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MEMORANDUM

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Arizona Corporation Commission

FROM: Steven M. Olea
Director
Utilities Division

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: February 23, 2011

DOCKETED BY

RE: STAFF REPORT FOR THE LINKS AT COYOTE WASH UTILITIES, LLC
APPLICATION FOR APPROVAL OF A PERMANENT RATE INCREASE.
(DOCKET NO. SW-04210A-10-0392)

Attached is the Staff Report for The Links at Coyote Wash Utilities, LLC application for approval of a permanent rate increase. Staff recommends approval of the rate increase using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before March 7, 2011.

SMO:GWB:tdp

Originator: Gerald W. Becker

Service List for: THE LINKS AT COYOTE WASH UTILITIES, LLC
Docket No. SW-04210A-10-0392

The Links at Coyote Wash Utilities, LLC
C/O Pivotal Utility Management
6825 E Tennessee Avenue, Suite 547
Denver, CO 80224

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

THE LINKS AT COYOTE WASH UTILITIES, LLC

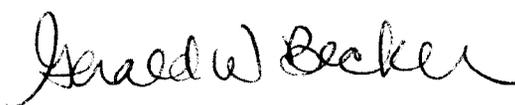
DOCKET NO. SW-04210A-10-0392

APPLICATION FOR A PERMANENT RATE INCREASE

FEBRUARY 23, 2011

STAFF ACKNOWLEDGMENT

The Staff Report for The Links at Coyote Wash Utilities, LLC, Docket No. SW-04210A-10-0392, was the responsibility of the Staff members listed below. Gerald W. Becker was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base and rate design. Jian Liu was responsible for the engineering and technical analysis. Guadalupe Ortiz was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Gerald W. Becker
Public Utilities Analyst V



Jian Liu
Utilities Engineer



Guadalupe Ortiz
Public Utilities Consumer I

EXECUTIVE SUMMARY
THE LINKS AT COYOTE WASH UTILITIES, LLC
APPLICATION FOR A PERMANENT RATE INCREASE
DOCKET NO. SW-04210A-10-0392

The Links at Coyote Wash Utilities, LLC ("LACW" or "Company") is an Arizona Limited Liability Company ("LLC") engaged in the business of providing wastewater service to approximately 287 customers in the Town of Wellton, in Yuma County, Arizona. One of these customers serves 80 homeowners. The Company's current rates were effective August 10, 2004, per Decision No. 67157.

The Company proposes total operating revenue of \$214,928, an increase of \$60,000, or 38.73 percent over test year revenue of \$154,928, resulting in a return on rate base of 10.45 percent. Staff recommends total operating revenue of \$214,719, an increase of \$51,271, or 31.36 percent over the Staff-adjusted test year revenue of \$163,448, resulting in a return on rate base of 10.00 percent. The Company's proposed revenues result in an operating income of \$53,794. Staff's recommended revenues result in an operating income of \$52,564.

The Company has proposed an original cost rate base ("OCRB") of \$514,731. The Company's proposed rates would increase all residential bills from \$30.00 to \$41.60, an increase of \$11.60 or 38.7 percent.

Staff has recommended an OCRB of \$525,640. Staff's recommended rates would increase all residential bills from \$30.00 to \$38.99, for an increase of \$8.99 or 30.0 percent.

Staff Recommendations:

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule GWB-4.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company adopt the typical and customary depreciation rates as delineated on Table G-1 of the attached Engineering Report.

Staff further recommends that the Commission levy a fine of \$10,227 against the Company for billing practices that are not in compliance with its existing tariff.

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ATTACHMENTS

Engineering Report Exhibit A
Consumer Services Memo Exhibit B

FACT SHEET

Current Rates:

Decision No. 67157, dated August 10, 2004, an application for a CC&N.

Type of Ownership:

Arizona Limited Liability Company.

Location:

The Company serves 269 residential and 18 commercial customers in Wellton, Arizona.

Rates:

Permanent rate increase application filed: September 23, 2010, and amended December 3, 2010; and Letter of Sufficiency sent December 9, 2010.

Current Test Year Ended: December 31, 2009.

| | Company | (As Amended) | |
|-------------------------------|--------------|-----------------|--------------------|
| | Current | Company | Staff |
| | <u>Rates</u> | <u>Proposed</u> | <u>Recommended</u> |
| | | <u>Rates</u> | <u>Rates</u> |
| <u>Monthly Minimum Charge</u> | | | |
| Residential | \$30.00 | \$41.60 | \$38.99 |
| Commercial | \$0.00 | \$0.00 | \$0.00 |
| <u>Commodity Charge</u> | | | |
| Residential | N/A | N/A | N/A |
| Commercial (See Notes) | * | ** | *** |
| <u>Bill Impact</u> | | | |
| All residential bills: | | | |
| Flat Rate | \$30.00 | \$41.60 | \$38.99 |

*Note: Each Commercial Customer is required to have its own flow meter. The commercial rate will be calculated for each commercial customer by dividing one single family equivalent (SFE) into the average daily flow rate of the commercial customer. One SFE is equal to 262 gallons per day (the approved design flow rate per single family unit by ADEQ). The resulting factor will be multiplied by the approved residential flat fee to create the custom commercial rate.

****Note:** The Company is not following its established tariff. The Company representative states: "With respect to the commercial sewer tariff calculation, we use a factor of .00324 per gallon. We receive the water use numbers from the City (Town) of Wellton for the commercial customers monthly. While I think the initial intent was to install sewer flow meters at each location, such an apparatus was never installed by the developer, owner or customer, nor do I think if they did install a sewer line flow meter would it be very accurate. To adjust for sewer flow relative to water use, we use a factor of .85 (i.e. on average 85 percent of water delivered to these customers will make it into the sewer system). I believe this factor came from the city of Yuma. One gallon therefore becomes .85 gallon. Then we divide that number by 30 days (since the usage numbers we get are monthly) to bring us to .028333, then dividing again by 262 gal (the SFE conversion result = .0001081) then multiply by 30 to convert to the tariff rate. The final result is .00324 which is then multiplied by the actual water use read we receive each month."

In addition, the Company has one customer being charged a flat rate of \$125.00 per month, per mutual agreement between the customer and Company. The \$125.00 monthly rate is not provided for in the Company's tariff.

*****Note:** The Company proposes to continue with its existing billing protocol for its commercial customers and Staff concurs. The tariff to be filed as a result of this proceeding will have to reflect this or any other changes approved as a result of this proceeding.

