gallons	\$35.89	\$33.97	\$102.90	\$5.00
	10,000 Gallons	\$43.01	\$40.50	\$133.90	\$5.00
Associations					
	5,000 Gallons	\$28.67	\$27.81	\$68.50	\$7.50
	7,500 Gallons	\$36.19	\$35.22	\$86.00	\$10.00
	10,000 Gallons	\$44.13	\$42.53	\$105.00	\$12.50
Arizona Survey Total					
	5,000 Gallons	\$28.75	\$26.74	\$123.26	\$5.00
	7,500 Gallons	\$35.97	\$32.96	\$201.78	\$5.00
	10,000 Gallons	\$43.52	\$39.14	\$310.50	\$5.00



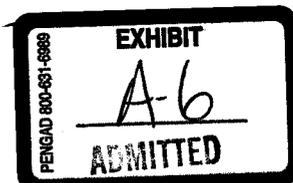
Certified Operator Expenses
2009

Spring System

January	635
February	220
March	260
April	270
May	0
June	0
July	240
August	200
September	240
October	240
November	240
December	<u>260</u>
Total	2805

Well System

January	345
February	315
March	245
April	255
May	245
June	265
July	230
August	190
September	290
October	230
November	230
December	<u>190</u>
Total	3030



Kohl's Ranch Water Company, Inc.
 Staff Revised Calculation of Proposed Emergency Surcharge
 Docket No. W-02886A-10-0369

	2009 Revised Avg Monthly Gallons	Current Rates			Proposed Monthly Surcharge	Proposed Rates		
		Monthly Cost	Cost Per Gallon	Cost Per 1,000 Gals		Monthly Cost	Cost Per Gallon	Cost Per 1,000 Gals
Residential System	2,270	\$ 5.75	\$ 0.0025	\$ 2.53	\$ 19.09	\$ 24.84	\$ 0.0109	\$ 10.94
Resort System	217,937	\$ 5.75						
		<u>106.47</u>						
		\$ 112.22	\$ 0.0005	0.51	\$ 3,200.00	\$ 3,312.22	\$ 0.0152	\$ 15.20

Estimated monthly surcharge revenue from Residential system customers¹ \$ 2,348 42.32% 56.36%

Estimated monthly surcharge revenue from Resort system 3,200 57.68% 43.64%

Total estimated monthly surcharge revenue \$ 5,548 100.00% 100.00%

Total estimated annual surcharge revenue \$ 66,577

¹ Staff used customer amount of 123.



1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 **KRISTIN K. MAYES**
4 **GARY PIERCE**
5 **PAUL NEWMAN**
6 **SANDRA D. KENNEDY**
7 **BOB STUMP**

8 **IN THE MATTER OF THE**
9 **APPLICATION OF KOHL'S RANCH**
10 **WATER COMPANY FOR AN**
11 **EMERGENCY RATE INCREASE.**

DOCKET NO. W-02886A-10-0369

MOTION TO INTERVENE ON
BEHALF OF KOHL'S RANCH
HOMEOWNER'S
ASSOCIATION, AN ARIZONA
NONPROFIT ASSOCIATION

12
13
14 DATED this 20th day of October, 2010.

15 This Motion is Intervene is supported by the attached memorandum.

16 The Kohl's Ranch Water Company ("KRWC") has filed an emergency rate increase with
17 the Arizona Corporation Commission ("ACC"). The Water Company serves two kinds
18 of customers. First, it serves the Kohl's Ranch Motel and Resort. This resort has been
19 the owner of the KRWC since its creation. The second class of customers are the owners
of residential lots surrounding Kohl's Ranch Resort. There are 121 lots. These lots are
occupied primarily by summer cabins and a few permanent, full-time residents.

20 The Kohl's Ranch Homeowners Association ("KRHOA") is a voluntary association
21 created by the owners of lots at Kohl's Ranch. Membership in the Association is not a
22 requirement of ownership and the association was not created by the Covenants,
23 Conditions and Restrictions of the subdivision. Rather, the Association came into
24 existence to provide some joint representation of members of the neighborhood and a
25 forum in which to discuss various neighborhood issues. There are, as of the date of this
26 filing, 69 dues paying members of the Association, all of whom own lots within Kohl's
Ranch. Some of the members own more than one lot. The association cannot, therefore,
say that it represents uniformly the interests of all the residential customers of KRWC. It
does represent a majority of the customers and provides a forum in which to discuss
community issues.



1 Gammage & Burnham has been retained to represent the KRHOA in connection with
2 these rate proceedings. Mr. Gammage, the undersigned counsel, is a property owner
3 within the KRHOA and is a customer of KRWC.

4 GAMMAGE & BURNHAM P.L.C.

5
6
7 By 
8 Grady Gammage, Jr. AZ Bar #4552
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26 KOHL'S RANCH WATER COMPANY
c/o ILX Resorts Incorporated

Steve Olea, Director
Utilities Division
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Signed *Jeri J. McQueen*

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE
APPLICATION OF KOHL'S RANCH
WATER COMPANY FOR AN
EMERGENCY RATE INCREASE.

DOCKET NO. W-02886A-10-0369

MEMORANDUM IN SUPPORT
OF MOTION TO INTERVENE
AND STATEMENT OF
POSITION BY KOHL'S RANCH
HOMEOWNERS ASSOCIATION

I. The "Emergency" Is Only the Result of Past Mismanagement of the Water Company.

In the entire history of the Kohl's Ranch Water Company ("KRWC"), it has never functioned as a "real" utility. Rather, water service has consistently been treated as an incidental service of whoever happened to own the Kohl's Ranch Resort. Since 1955, water service has always been owned by the Resort and has always been treated as an inseparable function of that ownership. As a result, the homeowner/customers ("homeowners") have never had a full understanding of the operations of the water company or even of what assets the water company controls. While the water company has been a separate corporation and has been a regulated utility of the ACC, its ownership, actions, rates, and behavior have been completely opaque to its customers.

In 1995, the Resort realized that the water company had even legally ceased to exist. At that time, because the Resort was being sold to ILX, the KRHOA wrote the ACC expressing concern about the separation between the water company and the Resort. A copy of this letter is attached. This letter did not object to the recreation of the water company as a regulated utility holding these assets but rather expressed concern long-term about the potential separation of the water company from the Resort.

As we come to the matter now before the ACC, it is exactly what the homeowners have feared since 1995. Suddenly in the context of an emergency hearing the fact that the KRWC has never been operated as a genuine utility business is coming home to roost. But because of the lack of separate identity of the water company, and the complete confusion of what the water company actually owns and what the cost of operating the water company actually is, the homeowners suddenly find themselves before the ACC facing a **rate increase of nearly 800%**.

