

OPEN MEETING ITEM

COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

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DATE: MAY 6, 2011

DOCKET NOS.: W-02062A-09-0466 and W-02062A-09-0515

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Opinion and Order on:

SOUTHLAND UTILITIES COMPANY, INC.
(RATES/FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

MAY 16, 2011

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

MAY 24, 2011 and MAY 25, 2011

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

MAY 6 2011

DOCKETED BY

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE, Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

8 IN THE MATTER OF THE APPLICATION OF
9 SOUTHLAND UTILITIES COMPANY, INC. FOR
10 AUTHORITY TO INCUR LONG-TERM DEBT.

DOCKET NO. W-02062A-09-0466

11 IN THE MATTER OF THE APPLICATION OF
12 SOUTHLAND UTILITIES COMPANY, INC. FOR
13 A RATE INCREASE.

DOCKET NO. W-02062A-09-0515

DECISION NO. _____

14 **OPINION AND ORDER**

15 DATE OF HEARING: August 31, 2010
16 PLACE OF HEARING: Tucson, Arizona
17 ADMINISTRATIVE LAW JUDGE: Belinda A. Martin
18 APPEARANCES: Mr. Steve Wene, MOYES SELLERS & SIMS, on
19 behalf of the Southland Utilities Company, Inc.; and
20 Ms. Robin Mitchell, Staff Attorney, Legal Division, on
21 behalf of the Utilities Division of the Arizona
22 Corporation Commission.

23 **BY THE COMMISSION:**

24 **PROCEDURAL HISTORY**

25 On September 29, 2009, Southland Utilities Company, Inc. ("Southland" or "Company") filed
26 with the Arizona Corporation Commission ("Commission") an application for authority to incur
27 long-term debt ("Finance Application").

28 On November 3, 2009, the Company filed an Affidavit of Publication, averring that notice of
the Finance Application had been provided to customers by First Class U.S. Mail on October 28,
2009.

On November 5, 2009, Southland filed an application with the Commission for a permanent
rate increase and on November 23, 2009, the Company filed an Amended Application (collectively,

1 the "Rate Application").

2 On December 11, 2009, and December 23, 2009, the Company filed Motions to Consolidate
3 the Rate Application and Finance Application dockets.

4 On December 18, 2009, the Commission's Utilities Division Staff ("Staff") filed a Letter of
5 Sufficiency in the Rate Application docket, classifying Southland as a Class C public water utility.

6 On December 30, 2009, Procedural Orders were issued consolidating the Finance Application
7 docket and the Rate Application docket, and setting the hearing in the consolidated dockets for June
8 15, 2010, and establishing other procedural deadlines.

9 On March 17, 2010, the Company filed a Motion to Extend Deadlines, and on March 24,
10 2010, a Procedural Order was issued granting the Motion. The Procedural Order re-set the June 15,
11 2010, hearing for August 31, 2010, and revised previously set procedural deadlines.

12 On April 12, 2010, Southland filed a Second Amended Application in the Rate Application
13 docket (references to the "Rate Application" shall also include this Second Amended Application),
14 and also filed an Amended Application in the Finance Application docket (references to the "Finance
15 Application" shall also include this Amended Application).

16 On May 19, 2010, Southland filed an Affidavit of Publication and Mailing of Notice of
17 Hearing on the Applications. In response to the Company's Notice, the Commission received 11
18 customer comments opposed to the Company's requested rate increase.

19 On July 19, 2010, Staff filed its Direct Testimony in the consolidated matters, and on July 22,
20 2010, Staff filed a Notice of Errata to its Direct Testimony.

