

ORIGINAL



0000120206

MEMORANDUM
RECEIVED

Arizona Corporation Commission

DOCKETED

NOV 22 2010

DOCKETED BY

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

2010 NOV 22 AM 11:24
EA for SAA
ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: November 22, 2010

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

Per instruction from Administrative Law Judge Harpring, the Company filed invoices to support its water testing expense. The invoices totaled \$6,445. Staff reviewed the invoices and found that \$1,970 related to water testing expense and \$4,475 related to the purchase of chemicals, repairs and maintenance, outside services, and late fees. Staff has categorized the \$6,445 in the appropriate accounts as follows:

Water Testing Invoices	Account Description
\$ 275	Chemicals Expense
\$ 130	Repairs and Maintenance
\$4,050	Outside Services (Certified Operator)
\$1,970	Water Testing Costs
\$ 20	Disallowed (Late Fees)
\$6,445	Total

In addition to the \$1,970 in water testing expense supported by invoices, Staff also recommends including \$445 for MAP tests and \$306 for other necessary water tests that will be conducted at a later date. Staff recommends total water testing expense of \$2,721.

The pertinent changes to Staff's recommended expenses from the First Revised Schedules to the Second Revised Schedules are presented in the table below:

Description	First Revised Schedule Per Staff	Difference	Second Revised Schedule Per Staff
Chemicals	\$ 0	\$ 275	\$ 275
Materials & Supplies	\$ 6,319	\$ 130	\$ 6,449
Outside Services	\$59,000	\$4,050	\$63,050
Water Testing Expense	\$ 2,805	\$ -84	\$ 2,721
Total	\$68,124	\$4,371	\$72,495

Kohl's Ranch Water Company
Docket No. W-02886A-10-0369
Page 2

These changes result in Staff's revised recommended surcharge of \$21.88 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-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

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

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 - CHEMICALS - Per Company \$ -
Per Staff 275 \$275

Staff added \$275 to Chemicals expense to reflect invoices that the Company had inadvertently used to support its water testing expense.

C - REPAIRS AND MAINTENANCE - Per Company \$ 7,315
Per Staff 6,449 (\$866)

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. Staff also added \$130 to reflect invoices for materials and supplies costs that the Company had inadvertently included as support for water testing expense.

	Per Company	Adjustment	Per Staff
Actual repair and maintenance costs	6,319	0	6,319
Additional expenses from invoices	0	130	130
Estimated repair and maint. costs	996	(996)	0
Total Repair and Maint Expense	7,315	(866)	6,449

D - OUTSIDE SERVICES - Per Company \$ 65,000
Per Staff 63,050 (\$1,950)

Per the testimony of the Company's witnesses at the hearing, Staff determined that most, if not all, of the \$6,000 in legal expenses were estimated and/or projected amounts for Kohl's ranch. Since no evidence was provided showing that the \$6,000 was actually incurred, Staff removed the amount. Staff also added \$4,050 in costs for the services of a certified operator that the Company had inadvertently included as support for water testing 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
Certified Operator	0	4,050	4,050
	65,000	(1,950)	63,050

STAFF ADJUSTMENTS CONTINUED

E -	WATER TESTING EXPENSE - Per Company	\$ 5,835	
	Per Staff	<u>2,721</u>	<u>(\$3,114)</u>
	Staff recommends \$2,721 for water testing expense. The amount is composed of \$1,970 in costs supported by invoices plus \$445 for MAP costs and \$306 for additional costs.		
F -	REGULATORY COMMISSION EXPENSE, RATE CASE - Per Company	\$ 1,250	
	Per Staff	<u>0</u>	<u>(\$1,250)</u>
	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.		
G -	INCOME TAXES - Per Company	\$ 553	
	Per Staff	<u>50</u>	<u>(\$503)</u>
	To reflect Staff's income tax calculation.		

**Line
No.**

1 **Annual Revenue Increase**

2 \$ 81,519 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 \$ 70,948 Staff recommended increase in revenue

6

7

8

9 **Calculation of Annual Surcharge Revenue**

	Number of Customers		Monthly Surcharge		Number of Months	=	Annual Surcharge Revenue
12	5/8" x 3/4" Meter (Residential)	124	x	\$ 21.88	x	12	= \$ 32,557
13	6" Meter (Lodge)	1	x	\$ 3,200.00	x	12	= \$ 38,400
14		<u>125</u>		Total Annual Surcharge Revenue			<u>\$ 70,957</u>