The KRHOA is not opposed to some kind of reasonable rate increase. The Association realizes that the rates have been kept artificially low for a long period of time because of



the failure to operate this as a true utility business. However, the KRHOA has two overriding points in its intervention:

First, no rate increase should be granted until many questions about the water company have been answered more clearly. Second, the rate increase request before the Commission at this time does not appear to be reasonable.

II. No Rate Increase Should be Granted Until Many More Questions are Answered about KRWC.

This rate increase request really represents the first time the KRWC has ever attempted to account for its actions as an independent regulated utility. This is the first time that the KRWC has provided to its customers even the slightest degree of transparency in its operations.

For example, over the years various capital improvements have been made without any understanding by the homeowners of whether these improvements were made by the Resort or by the water company. There is, for example, a large storage tank used primarily for fire suppression which the homeowners were told was built by the Resort as a requirement of its fire insurance. Whether that tank is owned by the Resort or by the water company has never been clear.

There were storage tanks located next to the old Arizona Highway 87, which were demolished by ADOT and some kind of condemnation compensation was made either to the Resort or the water company but the homeowners have never known which. For years the homeowners were told those tanks would be replaced but they never were.

The homeowners have understood that there are two sources of water to the small Kohl's Ranch community. One is a spring at Indian Gardens and the second is a well. At various times in the history of KRWC homeowners have been told that the spring is part of the water company but the well is owned separately and independently by the Resort. More recently, in the filings made in this case, the well is identified as part of the KRWC assets.

It is imperative that the KRWC clearly specify all of its assets, so that going forward any potential buyer and the customers are aware of exactly what the water company owns. At a minimum, this must include the spring, the well, all of the storage tanks, the pipes for both water delivery and the fire suppression system.

The Indian Garden Spring is utilized by the water company under a permit from the Forest Service. That permit specifies that it is issued specifically to ILX and is not transferrable to a new entity. **It is imperative that the position of the Forest Service with regard to the permit for the Indian Garden Spring be clarified in connection with listing the spring as an asset.**

If KRWC proposes to use some portion of this massive increase for maintenance and capital improvements (which would be desirable) we believe they should present at least some plan for anticipated improvements before the increase is granted.

The final question which must be answered before any rate increase can be reasonably considered is what the actual cost of operating the water company has been. This is virtually impossible to tell from the filings. The filing shows operating income in 2009

KRHOA Memorandum

Docket No. W-02886A-10-0369

as \$10,011. This is not broken out as to source. If \$10,011 were divided by the approximately 120 residential meters and then divided by 12 months it would represent only \$6.95 per month per resident. This would mean the Resort has paid nothing. Yet in another part of the filing (final page table), the Resort is said to have been charged a minimum of \$65 per month in 2009. Why are these payments not shown as operating income?

The filing shows operating expenses paid directly by ILX of \$51,953. Is this how the Resort has "paid" for its water? Has the Resort been paying nothing for its utility service, but simply been covering some operating expenses of the water company? If this is the case, the fact that the water company showed a 2009 total loss of \$58,627 is largely meaningless.

The emergency rate filing is designed to produce an "extra" \$80,000 in annual revenue. But the documentation provided by KRWC is so sketchy, and the past practices so lax, that this number is not justifiable. KRWC should be required to provide a clearer explanation of its past practices.

III. The Requested Rate Increase is Excessive, and based on a Highly Speculative Budget.

While it is extremely difficult to figure out exactly what the justification is for the rate increase because there is no history of utility operations to rely on, it is clear that as requested the rate increase is excessive. As mentioned previously the rate since at least the early 1970's has been \$5.75 for 5,000 gallons per month plus .50 cents for each 1,000 gallons thereafter. The proposed rate increase is a flat monthly surcharge of \$36.00 to all residents on top of the existing \$5.75 plus .50 cents per 1,000 over 5,000. At a minimum, therefore, the rate increase for individual homeowners would go from \$5.75 per month to \$41.75 per month, a **rate increase of 726%**. On a percentage basis this is surely one of the largest rate increases in the history of the Arizona Corporation Commission. The filings made to date offer insufficient support to justify this massive increase.

A. KRWC has not met the burden of justifying its request for increased revenue.

The rate increase is predicated on KRWC's stated "need" to produce approximately \$80,000 in additional annual revenue. This is beyond the \$10,000 in operating income for 2009. This need for an additional \$80,000 in revenue is based on estimated expenses provided by the KRWC in its rate filing. The KRHOA believes that many of these expenses are excessive. They are certainly difficult to understand and represent only very vague estimates. Examples of unclear and potentially excessive expenses include:

1. Salaries and wages of \$355/month. In the past, meters have been read and repairs have been made by employees of the Resort. KRHOA does not understand if KRWC proposes to contract with the Resort, obtain part-time other employees, or what basis there is for a \$400/month salary and wage charge.
2. Power costs. We believe the power costs are related to the operation of the pump at the well site. In the past, the homeowners have been told that the well is the property of the Resort and not of the water company. We believe the well is and should be property of the water company. No

KRHOA Memorandum

Docket No. W-02886A-10-0369

explanation is made if this power cost is directly related to the well and is the full cost of operating the pump.

3. Repairs and maintenance. The proposed budget shows repairs and maintenance of \$600 per month. The KRHOA is very concerned that the system has not been well maintained in the past and above all else we want it to be safe, maintained, and reliable. But we see no justification offered for this \$600 per month expense.

4. Outside services. The outside service budget is particularly troubling. It is shown as being nearly \$50,000 in 2009 or \$4,000 per month. This is apparently on top of the \$400 per month wages for an employee. Reading all of the meters of the water company is approximately a six hour task (based on talking to the current meter reader). In the winter months most of the meters do not even need to be read. We cannot, therefore, understand how these expenses could be so high. In addition, it appears that the budget proposed has an additional \$1,700 a month for a daily operator, \$3,000 a month for a billing person, and \$500 a month in legal expenses.

In summary, the KRHOA understands that there is a need for the water company to be more businesslike and to take in more revenue. Based on the existing filings, however, we do not believe that the target of an additional \$80,000 in annual revenue has been justified.

B. The proposed rate places too much burden on the homeowners relative to the Resort.

Perhaps the thorniest question raised by this request is how to apportion the cost of the water company between the Resort on the homeowners. Because the Resort has apparently never been charged for water this issue has never previously been faced. The filing states that the Resort has been paying an average of \$65 for approximately 125,000 gallons per month. But as previously noted the overall operations of the utility company have not made clear if this \$65 has actually been credited to the operational accounts of the utility. In any event, the Resort has certainly been underpaying for water for its entire history. The Resort is a commercial operation which runs year round. In the last few years under ILX's ownership, the Resort has added acres and acres of grass lawn and extensive planting areas far beyond what any of the homeowners have done—probably far beyond what all the homeowners put together have done in terms of landscaping. The Resort uses high amounts of water to amenitize its commercial operations as an attraction. It has the only swimming pool in the area and has a restaurant which operates daily year round.