21 On August 12, 2010, Southland filed its Rebuttal Testimony.

22 On August 24, 2010, Staff filed its Surrebuttal Testimony.

23 On August 31, 2010, the hearing in this matter convened as scheduled. During the hearing,
24 two customers provided public comment, each stating they are opposed to the Company's requested
25 rate increase. At the conclusion of the hearing, the matter was taken under advisement pending the
26 submission of the parties' post-hearing briefs. Because of the prior extension of deadlines and the
27
28

1 post-hearing briefing schedule, the time clock in this matter was suspended.¹

2 On October 1, 2010, Southland filed its Post-Hearing Brief.

3 On October 15, 2010, Staff filed its Responsive Brief.

4 On October 20, 2010, Southland filed a Post-Hearing Brief in reply to Staff's Responsive
5 Brief.

6 * * * * *

7 Having considered the entire record herein and being fully advised in the premises, the
8 Commission finds, concludes, and orders that:

9 **FINDINGS OF FACT**

10 **BACKGROUND**

11 1. Southland is an Arizona Class C public water utility corporation engaged in the
12 business of providing water service to approximately 600 customers south of Sierra Vista, Arizona.

13 2. The Commission granted a Certificate of Convenience and Necessity in Decision No.
14 39693 (October 25, 1968) to Southland Utilities, which, at that time, was a partnership. On August
15 27, 1973, the Commission approved the sale of Southland Utilities to Southland in Decision No.
16 43611. Over time, Union Bank of Tucson acquired 100 percent ownership of Southland due to its
17 foreclosure on several of the Company's loans. Southland's stock subsequently was purchased from
18 Union Bank of Tucson in 1981 by new shareholders. Southland's current officers and directors are
19 Andy Romo, Chief Executive Officer, President and Treasurer, and Sidney Mendelsohn, Secretary
20 and Director. In late 2009, Southland hired Southwestern Utility Management to manage the
21 Company.²

22 3. Southland's current rates and charges were set by the Commission in Decision No.
23 61335 (January 7, 1999).

24 4. Southland filed the instant Finance Application seeking Commission approval of a
25 loan from the Water Infrastructure Finance Authority ("WIFA") in the amount of \$1,825,941.
26 Southland subsequently filed a Rate Application with the Commission to provide permanent rates to
27

28 ¹ Tr. at 172.

² Tr. at 15.

1 support the debt service on the loan.

2 **RATE APPLICATION**

3 5. During the test year ending December 31, 2008 ("TY"), Southland provided water
4 utility service to approximately 600 customers.

5 6. In its Final Schedules submitted with its Post-Hearing Brief, Southland proposed that
6 the Commission adopt base rates that would result in an increase in base rate revenues of 141.13
7 percent. Staff recommends a base rate revenue increase of 102.70 percent.

8 7. The water rates and charges Southland proposes would produce operating revenues of
9 \$338,580 and operating expenses of \$259,740, resulting in operating income of \$78,840, for a 17.9
10 percent rate of return on its revised proposed fair value rate base ("FVRB") of \$440,294, which is the
11 same as its original cost rate base.

12 8. The water rates and charges Staff recommends would produce operating revenues of
13 \$284,608 and operating expenses of \$242,810, resulting in operating income of \$41,798, for a 10.0
14 percent rate of return on Staff's recommended \$417,978 FVRB.

15 9. Staff also recommends a WIFA surcharge ("WIFA Surcharge") to collect an
16 additional \$107,783 in revenues annually for a total revenue recommendation of \$392,391. The
17 specifics of this WIFA Surcharge will be discussed below in relation to the Finance Application.

18 10. A summary of the parties' final revenue requirement positions, not including WIFA
19 Surcharge amounts, follows:

	<u>Company Final Proposed³</u>	<u>Staff Final Proposed⁴</u>
21 Fair Value Rate Base	\$ 440,294	\$ 417,978
22 Adjusted TY Operating Inc.	(63,779)	(62,041)
Current Rate of Return	-14.49%	-14.84%
23 Req'd Operating Income	\$ 78,840	\$ 41,798
Operating Inc. Deficiency	142,619	103,838
Rev. Conver. Factor	1.3895	1.3887
24 Recommended Op. Rev. Incr.	\$ 198,169	\$ 144,197
Adjusted TY Rev.	140,411	140,411
25 Proposed Ann. Op. Rev.	338,580	284,608
Req'd Incr. in Revenue	141.13%	102.70%
26 Rate of Return	17.90%	10.00%

27 ³ The data for the Company's final proposed revenue requirement are found in Southland's Initial Post-Hearing Brief,
Final Schedules A-1 and C-1.

28 ⁴ The data for Staff's Proposed Revenue Requirement are found in Staff's Responsive Brief, Final Schedule GWB-1.