Customers:

There were 287 customers in the current test year. The Company does not expect any significant growth.

Notification:

Customer Notification was mailed October 1, 2010.

Complaints:

2008-2010 – Zero complaints

2010 – 43 Opinions opposed to the rate increase

SUMMARY OF FILING

The test year results, as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission"), show that The Links at Coyote Wash Utilities, LLC ("LACW" or "Company") experienced an operating income of \$1,293 and a negligible rate of return, as shown in Schedule GWB-1.

The Company-proposed rates, as amended, produce operating revenues of \$214,928 and an operating income of \$53,794 for a 10.45 percent rate of return on a \$514,731 rate base. The Company's requested rates would increase the residential bill from \$30.00 to \$41.60 for an increase of \$11.60, or 38.7 percent.

Staff's recommended rates produce operating revenues of \$214,719 and an operating income of \$52,564 for a 10.00 percent rate of return on a Staff-adjusted rate base of \$525,640. Staff's recommended rates would increase the residential bill from \$30.00 to \$38.99 for an increase of \$8.99, or 30.0 percent.

BACKGROUND

On September 23, 2010, the Company filed an application for a permanent rate increase and amended its application on December 3, 2010. On December 9, 2010, Staff issued its Letter of Sufficiency.

CONSUMER SERVICES

A review of the Commission's records revealed zero customer complaints and inquiries for the years 2008 through 2010. There were 43 opinions filed regarding the proposed rate increase – all are opposed.

COMPLIANCE

A check with the Utilities Division Compliance Section showed the Company has two outstanding items. Staff is processing an extension request on those items but they remain delinquent until further order of the Commission. Both of these items arose in Docket No. SW-04210A-06-0220, which granted the Company an extension of its certificated territory on December 21, 2006. The first outstanding compliance item requires the Company to file, within 2 years of the effective date of Decision 69209, or by December 21, 2008, copies of the Approval of Construction ("AOC") documentation for the collection line installations needed to serve the extension area. The second compliance item requires that the Company file, by December 31, 2008, with Docket Control, as a compliance item in this docket, a copy of ADEQ's Aquifer Protection Permit ("APP") modification.

On March 31, 2009, the Company docketed a "motion for extension of time" seeking an extension of time until August 31, 2010, for the provision of the AOC and a copy of the APP modification. Staff filed its response on May 19, 2009, recommending approval of the Company's requested extension of time. On June 30, 2009, the Commission issued Decision No. 71189 which approved the Company's request for an extension of time until August 31, 2010 for the filing of the AOC and APP modification.

On September 8, 2010, the Company submitted an updated request for service from the developer in order for Staff to process the new extension of time. Staff has now processed the current request and has recommended a new due date of August 31, 2012, to the Commission for the provision of the AOC and APP filings. Staff further recommended that no further extensions of time be granted in that matter and since the requests for time extension were filed after the Commission's due date, Staff recommends that the Commission deny any future extension requests from the Company if they are filed after existing due dates. The Commission has not yet issued a decision on this issue.

The Company is current in its property and sales tax payments.

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

The Company has not followed its tariff in billing its commercial customers, as discussed later in this Report.

ENGINEERING ANALYSIS

The Staff Engineering Report is attached. There are two engineering recommendations included in the Staff Recommendations section. The first recommendation relates to Staff-recommended depreciation rates in this proceeding. The second recommendation relates to annual water testing expenses, the amount of which is reflected in Staff's financial review of the application for the rate increase.

RATE BASE

Staff recommends six adjustments that in aggregate increase the Company's proposed rate base by \$10,909, from \$514,731 to \$525,640, as shown in Schedule GWB-2, page 1. Details of Staff's adjustments are presented below.

Plant in Service

Staff decreased plant in service by \$30,009, from \$647,724 to \$617,715, as shown in Schedule GWB-2, Page 1, Adjustment A. Staff's adjustment is to remove \$17,394 of legal expenses inappropriately capitalized in 2006 in Account 361, Collection Sewers-Gravity and to remove \$12,615 from account 380, Treatment and Disposal Equipment. The \$12,615 includes \$10,000 for paid in capital erroneously capitalized in 2006, \$1,484 of unsupported costs in 2007, and \$1,131 of unsupported costs in 2009.

Accumulated Depreciation

Staff decreased accumulated depreciation by \$24,209, from \$114,100 to \$89,891, as shown in Schedule GWB-2, Page 1, Adjustment B. Staff's adjustment re-calculates the accumulated depreciation, using the depreciation rates approved in the CC&N granted in Decision No. 67157, and applying those rates to Staff's recommended plant balances in this proceeding.

Plant Advances in Aid of Construction ("AIAC") and Contributions in Aid of Construction ("CIAC")

Staff decreases AIAC by \$15,000, from \$15,000 to zero, as shown in Schedule GWB-2, Page 1, Adjustment C. Adjustment C also increases CIAC by \$15,000, from zero to \$15,000. These adjustments reclassify monies, from AIAC to CIAC, for projects that have been cancelled and for which there will be no future refunds.

Accumulated Amortization-Contributions in Aid of Construction ("CIAC")

Staff increases accumulated amortization-CIAC by \$882, from zero to \$882, as shown in Schedule GWB-2, Page 1, Adjustment D. Based on discussions with Company personnel, Staff recommends two years of accumulated amortization to reflect the approximate time elapsed since the Company became aware that the AIAC-related projects, as discussed above, were cancelled and the associated AIAC should have been reclassified as CIAC.

Working Capital

Staff increased the working capital allowance by \$15,827, from zero to \$15,827, using the formula method to reflect adjustments to cash operating expenses as shown in Schedule GWB-2, Page 1, Adjustment E. Adjustment E shows the total increase by components, 1/24 of Power and 1/8 of Operating and Maintenance Expenses.

Operating Income

Staff recommends five adjustments that, in aggregate, decrease the test year operating loss by \$7,499, from the Company's proposed \$6,206 loss to an income of \$1,293, as shown in Schedule GWB-3, Page 1. The reduction in operating loss is the result of Staff's adjustments to increase test year income by \$8,520, from \$154,928 to \$163,448, and to increase operating expenses by \$1,021, from \$161,134 to \$162,155. Details of Staff's adjustments are presented below.