The principal proposed change in rates is a flat surcharge--\$36 per month for homeowners, \$2,160 per month for the Resort. This means the total homeowner surcharge is \$4,464 per month while the total resort surcharge is \$2,160. In other words, the KRWC plan is to load 2/3 of the "emergency" onto the homeowners, and 1/3 onto the Resort.

This proposal is upside down. The KRHOA suggests a more equitable allocation of any surcharge is 1/3 on the homeowners, and 2/3 on the Resort. The Resort, after all, operates year round and draws far more water than all the homeowners put together.

This is particularly appropriate in light of the fact that it is the decision of the buyer of the Resort from ILX to "cut loose" the water company. Had the buyer decided to acquire the water company it could have chosen to continue the internal subsidy that ILX and the other owners have done in the past. If it is not doing so however, and if the water company must now stand on its own, that is the decision of the buyer of the Resort which has resulted in this "emergency need."

The proposed rate does project a higher monthly charge to the Resort for water in the future. However, on a per gallon basis the Resort winds up paying, by KRWC's own estimates (final page of KRWC filing), \$17.87 per 1,000 gallons versus each homeowner paying \$17.48 per 1,000 gallons. This gallonage charge is the result of a nearly equivalent cost per gallon applied to the homeowners (\$.0175 per gallon) and the Resort (\$.0179). This is a meaningless incremental difference. The Resort should pay a significantly higher charge per gallon. Progressive block prices should also be considered for both types of users.

C. The homeowner rate should have a lower base charge, more like other comparable utilities.

The proposed emergency rate increase simply slaps a \$36.00 per month surcharge on every customer year round. The KRHOA believes this is an unfair and inappropriate way to begin the transition to the KRWC being managed as a true utility. There are several reasons for the KRHOA's position that this is an inappropriate tool.

There are only about 10 full-time residents at Kohl's Ranch. Most of the summer home residents shut off their water system for most winter months, drain their pipes, and use no water at all. Under the proposal, however, their charges would go from the existing \$5.75 a month for month's in which they use no water to \$41.75 for months in which they use no water. This is in contrast to other utilities in the immediate area which serve summer home communities which have a lower monthly base rate:

Community	Location	Base Rate
Tonto Village Water Company	Approximately 3 miles from Kohl's Ranch	\$10/month
Tonto Creek Water Company	Directly across Highway 260 from Kohl's Ranch	\$24/month
Utility System LLC/Christopher Creek	Approximately 6 miles from Kohl's Ranch	\$18.80/month
Brook Utilities/Tonto Basin	Tonto Basin (+/- 45 miles)	\$16/month
Gardner Water Company	Colcord Area (+/- 10 miles)	\$18.80/month

Given these comparisons and the seasonal nature of usage, the KRHOA believes that a lower base rate should be established for the KRWC.

An additional monthly surcharge to the homeowners of \$10.00 per month would take the monthly base rate from \$5.75 to \$15.75. This is still a 300% increase for most of the homeowners. But it is much more in line with other utilities in the area and represents a more equitable split between the Resort and the

homeowners. In the sound operation of a utility business the homeowners also believe that it may be more appropriate to create a more steeply progressive rate structure for water used in excess of 5,000 gallons. This more progressive structure would be appropriate both at the Resort and for those homeowners who choose to add significant landscaping to their properties.

IV. Conclusion

Since the early 1950's when the Kohl's Ranch subdivision began the homeowners have been served by the water system built by the Kohl's Ranch Resort and Lodge. The service has had problems over the years. There have been interruptions, low water pressure, quality problems, and inconsistent maintenance. But year in and year out service has been maintained and has been extremely inexpensive. This is the result of the recognition by the Kohl's Ranch Resort that water service is so critical to its year round operation that it needed to heavily subsidize the water company. Now the KRWC proposes to embark on a new era where it is a separate stand alone utility. That represents a dramatic change.

It is of paramount importance to the KRHOA that the system be reliable, safe, and well maintained. The homeowners recognize, therefore, that rates will need to increase. But the "emergency" which brings this issue before the Commission is the result of the decision by the potential buyer of the Resort not to purchase the water company coupled with the extremely lax management practices of the water company for the last 60 years. Neither of those issues is the doing of the homeowners. It is not appropriate to penalize the homeowners by increasing rates by a factor of 750%. Rather, the Commission should order:

1. That before any rate increase is granted the KRWC must provide a clearer accounting of its assets.
2. Before any rate increase is granted the KRWC must more clearly justify its proposed budget in light of past expenses.
3. Before any rate increase is granted the KRWC should provide a list of proposed maintenance and capital improvement items.
4. The need for additional revenue should be much more heavily placed on the Resort since it is the primary user of the water system, since it operates year round, and since its use is much more extensively for landscaping. KRHOA suggests any surcharge proposed be split 2/3's to the Resort and 1/3 to the homeowners rather than the other way around as is proposed by KRWC.
5. The homeowner rate should not be allowed to increase dramatically beyond that of other small summer home utility in the area. That standard suggests the base rate for homeowners should be approximately \$15.00 per month.
6. The KRWC should establish more progressive per gallon charges over the base minimum amount. Separate progressive rates should be applied to the Resort and to the homeowners.

KRHOA Memorandum
Docket No. W-02886A-10-0369

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KRHOA Memorandum
Docket No. W-02886A-10-0369
Phoenix, AZ 85007

Signed Terri J. McGowan

GAMMAGE & BURNHAM

A PROFESSIONAL LIMITED LIABILITY COMPANY

ATTORNEYS AT LAW

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WRITER'S DIRECT LINE

April 27, 1995

(602) 256-4469

Jerry Rudibaugh
Chief Hearing Officer
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007-2927

In the Matter of)
)
Application for Approval of the Transfer of)
Assets and Certificate of Convenience Necessity)
to Kohl's Ranch Water Co.)
)
)

No. LI-1366-95-135 and
LI-2886-95-135

Dear Mr. Rudibaugh:

We have been asked on behalf of the Kohl's Tonto Creek Subdivision Homeowner's Association, Inc. ("Association") to comment upon the application for approval of the request to transfer assets and CCN of the Kohl's Ranch Water Company ("Water Company"). The Association is a voluntary association of homeowners in the subdivision which surrounds the Kohl's Ranch Resort and which is served by the Kohl's Ranch water system. There are approximately 130 to 140 lots in the subdivision which are served by the water system. The Association counts among its members more than 90 of those lots. The Association thus represents approximately 70% of the customers of the water company.

The Kohl's Ranch water system has served water to the homeowners since 1955. During that entire time there has always been an identity of ownership between the Kohl's Ranch Resort and the Water Company.