1 Rate Base

2 11. In its Rate Application, the Company originally proposed an FVRB of \$2,029,252.
 3 Staff recommended an FVRB of \$417,978, a \$1,611,274 decrease to the Company's proposed FVRB.
 4 Staff's adjustments to the Company's originally proposed FVRB included an increase by Staff of
 5 \$45,222 restating the cost of a storage tank, Staff's disallowance of \$22,252 in cash working capital,
 6 and the removal of \$1,634,244 in anticipated future plant.⁵ Southland agreed to Staff's adjustments
 7 restating the cost of a storage tank and also Staff's removal of anticipated future plant.⁶

8 12. We find Staff's adjustments to the storage tank and anticipated future plant reasonable
 9 and we adopt Staff's recommendations.

10 13. After its adoption of these two adjustments, Southland's final proposed FVRB is
 11 \$440,294. The remaining difference between the Company's proposed FVRB and Staff's
 12 recommendation relates mainly to Southland's opposition to Staff's removal of \$22,252 in cash
 13 working capital proposed by the Company.⁷

14 14. The Commission historically requires Class A, B and C utilities to perform a lead-lag
 15 study before a working capital allowance is permitted in rate base. Class D and E utilities are
 16 permitted to calculate working capital by the application of a formula. A company's class is
 17 determined by the amount of revenue that will be received by that company upon approval of new
 18 rates. Southland had previously been a Class D utility, but based upon the revenue required by the
 19 Company in its Rate Application, Southland is now classified as a Class C utility. As such, Staff
 20 contends that Southland must submit a lead-lag study to support any working capital allowance in
 21 rate base.⁸

22 15. As explained by Staff:

23 Working Capital is composed of materials and supplies' prepayments and
 24 cash working capital. Cash working capital is the cash needed by a utility
 25 to cover its day-to-day operations. It may either increase or decrease rate
 26 base. If the Company's cash expenditures, on an aggregate basis, precede
 the cash recovery of expenses, investors must provide cash working
 capital. In that situation a positive cash working capital requirement

27 ⁵ Staff's Responsive Brief, Final Schedule GWB-4.

⁶ Rebuttal Testimony of Sonn Rowell, page 3, and Rebuttal Schedule B-2.

⁷ *Id.*

28 ⁸ Direct Testimony of Gerald W. Becker (Rate Base), page 11, and Schedule GWB-9A.

1 exists. On the other hand, if revenues are typically received prior to when
 2 expenditures are made, on average, then rate payers provide the cash
 working capital to the utility, and the negative cash working capital
 allowance is reflected as a reduction to rate base.⁹

3 16. Additionally, Staff witness Gerald Becker testified that, “[t]he formula method always
 4 results in a positive outcome.”¹⁰

5 17. The Company’s financial witness, Sonn Rowell, testified that she is aware that a
 6 company’s class is determined by the ultimate revenue sought in a rate application and that lead-lag
 7 studies are usually required of Class C utilities before a cash working capital allowance is
 8 permitted.¹¹ Nevertheless, Southland objects to Staff’s removal of \$22,252 of its \$22,501 requested
 9 cash working capital.¹² Ms. Rowell pointed out that recently the Commission approved of the use of
 10 the formula method to allow for cash working capital for a Class C utility.¹³ In its Post-Hearing
 11 Brief, the Company asserts, “Southland was a Class D during the test year and it will only become a
 12 Class C under the proposed rates, primarily due to the need to generate revenue to pay the WIFA loan
 13 debt obligations. Expecting a small water company like Southland to perform an expensive lead-lag
 14 study is neither reasonable nor feasible.”¹⁴

15 18. The process of adjusting a regulated utility’s rate base to reflect the appropriate
 16 treatment of cash used to fund day-to-day operations is done through an allowance (or disallowance)
 17 of working capital. To the extent that payment of utility expenses occurs *before* the utility’s receipt
 18 of revenues for providing that service, the utility’s owners must supply the needed cash (working
 19 capital). To the extent that payment of utility expenses occurs *after* the utility’s receipt of revenues
 20 for providing that service, the ratepayers are supplying the needed cash (working capital).