Operating Income

Flat Rate Revenue – Adjustment A increases this account by \$8,520, from \$115,769 to \$124,289, to reflect customer annualization of \$7,200 for growth during the test year, and to reverse a \$1,320 reduction recorded by the Company in the test year for activity that occurred partially outside of the test year and that is not expected to re-occur.

Operating Expenses

Outside Services – Adjustment B decreases this account by \$5,691, from \$46,985 to \$41,294, to reflect normalized expenses experienced by the Company for the three years ending with the test year. (See Schedule GWB-3, Page 1)

Water Testing – Adjustment C increases this account by \$514, from \$11,026 to \$11,540, to reflect Staff's determination of the Company's annual water testing cost (see Schedule GWB-3, Page 1)

Bad Debt Expense – Adjustment D increases this account by \$8,347, from zero to \$8,347, to reflect Bad Debt Expense that the Company had reported as Non-Utility Expense and, therefore, was not reflected in Operating Expenses or Operating Income. (See Schedule GWB-3, Page 1). The Bad Debt Expense is 5.1 percent of Staff-adjusted test year revenue and is unusually high due to the fact that the Company has limited recourse against delinquent customers because the Company has not been able to reach a co-operative agreement with the customers' water supplier, the Town of Wellton.

Depreciation Expense – Adjustment E decreases this account by \$2,149, from \$19,506 to \$17,357, to reflect application of Staff's recommended depreciation rates to Staff's recommended plant balances, less any fully-depreciated or non-depreciable plant, and less amortization of CIAC. The calculation of Staff's recommended depreciation expense is shown in Schedule GWB-3, Page 3, and the corresponding adjustment is shown in Schedule GWB-3, Page 1.

REVENUE REQUIREMENT

Staff recommends total revenue of \$214,719 and is based on the amount needed to cover the Company's operating expenses of \$162,155 as shown in Schedule GWB-1 and to provide a 10.00 percent rate of return on the \$525,640 rate base. See Schedule GWB-1.

OTHER

The Company has failed to bill its commercial customers in compliance with its tariff that arose from Decision No. 67157. For this reason, Staff recommends a fine to be levied against the Company. Staff recommends that since the only non-volumetric rate that the Company was authorized to charge was \$30 per customer per month, then the fine should be equal to the total

amounts billed by the Company during the test year that were in excess of \$30 per customer per month. For the test year in this proceeding, Staff has determined that there are 70 commercial bills, each one in excess of \$30 per month. Customer billings in excess of \$30 per month per customer have an aggregate value of \$10,227. Thus, Staff recommends levying a fine of \$10,227 against the Company.

Staff also notes that the Company failed to file its rate application in accordance with the requirements of Decision No. 67157 which required the Company to "file, no later than three months following the fifth year anniversary of the effective date of this Decision, with the Commission, a rate application."¹ This means that the instant application, filed on September 23, 2010, should have been filed no later than November 10, 2009. Staff believes that this act of noncompliance further justifies levying a fine against the Company.

Staff further notes that Decision No. 67157 had levied financial penalties against the Company "because the Applicant proceeded to connect customers to its system prior to being granted a Certificate"² Although this matter has been settled, Staff believes that the Company's history of noncompliance prior to this proceeding further justifies levying a fine against the Company.

RATE DESIGN

The Company's requested rates would increase all residential bills from \$30.00 to \$41.60 for an increase of \$11.60 or 38.7 percent. The Company proposes to continue its existing protocol for commercial customers billed with a volume component because installing flow meters as required by the previous decision is not cost-effective, nor are the meters considered to be very accurate.

The Company has one commercial customer presently being billed at an unauthorized rate of \$125 per month which is based on a mutual agreement between the Company and the customer. The Company proposes an increase proportionate to the increase for its single-family residential customers. Under the Company's proposal, the sole customer presently billed at \$125 per month would be increased to \$173.33, for an increase of \$48.33 or 38.7 percent. ($\$41.60 / \30.00 , times $\$125.00$ equals $\$173.33$).

Staff recommends that residential customers continue to be billed on a flat-rate basis. Staff further recommends rates that would increase the residential bill from \$30.00 to \$38.99 for an increase of \$8.99 or 30.0 percent. Staff further recommends that *all* commercial customers be billed on a volumetric basis that uses a factor of 85 percent of metered water use divided by a single-family equivalent of 262 gallons per day and applied to the residential flat rate. Further, this volumetric based billing would include the customer presently being billed at a flat rate of

¹ Decision No. 67157, dated August 10, 2004, page 8, lines 17-9.

² Decision No. 67157, dated August 10, 2004, page 6, lines 19.5-20.5.

\$125 per month. Staff's recommended rates would increase commercial customer rates by the same percentage as residential rates.

Staff notes that the existing billing practices are out of compliance with the Company's existing tariff because the Company never installed flow meters to measure effluent flowing into the system; however, Staff concurs with the Company that the installation of flow meters at this time would not be cost-effective. For this reason, Staff recommends that the tariff arising from this decision should reflect the existing billing protocol that the Company has been using for its commercial customers.

Staff-recommended rates are presented in Schedule GWB-4.

STAFF RECOMMENDATIONS

Staff recommends approval of the Staff-proposed rates and charges as shown in Schedule GWB-4.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company adopt the typical and customary depreciation rates as delineated on Table H-1 of the attached Engineering Report.

Staff further recommends that the Commission levy a fine of \$10,227 against the Company for billing practices that are not in compliance with its existing tariff.

The Links at Coyote Wash Utilities, LLC

Docket No. SW-04210A-10-0392

Schedule GWB-1

Test Year Ended December 31, 2009

SUMMARY OF FILING

| | -- Present Rates -- | | -- Proposed Rates -- | |
|----------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|
| | Company as Amended | Staff as Adjusted | Company as Amended | Staff as Adjusted |
| Revenues: | | | | |
| Flat Rate Revenue | \$115,769 | \$124,289 | \$160,604 | \$163,276 |
| Measured Revenues | 12,638 | 12,638 | \$17,532 | \$16,602 |
| Other Wastewater Revenues | 26,521 | 26,521 | 36,792 | 34,840 |
| Total Operating Revenue | \$154,928 | \$163,448 | \$214,928 | \$214,719 |
| Operating Expenses: | | | | |
| Operation and Maintenance | \$138,824 | \$141,994 | \$138,824 | \$141,994 |
| Depreciation | 19,506 | 17,357 | 19,506 | 17,357 |
| Property & Other Taxes | 2,804 | 2,804 | 2,804 | 2,804 |
| Income Tax | 0 | 0 | 0 | 0 |
| Total Operating Expense | \$161,134 | \$162,155 | \$161,134 | \$162,155 |
| Operating Income/(Loss) | (\$6,206) | \$1,293 | \$53,794 | \$52,564 |
| Rate Base O.C.L.D. | \$514,731 | \$525,640 | \$514,731 | \$525,640 |
| Rate of Return - O.C.L.D. | -1.21% | 0.25% | 10.45% | 10.00% |