Jerry Rudibaugh
Chief Hearing Officer
Arizona Corporation Commission
April 27, 1995
Page 2

The Association does not object to the transfer of the assets of the Water Company into a corporation, which is the narrow request before the Commission in the application filed on April 7, 1995. The Water Company has been a separate corporation throughout most of its life and apparently ceased being a corporation only by operation of a 25-year expiration period in its original articles. Transferring the Water Company back into a corporation from Mr. and Mrs. Griffiths is acceptable to the Association. The Association is concerned about the ultimate disposition of the Water Company as part of the pending sale of Kohl's Ranch Resort to ILX, Inc., as has been reported in the newspapers. The Association's purpose in writing the Commission is to express opposition only to any potential separation of the assets of the Water Company from the Resort operation.

The primary water system for the homeowners is a spring-fed system from the Indian Gardens spring. During times of moderate drought that system has, in the past, proved seriously inadequate to supply the water demands of all of the homeowners. As a result, in the mid-70's, early 1980's and in 1986 there were pressure inadequacies and water shortages. This situation was exacerbated when State Route 260 was widened next to Kohl's Ranch Resort. As a result of that project, ADOT removed two auxiliary tanks and connecting lines from across the highway from the water system. We understand that the current owner of the Water Company has had a claim against ADOT to replace these tanks and connecting water lines, but that to date no resolution has occurred. If the Water Company were to be left with only the spring-fed system, particularly without the auxiliary tanks which had once existed, the situation would be intolerable for the homeowners.

For the last several years (we believe since approximately 1986) the original spring-fed water system has been directly tied into a well, and a 200,000 gallon storage tank and booster pump located on the Resort property and constructed primarily to directly serve the Resort. The Association believes that it has been the position of past owners of the Resort that the well, storage tank and booster pump are the property of the Resort and not of the Water Company. Because of the inter-tie and the critical nature of these facilities as a past and current part of the overall operating water system, the Association is concerned regarding any potential separation of these elements from the assets of the Water Company. In the event these assets were sold with the Resort and the Water Company were to be owned separately, we believe that continuing reliable service to the homeowners would be severely jeopardized.

Jerry Rudibaugh
Chief Hearing Officer
Arizona Corporation Commission
April 27, 1995
Page 3

The Association does not object to the sale of all of the assets of the Water Company with the resort to a third party. Indeed, we are supportive of ILX's proposal to upgrade and renovate the existing resort operation. We do believe, however, that the assets of the Water Company should be clearly set forth and should include all critical elements of the water system.

Sincerely,

GAMMAGE & BURNHAM P.L.C.


By
Grady Gammage, Jr.

GG/mj

cc: Renz Jennings
Marcia Weeks
Carl Kunasek
Gary Yaquinto, Director Utilities Division
Skip Wallach, ILX, Inc.
Ray Heyman

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

**IN THE MATTER OF THE
APPLICATION OF KOHL'S RANCH
WATER COMPANY FOR AN
EMERGENCY RATE INCREASE.**

DOCKET NO. W-02886A-10-0369

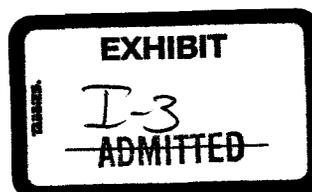
**KOHL'S RANCH TONTO
CREEK SUBDIVISION
HOMEOWNERS
ASSOCIATION, INC.
RESPONSE TO STAFF REPORT
AND TO KRWC AMENDED
PROPOSAL**

As a result of the procedural conference on October 25, the Kohl's Ranch Tonto Creek Subdivision Homeowners Association, Inc. ("Association") understands that there are only two issues to be considered in the emergency rate increase hearing. These are:

1. How much revenue needs to be raised for the KRWC by a temporary surcharge?
2. How should the surcharge revenue be split between the resort and the homeowners?

In addition to responding to these two questions, this memorandum attempts to respond to the KRWC filing of October 21st revising its proposal.

The Association recognizes that an "emergency" situation exists. That emergency is the result of the failure to manage the Kohl's Ranch Water Company ("KRWC") as a utility for the past forty years and the recent bankruptcy of ILX and sale of the Resort. The Association also recognizes the existing rate schedule is insufficient for the continued



operation of the utility. The homeowners are obviously extremely interested in the viable operation of the KRWC.

I. How much revenue is needed.?

The original KRWC proposal sought to raise an additional \$79,488 from emergency surcharge revenue. In the Association's earlier statement of position we raised questions about the necessity of this revenue level. The Corporation Commission staff in its report of October 20th decreases many of the proposed expenses and proposes a total emergency annual surcharge revenue of \$65,639. Most recently KRWC has raised its request for surcharge revenue to \$80,808.

The Association is not in a good position to analyze these projected costs, and is willing to accept the ultimate ACC determination.

II. The split in surcharge between the homeowners and the resort.

The chart below shows the relative percentages in surcharge revenue proposed to be borne by the homeowners and resort in the original KRWC filing, in the ACC staff recommendation, and in the revised KRWC proposal.

	Proposed KRWC	ACC Staff	KRWC Revised
Homeowners	67%	60%	52%
Resort	33%	40%	47%

The Association appreciates the efforts of the ACC staff and of KRWC to arrive at a more equitable apportionment. The Association continues to feel that the proposed split is inequitable.

The original proposed KRWC allocation of the surcharge was simply based on taking the 60 rooms in the resort and applying the originally proposed \$36 residential surcharge to each of those rooms. This proposal completely ignored the fact that the resort rooms and the residential units are not equivalent, for a number of reasons:

- The resort operates year round while most of the homeowners (all but about 10) are seasonal and shut off their water systems during the winter months.
- In addition to the individual units at the resort, each of which contains a kitchenette and at least one bathroom, the resort also has a full restaurant open 365 days of the year, 3 meals each day.
- The resort has the only swimming pool in the area.
- The resort has acres and acres of landscaping and grass while most of the homeowners have little or no landscaping.

The Association's only access to records of KRWC is in connection with the filings in this case. It has been extremely difficult from those filings to ascertain how much water the resort actually used last year or how much it paid. KRWC's recent filing says that in the aggregate, homeowners use 56% of the total water deliveries. Frankly, the Association does not find this to be a credible figure, but has no data available. This is based on total homeowners usage of 3,377,853 gallons.

This number would mean, on average, each homeowner would use 27,240 gallons per year or 2,270 gallons per month average for 12 months each year. Since most cabins are occupied intermittently in the summer, this seems high.