21 19. When the utility owners are supplying working capital, it is appropriate that the utility
 22 owners be compensated for the net cost to supply the funds for that time period. This is done by
 23 allowing an adjustment to increase rate base. When the ratepayers are supplying the working capital,
 24 it is not appropriate to increase rate base, and it may be appropriate to reduce rate base. Therefore, it

25 ⁹ Staff’s Responsive Brief, page 2.

26 ¹⁰ Direct Testimony of Gerald Becker (Rate Base), page 11.

27 ¹¹ Tr. at 73.

¹² The cash working capital allowed by Staff relates to \$249 in prepayments.

28 ¹³ Tr. at 59. Ms. Rowell was referring to Decision No. 72001 (December 10, 2010), *In the Matter of the Application of Mt. Tipton Water Company, Inc., for an Increase in its Water Rates.*

¹⁴ Southland’s Initial Post-Hearing Brief, page 6. *See also*, Tr. at 44-45.

1 is important to determine whether there is a cash working capital requirement for a utility, and, if so,
2 who is funding that requirement.

3 20. As discussed by the parties, there are two methods to estimate working capital used by
4 the Commission—a lead-lag study and a formula. Recognizing that small utilities most likely do not
5 have the financial resources to conduct a lead-lag study, the Commission has generally adopted a
6 formula method with small utilities. With larger utilities, the Commission has generally required a
7 lead-lag study (at least initially, and then periodically in some cases) in order to make sure that
8 ratepayers and utility owners are appropriately compensated for cash working capital. As testified to
9 by Staff, the formula method always results in a working capital requirement and a resulting increase
10 to rate base. The “lead-lag study measures the difference between the average number of days when
11 revenues are received (the revenue *lag*) and the number of days before the firm must pay its expenses
12 (the revenue *lead*).”¹⁵ By looking at actual data, the lead-lag study determines whether there is a
13 revenue lag, whereas the formula method assumes there is.

14 21. Commission Rule Arizona Administrative Code (“A.A.C.”) R14-2-103(A)(3)(h) states
15 that an original cost rate base calculation should include a *proper* allowance for working capital.

16 22. We do not believe that Southland has demonstrated that \$22,501 is a proper allowance
17 for working capital in this case. Southland relied on the formula method to calculate this amount, and
18 supplied no evidence that there is a revenue lag, other than the \$249 in prepayments allowed by
19 Staff’s adjustment. We also note that the recent case where we allowed use of the formula method
20 with a Class C utility involved a not-for-profit entity, unlike Southland, which is a for-profit
21 company. Finally, given Staff’s recommendation to allow a WIFA Surcharge and our adoption of
22 that recommendation, we do not believe that revenues should increase due to such an unsupported
23 adjustment for working capital. Accordingly, we adopt Staff’s recommended cash working capital
24 adjustment.

25 23. Based on our determinations herein, we find Southland’s FVRB to be \$417,978.
26
27

28 ¹⁵ *Principles of Utility Corporate Finance*, Leonardo R. Giacchino, Ph.D. and Jonathan A. Lesser, Ph.D., Public Utilities Reports, Inc. (2011), page 142.

1 **Revenues**

2 24. During the TY, Southland reported total operating revenues of \$140,411 and Staff
3 agreed with the Company's revenue calculations. We find TY revenues to be \$140,411.

4 **Operating Expenses**

5 25. In its Rate Application, Southland claimed \$200,887 in operating expenses for the TY,
6 resulting in a \$60,476 operating loss during the TY. Staff increased Southland's claimed test year
7 operating expenses by \$1,565, from \$200,887 to \$202,452, due to adjustments to outside services,
8 fuel and power expenses, water testing expense, general office expense, depreciation expense, and
9 income tax expense. Staff's adjustments resulted in a TY operating loss of \$62,041.

10 26. Southland accepted Staff's operating expense adjustments, except for Staff's
11 recommended reduction in Southland's TY water testing expense.