RATE BASE

| | ----- Original Cost ----- | | | Staff |
|----------------------------------|---------------------------|-------------------|---|------------------|
| | Company | Adjustment | | |
| Plant in Service | \$647,724 | (\$30,009) | A | \$617,715 |
| Less: | | | | |
| Accum. Depreciation | 114,100 | (24,209) | B | 89,891 |
| Net Plant | \$533,624 | (\$5,800) | | \$527,824 |
| Less: | | | | |
| Plant Advances | \$15,000 | (\$15,000) | C | \$0 |
| Customer Deposits | 3,893 | 0 | | 3,893 |
| Total Advances | \$18,893 | (\$15,000) | | \$3,893 |
| Contributions Gross | \$0 | \$15,000 | C | \$15,000 |
| Less: | | | | |
| Accumulated Amortization of CIAC | 0 | \$882 | D | 882 |
| Net CIAC | \$0 | \$14,118 | | \$14,118 |
| Total Deductions | \$18,893 | (\$882) | | \$18,011 |
| Plus: | | | | |
| 1/24 Power | \$0 | \$961 | E | \$961 |
| 1/8 Operation & Maint. | \$0 | 14,866 | E | 14,866 |
| Inventory | 0 | 0 | | 0 |
| Prepayments | 0 | 0 | | 0 |
| Total Additions | \$0 | \$15,827 | | \$15,827 |
| Rate Base | \$514,731 | \$10,909 | | \$525,640 |

Explanation of Adjustments:

- A To adjust \$10,000 of paid in capital erroneously capitalized in 2006
- B To adjust \$1,484 of unsupported costs in 2007
last proci \$1,131 of unsupported costs in 2009
- C To transfer AIAC received for projects that have been cancelled to CIAC
- D To record accumulated amortization-CIAC for amounts transferred in Adjustment C
- E To record adjustment for working capital.

ACCUMULATED DEPRECIATION ADJUSTMENT

| | <u>Amount</u> |
|--|---------------------------------|
| Accumulated Depreciation - Per Company | \$114,100 |
| Accumulated Depreciation - Per Staff | <u>\$89,891</u> |
| Total Adjustment | <u><u>(\$24,209)</u></u> |

To restate Accumulated Depreciation using the rates approved in Decision No 67157 and applied to Staff recommended balances in the Company's Plant in Service

PLANT ADJUSTMENT

| | Company Exhibit | Adjustment | Staff Adjusted |
|--|--------------------|-------------------|-------------------|
| 301 Organization | \$0 | \$0 | \$0 |
| 352 Franchises | 8,370 | 0 | \$8,370 |
| 353 Land & Land Rights | 4,271 | 0 | \$4,271 |
| 354 Structures & Improvements | 2,136 | 0 | \$2,136 |
| 361 Collection Sewers-Gravity | 428,351 | (17,394) A | \$410,957 |
| 370 Receiving Wells | 7,500 | 0 | \$7,500 |
| 380 Treatment & Disposal Equipment | 197,096 | (12,615) B | \$184,481 |
| 320.1 Water Treatment Plants | 0 | 0 | \$0 |
| 320.2 Solution Chemical Feeders | 0 | 0 | \$0 |
| 330 Distribution Reservoirs & Standpipes | 0 | 0 | \$0 |
| 330.1 Storage Tanks | 0 | 0 | \$0 |
| 330.2 Pressure Tanks | 0 | 0 | \$0 |
| 331 Transmission & Distribution Mains | 0 | 0 | \$0 |
| 333 Services | 0 | 0 | \$0 |
| 334 Meters & Meter Installations | 0 | 0 | \$0 |
| 335 Hydrants | 0 | 0 | \$0 |
| 336 Backflow Prevention Devices | 0 | 0 | \$0 |
| 339 Other Plant and Misc. Equipment | 0 | 0 | \$0 |
| 340 Office Furniture & Equipment | 0 | 0 | \$0 |
| 341 Transportation Equipment | 0 | 0 | \$0 |
| 343 Tools Shop & Garage Equipment | 0 | 0 | \$0 |
| 344 Laboratory Equipment | 0 | 0 | \$0 |
| 345 Power Operated Equipment | 0 | 0 | \$0 |
| 346 Communication Equipment | 0 | 0 | \$0 |
| 347 Miscellaneous Equipment | 0 | 0 | \$0 |
| 348 Other Tangible Plant | 0 | 0 | \$0 |
| 105 C.W.I.P. | 0 | 0 | \$0 |
| TOTALS | \$647,724 | (\$30,009) | \$617,715 |

A To remove \$17,394 of legal expenses inappropriately capitalized in 2006 in Account 361, Collection Sewers, Gravity

B To remove from Account 380, Treatment & Disposal Equipment:
\$10,000 of paid in capital erroneously capitalized in 2006
\$1,484 of unsupported costs in 2007
\$1,131 of unsupported costs in 2009