An appropriate way to analyze the "emergency" is to ask how much of the cost of the utility was paid in 2009 by the homeowners and how much was paid by the resort. In light of this past allocation we could then determine how much of an increase the proposed surcharges represent to each of the customer classes. In 2009, it appears that

the resort paid approximately \$65,000 for water service. This number is difficult to determine but it is derived in the following manner:

KRWC Schedule SSR1 shows total operating expenses of the water company at \$68,638 with metered water revenue of \$10,011. The difference, \$58,627, was apparently absorbed by the resort. In addition, the resort should have paid approximately another \$4,000-5,000 for water. Thus, it appears the resort probably paid somewhere between \$63,000 and \$65,000 for its utility service in 2009.

The average homeowner apparently paid approximately \$6.00 per month or \$72 per year for water service in 2009. This would suggest that the homeowners in total paid approximately \$9,000 toward the water company in 2009. Unfortunately, this number does not balance with the expectation that the lodge paid about \$5,000 in water revenue. The dilemma is that the \$10,011 shown in reported year end 2009 KRWC revenue is not explained and is impossible to replicate from what the utility is supposed to have been charging people in the past. But simply for illustrative purposes, let us suppose that in 2009 the homeowners paid an aggregate total of about \$9,000 to the utility and the lodge paid about \$65,000.

Interestingly, these two numbers together total about \$74,000 dollars, which is close to the staff recommendation of total revenue needed by the water company. But here, we use the numbers just for purposes of analyzing the 2009 split between the lodge and the homeowners in bearing the cost of this utility. These numbers would suggest that in 2009 the resort paid about 88% of the utility cost and the homeowners in the aggregate bore 12% of the cost.

Clearly, the past practices of the resort and the water company to not operate as a stand alone utility has created a situation in which the resort was absorbing a disproportionately large share of the cost. But the proposed correction—to go from the circumstance in which the homeowners pay about 12% of the cost of the utility to a circumstance in

which the homeowners bear 60-70% cost of the utility is not equitable and represents a shocking rate increase. On the other hand, under any of the schedules, the resort will see a huge cut in its utility costs.

A homeowner using the minimum amount of water is facing the following:

Homeowners Increase Minimum Change (monthly)

2009 Monthly	KRWC Proposed	ACC Staff	KRWC Revised
5.75	\$41.75 +726% increase	\$32.12 +558% increase	\$34.25 +595% increase

Again, while the numbers are difficult to ascertain, the resort appears to be facing the following proposed situation:

Resort Change in Utility Cost (annual)

2009 Annual	KRWC Proposed	ACC Staff	KRWC Revised
\$65,000	\$25,920 -60% decrease	\$26,400 -59% decrease	\$38,400 -40% decrease

Thus, while the homeowners are looking at something like a six fold increase in utility cost, the resort is apparently looking at an approximately 40-50% decrease in its costs.

For nearly forty years, the resort at Kohl's Ranch has been picking up the bulk of the utility cost. The Association understands that with the utility company being separated from the resort a new era is emerging. The Association also acknowledges that the forty year old rate is inappropriately low and must be changed.

This emergency situation creates a context in which we do not know enough about the KRWC to understand what its correct rate structure should be. This emergency situation imposes an evidentiary construct in which we are not allowed to look at other comparable utilities and how they operate and charge. This emergency situation was not created by the homeowners but was created by the lax management by the KRWC for forty years and the sudden need to separate it from the resort.

In this emergency context it is inappropriate to cut the total utility cost to the resort in half while making the utility cost to the average homeowner go up by more than five times. Rather, the emergency need is more appropriately split with the resort continuing to pick up more than 50% of the overall utility cost. The ACC staff proposes a split of 60% to homeowners, 40% to the resort. The Association suggests that this split be reversed with the surcharge being borne 60% by the resort and 40% by the homeowners. This proposal, coupled with the ACC recommendation for total surcharge revenue (for want of any better target) of approximately \$65,000 would result in the following:

Homeowner's Proposed Surcharge

	Customers	Months	Monthly Surcharge	Annual Surcharge Revenue
Homeowners	124	12	\$17.00	\$26,000
Resort	1	12	\$3,250	\$39,000
TOTAL				\$65,000

III. Conclusion.

The Association will accept the ACC determination on the appropriate level of surcharge. The homeowners believe that the appropriate surcharge level in this "emergency" should be no more than 40% to the homeowners. This still represents an enormous increase in the charge to individual homeowners. It also still represents a very significant decrease to the resort compared to what it paid for its utility service last year. The Association looks forward to a permanent rate case and believe that this or any other solution can only be implemented over the long term based on a significantly greater understanding of the operation of KRWC.

KRHOA Memorandum
Docket No. W-02886A-10-0369

GAMMAGE & BURNHAM P.L.C.

By 

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ORIGINAL and 13 copies filed this 28th day of
October, 2010 with:

ARIZONA CORPORATION COMMISSION
Docket Control
1200 West Washington Street
Phoenix, AZ 85007

COPIES of the foregoing mailed this same date to:

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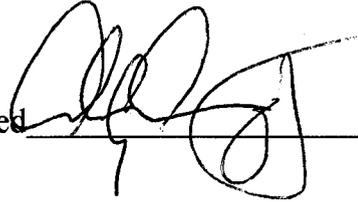
Steve Olea, Director
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ARIZONA CORPORATION
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KRHOA Memorandum
Docket No. W-02886A-10-0369

Janice Alward, Chief Counsel
Bridget Humphrey, Staff Attorney
Legal Division
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1200 West Washington Street
Phoenix, AZ 85007

Lynn Farmer
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Signed

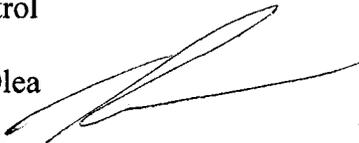
A handwritten signature in black ink, appearing to be 'Lynn Farmer', written over a horizontal line.

ORIGINAL

MEMORANDUM

TO: Docket Control

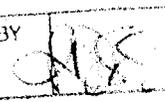
FROM: Steven M. Olea
Director
Utilities Division



DATE: October 20, 2010

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

Arizona Corporation Commission
DOCKETED
OCT 21 2010

DOCKETED BY 

Attached is the Staff Report for Kohl's Ranch Water Company's application for an emergency rate increase. Staff recommends conditional approval of the emergency rate request.

A Procedural Order has set a hearing date on this case of November 3, 2010. Any comments or exceptions to the Staff Report should be filed with Docket Control no later than 4:00 p.m., November 1, 2010.

SMO:CSB:tdp

Originator: Crystal Brown

AZ CORP COMMISSION
DOCKET CONTROL
2010 OCT 21 A 8:34

RECEIVED

tabbles
EXHIBIT
S-1
ADMITTED

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

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

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

KOHL'S RANCH WATER COMPANY

DOCKET NO. W-02886A-10-0369

**APPLICATION FOR AN
EMERGENCY RATE INCREASE**

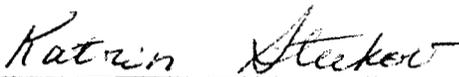
OCTOBER 20, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for the Kohl's Ranch Water Company, application for an emergency rate increase, Docket No. W-02886A-10-0369, was the responsibility of the Staff members listed below. Crystal Brown was responsible for the review and analysis of the Company's application. Katrin Stukov was responsible for the engineering and technical analysis. Trish Meeter was responsible for reviewing the Commission's records on the Company.