12 27. Staff's recommended water testing operating expense is based on the minimum
13 amount of testing required by the Arizona Department of Environmental Quality ("ADEQ"); in this
14 instance, \$2,958. Southland believes that the amount expended for water testing during the TY is the
15 amount Staff should allow on a going forward basis. During the TY, Southland expended \$6,087 on
16 water testing. Company witnesses Bonnie O'Connor and Keith Dojaquez testified that during the
17 TY, Southland incurred extraordinary testing expenses due to a number of causes such as tests done
18 because of customer complaints about water quality, and testing for volatile organic compounds.¹⁶
19 Mr. Dojaquez testified that, although these tests are not typically required by ADEQ, this testing was
20 necessary to insure the public health.¹⁷

21 28. Although we understand the Company's assertion that such testing was necessary,
22 there is no evidence that such testing will be necessary on a going forward basis. Additionally, Staff
23 notes that Southland recently changed to a laboratory that charges lower testing fees than those
24 applied during the TY and Staff's recommended testing expense is based on those lower fees.¹⁸

25 29. We find Staff's water testing expense recommendation of \$2,958 is reasonable.

26 30. Based on the foregoing discussion, we find that Staff's recommended TY operating

27 ¹⁶ Tr. at 19.

28 ¹⁷ Tr. at 27, 28.

¹⁸ Tr. at 107.

1 expense of \$202,452 is reasonable and shall be adopted.

2 31. Accordingly, we find that TY operating revenues were \$140,411, TY operating
3 expenses were \$202,452, for a TY operating loss of \$62,041.

4 **Revenue Requirement**

5 32. Southland ultimately proposes a revenue increase of \$198,169, for an annual revenue
6 requirement of \$338,580 (exclusive of the revenue which would be generated by Staff's proposed
7 WIFA Surcharge), which is a 141.13 percent increase, for a rate of return of 17.9 percent.¹⁹

8 33. Staff proposes a revenue increase of \$144,197, for an annual revenue requirement of
9 \$284,608, which is a 102.70 percent increase, for a rate of return of 10.0 percent. This does not
10 include revenues generated by the proposed WIFA Surcharge.

11 34. In calculating the Company's revenue requirement, Staff had considered: 1) the size of
12 Southland's adjusted rate base; 2) the large amount of the WIFA loan; and 3) the effect of a large rate
13 increase upon Southland's customers.²⁰ In balancing these factors, Staff determined it was most
14 effective to set permanent base rates using the rate of return methodology and then also
15 recommended an additional surcharge in order to achieve the revenues necessary to service the debt
16 on the loan, while trying to protect the Company's customers from rate shock.

17 35. Staff concluded that the amount of the requested \$1.8 million loan that could be
18 appropriately supported by base rates given a 10.0 percent rate of return was \$780,000, with the debt
19 service for the remaining \$1 million covered through a WIFA Surcharge.

20 36. Southland states that there are two problems with Staff's manner of calculating
21 revenue requirement and the base rates. The Company first asserts that Staff did not use a rate of
22 return to calculate base rates, and instead improperly used a debt service coverage ratio ("DSC") of
23 1.25²¹ to determine rates.²² Second, the Company claims that Staff's inclusion of depreciation
24 expense in the Company's available cash flow for loan repayment is also improper. Southland states:

25 _____
26 ¹⁹ Southland's Initial Post-Hearing Brief, Final Schedule A-1. Southland's Final Schedule A-1 demonstrates that
27 application of a 10.0 percent rate of return on its FVRB would be \$44,029, but the Company is requesting operating
28 income of \$78,840 based on a operating margin of 23.29 percent, or a rate of return on FVRB of 17.9 percent.

²⁰ We note that Southland has not applied for a rate increase since 1998.

²¹ The determination of the appropriate DSC will be discussed further in relation to the Finance Application.

²² Tr. at 54.