STATEMENT OF OPERATING INCOME

| | Company as Amended | Staff Adjustments | Staff Adjusted |
|---|-----------------------|----------------------|-------------------|
| Revenues: | | | |
| 521 Flat Rate Revenue | \$115,769 | \$8,520 A | \$124,289 |
| 522 Measured Revenue | 12,638 | 0 | 12,638 |
| 536 Other Wastewater Revenues | 26,521 | 0 | 26,521 |
| Total Operating Revenue | \$154,928 | \$8,520 | \$163,448 |
| Operating Expenses: | | | |
| 701 Salaries and Wages | \$0 | \$0 | \$0 |
| 710 Purchased Wastewater Treatment | 5,075 | 0 | 5,075 |
| 715 Purchased Power | 17,990 | 0 | 17,990 |
| 718 Chemicals | 18,960 | 0 | 18,960 |
| 720 Materials & Supplies | 1,917 | 0 | 1,917 |
| 721 Office Supplies & Expense | 0 | 0 | 0 |
| 731 Outside Services-Professional | 46,985 | (5,691) B | 41,294 |
| 735 Outside Services-Testing | 11,026 | 514 C | 11,540 |
| 731 Outside Services-Other | 33,225 | 0 | 33,225 |
| 750 Transportation Expenses | 0 | 0 | 0 |
| 757 Insurance - General Liability | 0 | 0 | 0 |
| 770 Bad Debt Expense | 0 | 8,347 D | 8,347 |
| 766 Regulatory Commission Expense - Rate Case | 0 | 0 | 0 |
| 775 Miscellaneous Expense | 3,646 | | 3,646 |
| 403 Depreciation Expense | 19,506 | (2,149) E | 17,357 |
| 408 Taxes Other Than Income | 0 | 0 | 0 |
| 408.11 Property Taxes | 2,804 | 0 | 2,804 |
| 409 Income Tax | 0 | 0 | 0 |
| Total Operating Expenses | \$161,134 | \$1,021 | \$162,155 |
| OPERATING INCOME/(LOSS) | (\$6,206) | \$7,499 | \$1,293 |

STAFF ADJUSTMENTS

| | | | |
|-----|--|---------|-----------|
| A | Flat Rate Revenue - Per Company | 115,769 | |
| | Per Staff | 124,289 | \$8,520 |
| | To adjust for customer annualization and non recurrent activity | | |
| B | OUTSIDE SERVICES - Per Company | 46,985 | |
| | Per Staff | 41,294 | (\$5,691) |
| | To reflect normalized expenses. | | |
| C - | WATER TESTING - Per Company | 11,026 | |
| | Per Staff | 11,540 | \$514 |
| | To reflect normalized annual water testing cost | | |
| D | BAD DEBT EXPENSE - Per Company ('above the line') | \$0 | |
| | Per Staff | 8,347 | \$8,347 |
| | To record bad debt expense 'above the line', or to be included in operating expenses and operating income. | | |

STAFF ADJUSTMENTS (Cont.)

E To recalculate depreciation expense at Staff recommended rates

Pro Forma Annual Depreciation Expense:

| | |
|---|-------------------------------|
| Plant in Service | \$617,715 |
| Less: Non Depreciable Plant | 12,641 |
| Fully Depreciated Plant | 0 |
| Depreciable Plant | <u>\$605,074</u> |
| Times: Staff Proposed Average Depreciation Rate | 2.94% |
| Credit to Accumulated Depreciation | <u>\$17,798</u> |
| Less: Amort. of CIAC* @ 2.94% | 441 * |
| Pro Forma Annual Depreciation Expense | <u><u>\$17,357</u></u> |

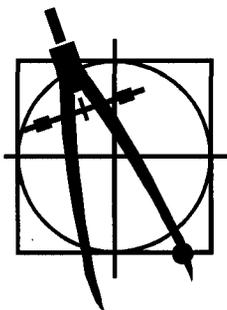
*** Amortization of CIAC:**

| | |
|--|----------------------------|
| Contribution(s) in Aid of Construction (Gross) | \$15,000 |
| Less: Non Amortizable Contribution(s) | 0 |
| Fully Amortized Contribution(s) | 0 |
| Amortizable Contribution(s) | <u>\$15,000</u> |
| Times: Staff Proposed Amortization Rate | 2.94% |
| Amortization of CIAC | <u><u>\$441</u></u> |

RATE DESIGN

| | Present Rates | | Proposed Rates- Co. | | Staff Recommended Rates |
|--|---|---|---|--|--|
| | | | | | |
| Monthly Usage Charge- Residential - ALL Commercial - ALL ex. Coyote Wash Clubhouse | \$30.00 \$0.00 | | 41.60 | | \$ \$ 38.99 |
| Commodity Rates Residential Commercial - ALL ex. Coyote Wash Clubhouse | N/A | The commercial rate will be calculated for each commercial customer by dividing one single family equivalent (SFE) into the average daily flow rate of the commercial customer. One SFE is equal to 262 gallons per day. The resulting factor will be multiplied by the approved residential flat fee to create the custom commercial rate. | N/A | The commercial rate will be calculated for each commercial customer by dividing one single family equivalent (SFE) into the average daily flow rate (as determined by the metered water use times a factor of .85) of the commercial customer. One SFE is equal to 262 gallons per day. The resulting factor will be multiplied by the approved residential flat fee to create the custom commercial rate. | N/A |
| Sale of Effluent, per thousand gallons | \$2.00 | | \$2.77 | | \$2.60 |
| Service Charges Flow Meter Installation Charge Establishment (After Hours) Reconnection (Delinquent) Reconnection (Delinquent) after hours Deposit Deposit Interest Re-Establishment (Within 12 Months) NSF Check Late Payment Penalty Deferred Payment | 100.00 25.00 N/A 30.00 N/A Per Rule* Per Rule** 25.00 1.5% / Mo. N/A | | N/A 30.00 N/A Cost N/A Per Rule* Per Rule** 25.00 1.5% / Mo. N/A | | N/A 30.00 N/A Cost N/A Per Rule* Per Rule** 25.00 Per Rule*** N/A |
| Service Lateral Installation Charges Per Service Line 4" Meter 6" Meter 8" Meter 12" Meter | N/A N/A N/A N/A | | N/A N/A N/A N/A | | N/A N/A N/A N/A |
| UNAUTHORIZED RATES Commercial- Coyote Wash Clubhouse | \$125 per month | | \$173.33 per month | | Bill on Commercial Rate |

* Per Commission Rules (R14-2-603.B)
 ** Months off system times the minimum (R14-2-603.D.1)
 *** Per Commission Rules (R14-2-608.F)



**Engineering Report For
The Links at Coyote Wash Utilities, LLC
Docket No. SW-04210A-10-0392
(Rates)**

By Jian W Liu

February 22, 2011

EXECUTIVE SUMMARY

CONCLUSIONS:

1. ADEQ regulates The Links at Coyote Wash Utilities, LLC (“LACW” or “Company”) wastewater treatment plant under Permit No. 29198. Per the September 28, 2010 Compliance Status Reports issued by ADEQ, the system is in full compliance with ADEQ requirements.
2. Staff concludes that LACW has adequate treatment capacity to serve the existing customer base and reasonable growth.