Crystal Brown
Public Utility Analyst V



Katrin Stukov
Utilities Engineer



Trish Meeter
Public Utilities Consumer Analyst

EXECUTIVE SUMMARY
KOHL'S RANCH WATER COMPANY
DOCKET NO. W-02886A-10-0369

On September 2, 2010, Kohl's Ranch Water Company ("Kohl's Ranch" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission"). Kohl's Ranch is a Class D water utility that provides water service to approximately 124 metered customers in Gila County, Arizona. The current rates, authorized in Decision No. 42881, have been in effect since November 1972.

The Company's current rates have been in effect for approximately 40 years. The monthly customer charge for a 5/8-inch by 3/4-inch metered customer is \$5.75 and includes the first 5,000 gallons at no additional cost. For all gallons over 5,000, the cost is \$0.50 per thousand gallons. The Company indicates that it has been able to operate under its current tariff without a rate increase because its parent Company, ILX Incorporated ("ILX"), has subsidized its operations.

On March 2, 2009, ILX filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On July 23, 2010, the United States Bankruptcy court approved a Plan of Reorganization and Sale Order. Until shortly before the Sale Order date, ILX expected that the buyer of the assets of ILX would also purchase Kohl's Ranch. However, the buyer did not. The Company's application indicates that ILX will no longer be in a position to subsidize Kohl's Ranch. Consequently, Kohl's Ranch requests an emergency rate increase to allow it to generate enough revenue to pay for its operating expenses and maintain service to customers.

Staff concludes that the Company's condition satisfies criterion number three¹ discussed in the "Conditions Necessary For Emergency Rate Relief" section of this Report. The Company's existing rates, which generate approximately \$10,011 (Company Schedule SSR-1, column 1), have been in effect for approximately 40 years, and are not sufficient to cover the Staff-recommended \$75,650 operating expenses.

RECOMMENDATIONS

Staff recommends:

1. Approval of the application using Staff's recommended \$26.37 monthly surcharge for 5/8-inch x 3/4-inch metered customers (residential) and \$2,200.00 monthly surcharge for six inch metered customers (the Kohl's Ranch Lodge property), as shown on Schedule CSB-3.
2. The Company file a full permanent rate case no later than April 30, 2012, using a calendar year 2011, test year.

¹ A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

3. The interim rates stay in effect until January 31, 2013, or until an Order is issued in the permanent rate case, whichever comes first. However, if the Company's permanent rate case filing is not found to be sufficient by July 31, 2012, the interim rates shall cease on July 31, 2012.
4. The interim rates be subject to refund pending the Decision resulting from the permanent rate increase case required to be filed in this proceeding.
5. The Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$ \$145,800² prior to implementing the emergency rate increase authorized in this proceeding to ensure that there is sufficient money available to refund customers if the Commission determines in the permanent rate case that the emergency rate increase was not needed or too large. However, should the Commission choose a smaller bond, Staff recommends an additional option of posting a cashiers check for \$10.00 with the Commission as for Park Water Company in Decision No. 66389. This option is recommended as companies may be unable to obtain a bond or sight draft letter of credit for small amounts.
6. The Company be directed to file with Docket Control, within 30 days of the Decision, a revised rate schedule reflecting the emergency rate increase, as a compliance item in this docket.
7. The Company notify its customers of the emergency surcharges, and the effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.
8. Staff further recommends that the Company be required to report the information, including, but not limited to Water Use and Plant Description Data, separately for each of its individual systems by PWS, as defined by ADEQ, in future Annual Reports and rate filings.
9. Staff further recommends that an appropriately sized meter be installed on the spring source serving the Kohl's Ranch water system, and the Company be required to meter water gallons obtained from the spring source and gallons obtained from the interconnect with the Lodge system, and report this information on the Water Use Data Sheet in future Annual Reports and rate filings. This metering should be completed by January 31, 2011. The Company should coordinate when it reads the source meters each month with when it reads the customer meters so that an accurate accounting of the water pumped and the water delivered to customers is determined.

² The \$145,800 is the sum of the \$103,658.25 + \$42,141.75. The individual components are calculated as follows:
123 residential customers x \$33.71 x 25 months (Dec 2010 to Jan 2013) = \$103,658.25
1 commercial customer (Lodge) x \$1,685.67 x 25 months (Dec 2010 to Jan 2013) = \$42,141.75

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SCHEDULES

INCOME STATEMENT	SCHEDULE CSB-1
CALCULATION OF ANNUAL SURCHARGE REVENUE.....	SCHEDULE CSB-2

ATTACHMENT

ENGINEERING MEMORANDUM.....	1
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INTRODUCTION

On September 2, 2010, Kohl's Ranch Water Company ("Kohl's Ranch" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission").

BACKGROUND

Kohl's Ranch is a Class D water utility that provides water service to approximately 124 metered customers in Gila County, Arizona.

The residential customers and the Kohl's Ranch Lodge property ("Lodge") are served by two water systems: the residential customers are served primarily by a naturally occurring spring system and the Lodge is served by a well system. The current rates, authorized in Decision No. 42881, have been in effect since November 1972.

CONSUMER SERVICES

Staff reviewed the Commission's records for the period of January 1, 2007, through October 13, 2010, and found no complaints and one opinion opposed to this emergency rate application.

ENGINEERING ANALYSIS

A complete discussion of Staff's technical findings and recommendations and a description of the water system are provided in the attached Engineering Memorandum.

The Company's two water systems (through the use of the emergency interconnect) have adequate capacity to serve the Company's customers.

The Company's reported annual water testing expense totaling \$2,805 appears to be reasonable.

The Company is in compliance with ADEQ and ADWR regulations.

COMPLIANCE

A check of the compliance database indicates that there are currently no delinquencies for Kohl's Ranch.

CONDITIONS NECESSARY FOR EMERGENCY RATE RELIEF

General conditions necessary for interim emergency rates³ include:

1. A sudden change that causes hardship to a company.
2. A company is insolvent.
3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

SUMMARY OF COMPANY'S JUSTIFICATION FOR EMERGENCY RATE RELIEF

The Company's current rates have been in effect for approximately 40 years. The monthly customer charge for a 5/8-inch by 3/4-inch metered customer is \$5.75 and includes the first 5,000 gallons at no additional cost. For all gallons over 5,000, the cost is \$0.50 per thousand gallons. The Company indicates that it has been able to operate under its current tariff without a rate increase because its parent Company, ILX Incorporated ("ILX"), has subsidized its operations.