Staff is proposing to deprive the Company's owners of not only a return on investment, but they are now proposing to deny the Company a return of investment. They do this by essentially redirecting the return of investment (i.e., depreciation) to pay to serve the WIFA loan. They justify it by adjusting the rates to be just enough to meet the 1.25 debt service coverage ratio. This is neither standard nor appropriate rate-making policy. (Emphasis original.)²³

37. However, as noted above, Staff's revenue calculations were, in fact, based on a 10.0 percent rate of return applied to the Company's rate base. It was this calculation that lead to Staff's conclusion that only \$780,000 of the \$1.8 million requested debt could be supported by permanent rates, and that the remainder would need to be supported by the WIFA Surcharge. Staff explains that this two-pronged approach to collect revenues is necessary because:

Under conventional ratemaking methods, the revenue requirement is sufficient to recover operating expenses and an operating income represented by the product of multiplying the rate base times a reason[able] rate of return. Conventional ratemaking does not provide for a surcharge to assist the Company with debt service on a *proposed* loan. Under conventional ratemaking, the Company could not service its proposed debt and no funding would be available for the contemplated capital improvements. Staff's method ensures that the Company will have the ability to service its WIFA loan, and has enough operating income to meet expenses and minimize the impact to the Company's ratepayers. The Company must maintain a DSC consistent with the requirements of WIFA. (Emphasis added.)

38. Regarding Staff's desire to insulate ratepayers against an excessive rate increase, Southland responds, "Staff seems to be saying that it is reasonable to deny the Company a return of their investment to protect customers from extremely high rates."²⁴ But Southland asserts that its current rates are extremely low and its proposed rates will bring its rates more in line with what are currently the typical residential rates for water customers in Arizona.²⁵

39. Regarding Southland's assertion that inclusion of depreciation expense in cash flow calculations is improper, Staff responds:

The Company also complains that its owners will not receive an adequate return on its investments under Staff's revenue requirement method, which calculated available cash flow based on operating income and depreciation. Because equity is not being used to finance the needed improvements, the Company must have the ability to service the debt. Staff's methods allow the Company the means to service the debt as well

²³ *Id.*, page 3.

²⁴ Southland's Initial Post-Hearing Reply Brief, page 2.

²⁵ *Id.*, pages 2-4, and Attachment 1.

as pay its expenses.²⁶

1
2 40. The use of depreciation expense in cash flow calculations is not inconsistent with
3 ratemaking principles. "Ideally, therefore, accruing an annual depreciation expense and recovering
4 that expense in rates provides a regulated firm with the funds necessary to replace plant and
5 equipment at the end of their useful lives."²⁷ We also note that A.R.S. § 40-222 confirms that the
6 Commission may require a public service corporation to set aside depreciation funds and use those
7 funds and the income from those funds for purposes the Commission prescribes.

8 41. The Company ignores the fact that even though its current rates may be below the
9 average Arizona water rates, its requested rate increase will require a substantial increase resulting in
10 rate shock for its customers. This result might have been avoided had the Company applied to the
11 Commission for a rate increase sooner than 10 years.

12 42. Given the circumstances, we find Staff's recommended 10.0 percent rate of return on
13 FVRB, and the resulting revenue requirement of \$284,608, are reasonable and we adopt Staff's
14 recommended base rate revenue requirement.

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25 ...

26 ²⁶ Staff's Responsive Brief, pages 3-4. Inclusion of depreciation expense in cash flow analysis was previously approved
27 by the Commission in Decision No. 71899 (September 28, 2010), *In the Matter of the Application of the Estate of William*
28 *F. Randall d/b/a Valle Verde Water Company for an Increase in its Water Rates, Docket No. W-01431A-09-0360, et al.*
²⁷ *Principles of Utility Corporate Finance*, Leonardo R. Giacchino, Ph.D. and Jonathan A. Lesser, Ph.D., Public Utilities
Reports, Inc. (2011), page 503.

1 **Rate Design**

2 43. Set forth below are the current, Company proposed, and Staff proposed rates and
 3 charges according to their respective revenue requirements and rate design recommendations.