RECOMMENDATIONS:

1. It is recommended that the Company use the depreciation rates presented in Table G-1 by individual NARUC category.
2. Staff recommends annual wastewater testing expense of \$11,540 be used for purposes of this application.

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FIGURES

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A. LOCATION OF COMPANY

The Links at Coyote Wash Utilities, LLC (“LACW” or “Company”) has submitted an application with the Arizona Corporation Commission (“ACC” or “Commision”) for approval of a rate increase in Docket No. SW-04210A-10-0392. The Company is located near the Town of Welton, approximately 25 miles east of the City of Yuma in Yuma County, Arizona. The Company provided wastewater service to 367 connections at the end of 2009. Figure 1 shows the location of LACW within Yuma County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WASTEWATER SYSTEM

The Links at Coyote Wash owns and operates a 0.0693 million gallon per day (“MGD”) wastewater treatment plant (“WWTP”). The WWTP is a package treatment plant, manufactured by Santec Co., equipped with equalization chamber, aeration/anoxic basins, secondary clarifier, and chlorination/dechlorination devices. The treated effluent is used for golf course irrigation.

LACW was field inspected on January 11, 2011, by Jian W Liu, Commission Staff Utilities Engineer (“Staff”), in the accompaniment of Rick Miller, certified operator for the Company.

Wastewater Treatment Plant

| Name or Description | Plant Items | Location |
|---------------------|--|------------------------------|
| LACW WWTP | Santec WWTP equipped with equalization chamber, aeration/anoxic basins, secondary clarifier, and chlorination/dechlorination devices. Operating at 69,300 GPD* (permitted) | Near Coyote Wash Golf Course |
| | | |

* gallon per day

Lift Stations

| Location | Quantity of Pumps | Horsepower per Pump | Capacity per Pump (GPM) | Wet Well Capacity (gals.) |
|-------------------------|-------------------|---------------------|-------------------------|---------------------------|
| County Road 12 | 2 | 10 | 400 | 3,300 |
| Coyote Wash Golf Course | 2 | 30 | 400 | 2,630 |
| Avenue 29E | 2 | 5 | 250 | 2,630 |
| | | | | |

Manholes

| Type | Quantity |
|----------|----------|
| Standard | 75 |
| | |
| | |

Force Mains

| Size | Material | Length (Feet) |
|--------|----------|---------------|
| 6-inch | PVC | 2,020 |
| 8-inch | PVC | 5,000 |
| | | |

Cleanouts

| Quantity |
|----------|
| 3 |
| |

Collection Mains

| Diameter | Length (Feet) |
|----------|---------------|
| 6-inch | |
| 8-inch | 19,700 |
| 10-inch | 3,500 |
| 12-inch | 1,650 |
| 15-inch | 4,025 |
| | |

Service Laterals

| Diameter | Material | Length (Feet) |
|----------|----------|---------------|
| 4-inch | PVC | 504* |
| | | |
| | Total: | 504 |

* Some Service Laterals on vacant lots.

C. WASTEWATER FLOW

Based on the information provided by the LACW, wastewater flow for the year 2009 is presented in Figure 3. Customers experienced a high monthly average wastewater flow of 122 GPD per connection and a low monthly average wastewater flow of 57 GPD per connection for an average annual wastewater flow of 85 GPD per connection. Staff concludes that LACW has adequate treatment capacity to serve the existing customer base and reasonable growth.

D. GROWTH

In December 2009, the Company had 367 connections, and in August 2010, the Company had 361 connections. The Company estimates that there will be little or no growth for the next two years due to the current economic climate.

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

ADEQ regulates The Links at Coyote Wash Utilities WWTP under Permit No. 29198. Per a September 28, 2010, Compliance Status Report issued by ADEQ, the system is in full compliance with ADEQ requirements.

F. ACC COMPLIANCE

A check with the Utilities Division Compliance Section showed the Company has two unfulfilled items. Staff is processing an extension request on those items but they remain delinquent until further order of the Commission. Both of these items arose in Docket No. SW-04210A-06-0220, which granted the Company an extension of its certificated territory on December 21, 2006. The first outstanding compliance item requires the Company to file, within 2 years of the effective date of Decision 69209, or by December 21, 2008, copies of the Approval of Construction ("AOC") documentation for the collection line installations needed to serve the extension area. The second compliance item requires that the Company file, by December 31, 2008, with Docket Control, as a compliance item in this docket, a copy of ADEQ's Aquifer Protection Permit ("APP") modification.

On March 31, 2009, the Company docketed a "motion for extension of time" seeking an extension of time until August 31, 2010, for the provision of the AOC and a copy of the APP modification. Staff filed its response on May 19, 2009, recommending approval of the Company's requested extension of time. On June 30, 2009, the Commission issued Decision No. 71189 which approved the Company's request for an extension of time until August 31, 2010 for the filing of the AOC and APP modification.

On September 8, 2010, the Company submitted an updated request for service from the developer in order for Staff to process the new extension of time. Staff has now processed the current request and has recommended a new due date of August 31, 2012, to the Commission for the provision of the AOC and APP filings. Staff further recommended that no further extensions of time be granted in that matter and since the requests for time extension were filed after the Commission's due date, Staff recommends that the Commission deny any future extension requests from the Company if they are filed after existing due dates. The Commission has not yet issued a decision on this issue.