On March 2, 2009, ILX filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On July 23, 2010, the United States Bankruptcy court approved a Plan of Reorganization and Sale Order. Until shortly before the Sale Order date, ILX expected that the buyer of the assets of ILX would also purchase Kohl's Ranch. However, the buyer did not. The Company's application indicates that ILX will no longer be in a position to subsidize Kohl's Ranch. Consequently, Kohl's Ranch requests an emergency rate increase to allow it to generate enough revenue to pay for its operating expenses and maintain service to customers.

STAFF'S ANALYSIS

Staff reviewed the emergency rate application that contained an unaudited 2009 income statement including pro forma adjustments and discussed the matter with Ms. Stone, the Company's president, and Ms. Rowell, the Company's consultant. The Company's Schedule SSR-1, column 5 shows total proposed revenue of \$89,499 and total operating expenses of \$87,179, resulting in operating income of \$2,320. The Company proposes a \$36.00 monthly surcharge for residential customers and a \$2,160 monthly surcharge for the Lodge.

Based on the results of Staff's review, Staff agrees with the Company that an emergency rate increase is needed. However, Staff does not agree with the Company's proposed level of operating revenues, expenses, operating income, and resulting surcharges. Staff decreased total

³ According to Attorney General Opinion No. 71-17, interim or emergency rates are proper when either all or any of the following conditions occur: when sudden change brings hardship to a Company; when the Company is insolvent; or when the condition of the Company is such that its ability to maintain service pending a formal rate determination is in serious doubt. Those criteria have been affirmed in *Scates v. Arizona Corporation Commission*, 118 Ariz. 531 (CT. App. 1978) and in *Residential Utility Consumer Office v. Arizona Corporation Commission*, 199 Ariz. 588 (2001).

2009 operating expenses by \$11,529, from \$87,179 to \$75,650 as shown and explained on Schedule CSB-1 pages 1 through 2. Staff recommends emergency rates that would produce total operating revenue of \$75,650 and no operating income as shown on Schedule CSB-1, page 1, column E.

Staff reviewed the Company proposed \$36.00 monthly surcharge for 5/8-inch x 3/4-inch metered customers (residential) and \$2,160.00 monthly surcharge for six-inch metered customers (Lodge) and concluded that the surcharges appeared reasonable. However, in order to generate Staff's recommended revenue and to mitigate the increase to the residential customers, Staff decreased the \$36.00 residential surcharge by \$9.63 to \$26.37 and increased the \$2,160 Lodge surcharge by \$40 to \$2,200. Staff's recommended monthly surcharges of \$26.37 for 5/8-inch x 3/4-inch metered customers (residential) and \$2,200.00 for six-inch metered customers (Lodge) are shown on Schedule CSB-2.

Staff's recommended operating income of \$0 reflects that the revenue increase was set using a break-even methodology. Staff's recommended revenue increase is sufficient to allow the Company to pay for all of its operations and maintenance costs.

CONCLUSION

Staff concludes that the Company's condition satisfies criterion number three⁴ discussed in the "Conditions Necessary For Emergency Rate Relief" section of this Report. The Company's existing rates, which generate approximately \$10,011 (Company Schedule SSR-1, column 1), have been in effect for approximately 40 years, and are not sufficient to cover the Staff-recommended \$75,651 operating expenses.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. Approval of the application using Staff's recommended \$26.37 monthly surcharge for 5/8- inch x 3/4-inch metered customers (residential) and \$2,200.00 monthly surcharge for six-inch metered customers (the Kohl's Ranch Lodge property) as shown on Schedule CSB-3.
2. The Company files a full permanent rate case no later than April 30, 2012, using a calendar year 2011, test year.
3. The interim rates stay in effect until December 31, 2012, or until an Order is issued in the permanent rate case, whichever comes first. However, if the Company's permanent rate case filing is not found to be sufficient by July 31, 2012, the interim rates shall cease on July 31, 2012.

⁴ A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

4. The interim rates be subject to refund pending the Decision resulting from the permanent rate increase case required to be filed in this proceeding.
5. The Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$ \$145,800⁵ prior to implementing the emergency rate increase authorized in this proceeding to ensure that there is sufficient money available to refund customers if the Commission determines in the permanent rate case that the emergency rate increase was not needed or too large. However, should the Commission choose a smaller bond, Staff recommends an additional option of posting a cashiers check for \$10.00 with the Commission as for Park Water Company in Decision No. 66389. This option is recommended as companies may be unable to obtain a bond or sight draft letter of credit for small amounts.
6. The Company be directed to file with Docket Control, within 30 days of the Decision, a revised rate schedule reflecting the emergency rate increase, as a compliance item in this docket.
7. The Company notify its customers of the emergency surcharges, and the effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.
8. Staff further recommends that the Company be required to report the information, including, but not limited to Water Use and Plant Description Data, separately for each of its individual systems by PWS, as defined by ADEQ, in future Annual Reports and rate filings.
9. Staff further recommends that an appropriately sized meter be installed on the spring source serving the Kohl's Ranch water system, and the Company be required to meter water gallons obtained from the spring source and gallons obtained from the interconnect with the Lodge system, and report this information on the Water Use Data Sheet in future Annual Reports and rate filings. This metering should be completed by January 31, 2011. The Company should coordinate when it reads the source meters each month with when it reads the customer meters so that an accurate accounting of the water pumped and the water delivered to customers is determined.

⁵ The \$145,800 is the sum of the \$103,658.25 + \$42,141.75. The individual components are calculated as follows:
123 residential customers x \$33.71 x 25 months (Dec 2010 to Jan 2013) = \$103,658.25
1 commercial customer (Lodge) x \$1,685.67 x 25 months (Dec 2010 to Jan 2013) = \$42,141.75

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	\$ 89,499	\$ -	\$ 89,499	\$ (13,849)	\$ 75,650
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenues	-	-	-	-	-
4	Total Revenues	<u>\$ 89,499</u>	<u>\$ -</u>	<u>\$ 89,499</u>	<u>\$ (13,849)</u>	<u>\$ 75,650</u>
EXPENSES:						
7	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-	-	-
9	Purchased Power	2,020	(1,422) A	598	-	598
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	2,805	-	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	2,500	(2,500) D	-	-	-
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	611	(611) E	-	-	-
31	Rounding	(1)	-	(1)	-	(1)
32	Total Operating Expenses	<u>\$ 87,179</u>	<u>\$ (11,529)</u>	<u>\$ 75,650</u>	<u>\$ -</u>	<u>\$ 75,650</u>
33						
34	Operating Income (Loss)	<u>\$ 2,320</u>	<u>\$ 11,529</u>	<u>\$ 13,849</u>	<u>\$ (13,849)</u>	<u>\$ -</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 \$ 2,020
Per Staff 598 (\$1,422)

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., 3,555) as follows:

	Per Company	Adjustment	Per Staff
Spring System (Residential) - Gallons in '000's	3,555	(3,555)	0
Well System (Lodge) - Gallons in '000's	1,495	0	1,495
Total Annual Gallons	5,050	(3,555)	1,495
Estimated Purchased Pwr cost per 1,000 gals	\$ 0.40		\$ 0.40
Purchased Power Expense	\$ 2,020.00	(1,422)	\$ 598.00

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
	<u>65,000</u>	<u>(6,000)</u>	<u>59,000</u>

D - REGULATORY COMMISSION EXPENSE, RATE CASE - Per Company \$ 2,500
Per Staff 0 (\$2,500)

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.