G. DEPRECIATION RATES

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

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

Table G-1. Wastewater Depreciation Rates

| NARUC Acct. No. | Depreciable Plant | Average Service Life (Years) | Annual Accrual Rate (%) |
|--------------------|--|------------------------------------|-------------------------------|
| 354 | Structures & Improvements | 30 | 3.33 |
| 355 | Power Generation Equipment | 20 | 5.00 |
| 360 | Collection Sewers – Force | 50 | 2.0 |
| 361 | Collection Sewers- Gravity | 50 | 2.0 |
| 362 | Special Collecting Structures | 50 | 2.0 |
| 363 | Services to Customers | 50 | 2.0 |
| 364 | Flow Measuring Devices | 10 | 10.0 |
| 365 | Flow Measuring Installations | 10 | 10.00 |
| 366 | Reuse Services | 50 | 2.00 |
| 367 | Reuse Meters & Meter Installations | 12 | 8.33 |
| 370 | Receiving Wells | 30 | 3.33 |
| 371 | Pumping Equipment | 8 | 12.50 |
| 374 | Reuse Distribution Reservoirs | 40 | 2.50 |
| 375 | Reuse Transmission & Distribution System | 40 | 2.50 |
| 380 | Treatment & Disposal Equipment | 20 | 5.0 |
| 381 | Plant Sewers | 20 | 5.0 |
| 382 | Outfall Sewer Lines | 30 | 3.33 |
| 389 | Other Plant & Miscellaneous Equipment | 15 | 6.67 |
| 390 | Office Furniture & Equipment | 15 | 6.67 |
| 390.1 | Computers & Software | 5 | 20.0 |
| 391 | Transportation Equipment | 5 | 20.0 |
| 392 | Stores Equipment | 25 | 4.0 |
| 393 | Tools, Shop & Garage Equipment | 20 | 5.0 |
| 394 | Laboratory Equipment | 10 | 10.0 |
| 395 | Power Operated Equipment | 20 | 5.0 |
| 396 | Communication Equipment | 10 | 10.0 |
| 397 | Miscellaneous Equipment | 10 | 10.0 |
| 398 | Other Tangible Plant | ---- | ---- |

NOTE: Acct. 398, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

H. Chemical Testing Expenses

The Company reported its wastewater testing expense at \$11,026 during the test year. Table H1 below is Staff's calculation of annual test expenses based on the information submitted by the Company. Staff's total estimated testing expense is \$11,540.

Staff recommends annual wastewater testing expense of \$11,540 be used for purposes of this application.

Table H1 Wastewater Testing Cost

| | Cost per test | No. of tests per year | Annual Cost |
|--|---------------|-----------------------|-----------------|
| Fecal Coliform | \$35 | 180 | \$6,300 |
| Total Nitrogen (effluent) - monthly | \$45 | 12 | \$540 |
| Chlorine (effluent) - quarterly | \$200 | 4*4 | \$3,200 |
| Other Chemicals (effluent) - quarterly | \$25 | 4*15 | \$1,500 |
| | | | |
| Total | | | \$11,540 |

The Links at Coyote Wash Utilities
Docket No. SW-04210A-10-0392

YUMA COUNTY - SEWER

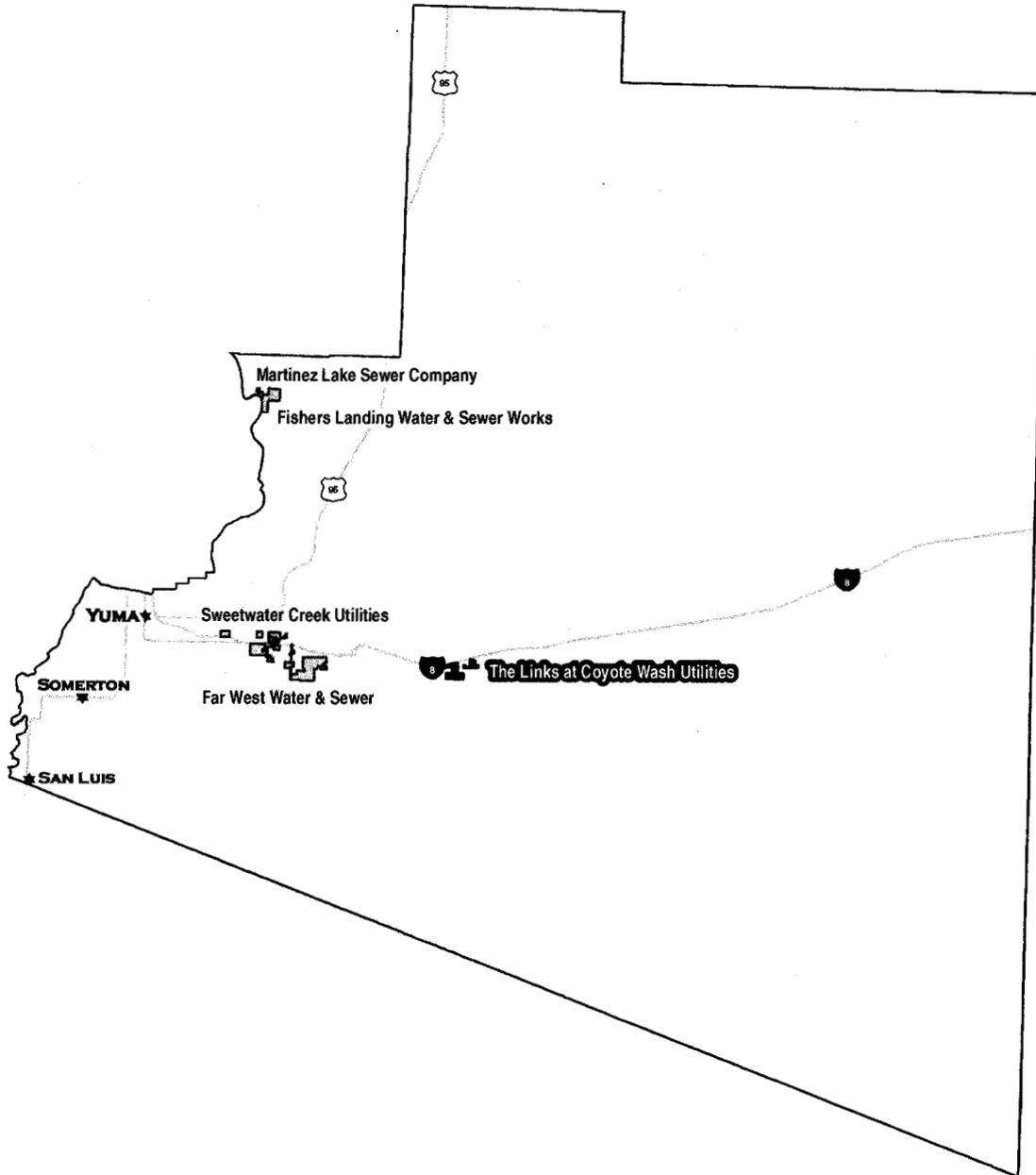


Figure 1: County Map

The Links at Coyote Wash Utilities
 Docket No. SW-04210A-10-0392

Y U M A C O U N T Y

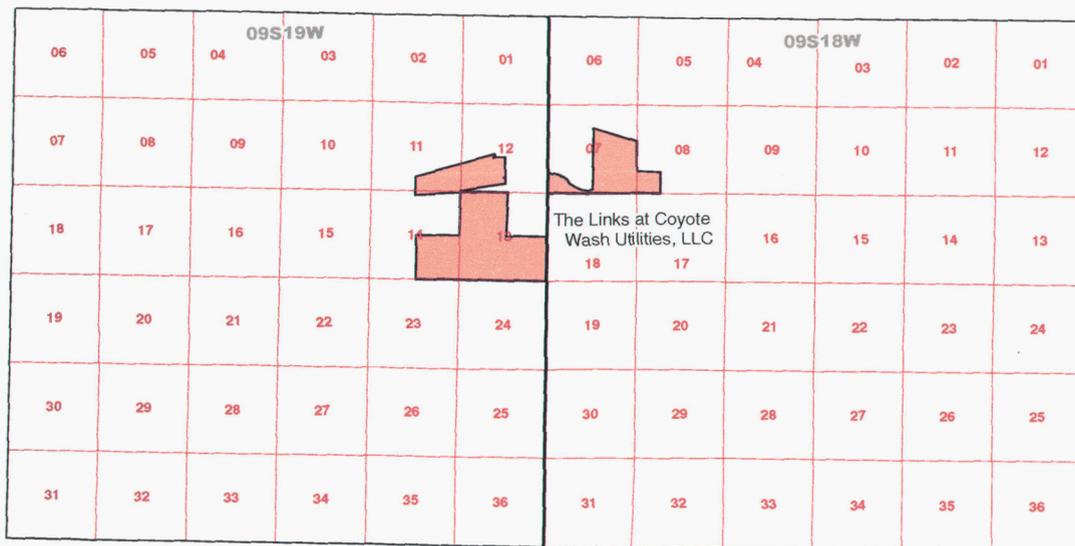


Figure 2: Certificated Area

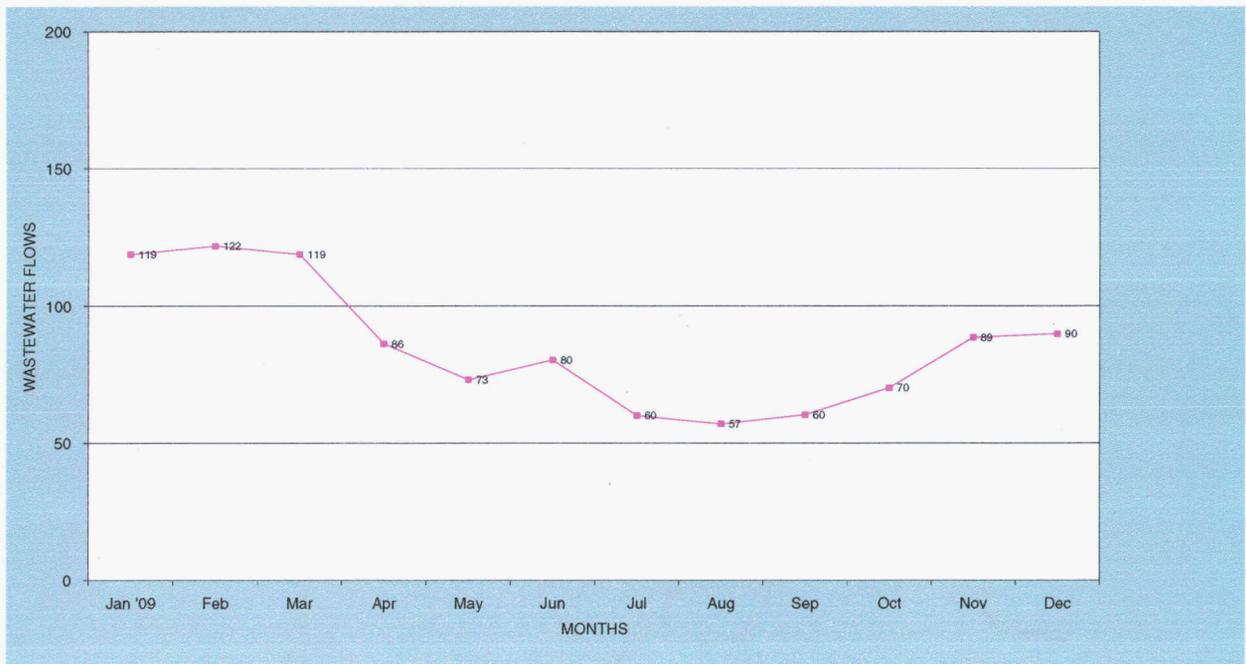


FIGURE 3

WASTEWATER FLOW

MEMORANDUM

TO: Gerald Becker
Public Utilities Analyst V
Utilities Division

FROM: Guadalupe Ortiz *G.O.*
Public Utilities Consumer Analyst I
Utilities Division

THRU: Connie Walczak *CW*
Administrative Services Officer II
Utilities Division

DATE: January 3, 2011

UTILITY: The Links at Coyote Wash Utilities, LLC
DOCKET NO. SW-04210A-10-0392

COMPANY HISTORY

The Links at Coyote Wash Utilities, LLC ("Links at Coyote Wash" or "Company") is a public service utility subject to the jurisdiction of the Arizona Corporation Commission ("Commission"). Links at Coyote Wash was granted a Certificate of Convenience and Necessity ("CCN") to provide wastewater service in Commission Decision No. 67157 on August 10, 2004.

The Company provides wastewater service to 287 customers in Yuma County. The Company's current rates have been in effect since August 10, 2004.

COMPLAINT HISTORY

2008 thru 2010 - Zero Complaints
43 Opinions (43 Opinions opposed to the rate case item)

SUFFICIENCY STATUS

The Company's rate application met sufficiency status on December 9, 2010.

AFFIDAVIT OF MAILING

A copy of the Affidavit of Mailing was filed on October 7, 2010.

BILL FORMAT COMPLIANCE

A sample bill provided by the Company reflects the bill complies with Rules R14-2-608.B.1. thru R14-2-608.B.8 of the Arizona Administrative Code, Title 14, Chapter 2. A copy of the bill has been filed in the Company's tariffs.

CORPORATIONS DIVISION STATUS

On January 3, 2011 the Corporations Division reported that the Company is in Good Standing.

HEARING DATE

As of this date, a hearing has not been scheduled for this matter.

INTERVENORS

No Motions to Intervene have been filed.

If you have any questions regarding this report, please contact me at (602) 542-2406.

cc: Engineering
File