E - INCOME TAXES - Per Company \$ 611
Per Staff 0 (\$611)

To reflect Staff's income tax calculation as shown on CSB-1, page 3.

Kohl's Ranch Water Company
 Docket No. W-02886A-10-0369
 Emergency Rates

Schedule CSB-2

**Line
No.**

1 **Annual Revenue Increase**
 2 \$ 75,650 Staff recommended total revenue
 3 \$(10,011) Actual total revenue
 4 \$ 65,639 Staff recommended increase in revenue

5
6
7

8 **Calculation of Annual Surcharge Revenue**

	Number of Customers		Monthly Surcharge		Number of Months		Annual Surcharge Revenue
11	5/8" x 3/4" Meter (Residential)	124	x	\$ 26.37	x	12	= \$ 39,239
12	6" Meter (Lodge)	1	x	\$ 2,200.00	x	12	= \$ 26,400
13	Total Annual Surcharge Revenue						\$ 65,639

MEMORANDUM

DATE: September 30, 2010

TO: Crystal Brown
Public Utilities Analyst V

FROM: Katrin Stukov *KS*
Utilities Engineer

RE: Kohl's Ranch Water Company Emergency Rate Increase Application
Docket No. W-02886A-10-0369

Introduction

On September 2, 2010, Kohl's Ranch Water Company ("Company" or "Utility") filed an application with the Arizona Corporation Commission ("ACC") requesting an interim emergency rate increase.

Based on the information obtained from an Arizona Department of Environmental Quality ("ADEQ") Inspection Reports ("Report"), dated September 2, 2010, the Company operates two water systems (the Kohl's Ranch water system and the Lodge water system)¹ east of Payson, in Gila County. The Kohl's Ranch water system provides water service to approximately 124 homes in the Kohl's Tonto Creek Subdivision. The Lodge water system serves the Kohl's Ranch Lodge property ("Resort"), which consists of a hotel, restaurant and cabins. The two water systems have an emergency interconnection.

According to the application, in 1995, ILX Resorts Incorporated ("ILX") acquired both the Utility and the Resort, and ILX has been subsidizing the Utility with cash, labor, parts, supplies, and services. ILX has recently received U.S. Bankruptcy Court approval of a Plan of Reorganization and Sale Order providing for the sale of substantially of all ILX's assets, including the Resort, but excluding the Utility. The Buyer of the ILX assets agreed to purchase the Resort, but not the Utility. According to the Company, an emergency now exists as ILX will no longer be in a position to subsidize the Utility operations and the Utility will now have to operate as a stand-alone entity.

¹ The Company does not separate Water Plant Description and Water Use Data by system in its Annual Reports.

Existing Water Systems

1. Kohl's Ranch Water System

Based on the information obtained from an ADEQ Report and the Company's responses to Staff's data requests, the Kohl's Ranch system consists of the naturally occurring spring, one 4-tank filtration system, one chlorinator, one booster pump and a distribution system serving approximately 124 connections (mostly secondary part-time residences). The system does not have a storage tank. The Kohl's Ranch system supplements its water supply by obtaining water from the Lodge system (through an emergency interconnect) during peak summer demand periods, or as needed. The Company does not meter/report water gallons obtained from the spring; therefore, Staff cannot determine the water supply capacity. However, according to the system's certified operator, the Kohl's Ranch water system, through the use of the emergency interconnect, has adequate capacity to serve its customers.

2. The Lodge Water system

According to the Company, the Lodge system consists of one-37 gallon per minute well², one 200,000 gallon storage tank, one 5,000 gallon pressure tanks, one chlorinator and a distribution system serving the Resort.

Using the Company's responses to Staff data requests, the Company reported the peak use month as August with 160,900 gallons sold. Based on this data, the Lodge water system has adequate production and storage capacity to serve its customers.

Water Testing Expense

According to the application, the Company's 2009 water testing expense is \$2,805. This amount appears to be reasonable.

ADEQ Compliance Status

Based on ADEQ Reports, ADEQ reported no deficiencies and has determined that the Kohl's Ranch system, ADEQ Public Water System ("PWS") Identification No. 04-013, and the Lodge system, ADEQ PWS Identification No. 04-089, are currently delivering water that meets the water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, Chapter 4.

ACC Compliance Status

A check of the Utilities Division compliance database indicated that there are currently no delinquencies for the Company³.

² Installed in June, 1984 (per ADEQ Report)

ADWR Compliance Status

The Company is not located in any ADWR Active Management Area. The ADWR has determined that the Company's two water systems are currently in compliance with ADWR requirements governing water providers and/or community water systems.⁴

Conclusions

The Company's two water systems (through the use of the emergency interconnect) have adequate capacity to serve the Company's customers.

The Company's reported annual water testing expense totaling \$2,805 appears to be reasonable.

The Company is in compliance with ADEQ and ADWR regulations.

Recommendations

Staff recommends that the Company be required to report the information, including, but not limited to Water Use and Plant Description Data, separately for each of its individual systems by PWS, as defined by ADEQ, in future Annual Reports and rate filings.

Staff recommends that an appropriately sized meter be installed on the spring source serving the Kohl's Ranch water system, and the Company be required to meter water gallons obtained from the spring source and gallons obtained from the interconnect with the Lodge system, and report this information on the Water Use Data Sheet in future Annual Reports and rate filings. This metering should be completed by January 31, 2011. The Company should coordinate when it reads the source meters each month with when it reads the customer meters so that an accurate accounting of the water pumped and the water delivered to customers is determined.

³ Per compliance check dated September 17, 2010.

⁴ Per ADWR Compliance Status Report dated September 20, 2010.

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

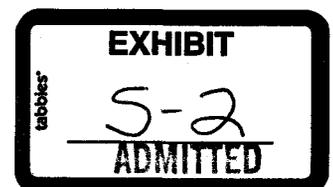
DATE: November 2, 2010

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	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

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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		<u>124</u>		Total Annual Surcharge Revenue			\$ 66,577