4		Present	Company	Staff
5		<u>Rates</u>	<u>Proposed²⁸</u>	<u>Recommended²⁹</u>
6	<u>MONTHLY USAGE CHARGE:</u>			
6	5/8" x 3/4" Meter	\$ 10.00	\$ 21.50	\$ 16.00
7	3/4" Meter	11.00	25.00	22.50
7	1" Meter	15.00	50.00	37.50
8	1-1/2" Meter	20.00	75.00	75.00
8	2" Meter	23.00	96.75	120.00
9	3" Meter	49.00	258.00	240.00
9	4" Meter	70.00	322.50	375.00
10	6" Meter	100.00	500.00	750.00
11				
12	<u>WIFA SURCHARGE</u>			
12	5/8" x 3/4" Meter	N/A	N/A	\$ 13.39
13	3/4" Meter	N/A	N/A	20.09
13	1" Meter	N/A	N/A	33.48
14	1-1/2" Meter	N/A	N/A	66.95
14	2" Meter	N/A	N/A	107.13
15	3" Meter	N/A	N/A	214.25
15	4" Meter	N/A	N/A	334.77
16	6" Meter	N/A	N/A	669.54
17				
18	<u>COMMODITY CHARGES</u>			
18	(Per 1,000 Gallons)			
19	All Gallons	\$1.33		
20				
21	<u>5/8-Inch Meter</u>			
21	1 to 4,000 gallons		\$2.600	
22	4,001 to 12,000 gallons		4.000	
22	Over 12,000 gallons		6.040	
23	0 to 2,000 gallons			\$1.55
24	2,001 to 6,000 gallons			3.00
24	6,001 to 12,000 gallons			4.00
25	Over 12, 000 gallons			6.18

28 Southland's Post-Hearing Brief, Final Schedule H-3.

29 Staff's Responsive Brief, Final Schedule GWB-22 and GWB-23.

3/4-Inch Meter

1	1 to 4,000 gallons	2.600	
2	4,001 to 12,000 gallons	4.000	
3	Over 12,000 gallons	6.040	

4	1 to 12,000 gallons		4.000
4	Over 12,000 gallons		6.180

1-Inch Meter

6	1, to 30,000 gallons	4.000	4.000
7	Over 30,000 gallons	6.040	6.180

1 1/2-Inch Meter

8	1 to 60,000 gallons	4.000	4.000
9	Over 60,000 gallons	6.040	6.180

2-Inch Meter)

10	1 to 90,000 gallons	4.000	4.000
11	Over 90,000 gallons	6.040	6.180

3-Inch Meter

13	1 to 125,000 gallons	4.000	4.000
14	Over 125,000 gallons	6.040	6.180

4-Inch Meter

15	1 to 200,000 gallons	4.000	4.000
16	Over 200,000 gallons	6.040	6.180

6-Inch Meter

17	1 to 400,000 gallons	4.000	4.000
18	Over 400,000 gallons	6.040	6.180

SERVICE LINE AND METER INSTALLATION CHARGES:

	<u>Present</u>	<u>Company Proposed</u>		<u>Staff Recommended</u>				
	Total	Service Line	Meter Installation	Total	Service Line	Meter Installation	Total	
22	5/8" x 3/4" Meter	\$225.00	\$ 445.00	\$155.00	\$ 600.00	\$ 445.00	\$155.00	\$ 600.00
	3/4 " Meter	300.00	445.00	255.00	700.00	445.00	255.00	700.00
	1" Meter	350.00	495.00	315.00	810.00	495.00	315.00	810.00
23	1-1/2" Meter	500.00	550.00	515.00	1,075.00	550.00	525.00	1,075.00
	2"	625.00	N/A	N/A	N/A	N/A	N/A	N/A
24	2" Turbine Meter	N/A	830.00	1,045.00	1,875.00	830.00	1,045.00	1,875.00
	2" Compound Meter	N/A	830.00	1,890.00	2,720.00	830.00	1,890.00	2,720.00
	3"	900.00	N/A	N/A	N/A	N/A	N/A	N/A
25	3" Turbine Meter	N/A	1,045.00	1,670.00	2,715.00	1,045.00	1,670.00	2,715.00
	3" Compound Meter	N/A	1,165.00	2,545.00	3,710.00	1,165.00	2,545.00	3,710.00
	4"	1,450.00	N/A	N/A	N/A	N/A	N/A	N/A
26	4" Turbine Meter	N/A	1,490.00	2,670.00	4,160.00	1,490.00	2,670.00	4,160.00
	4" Compound Meter	N/A	1,670.00	3,645.00	5,315.00	1,670.00	3,645.00	5,315.00
27	6"	3,000.00	N/A	N/A	N/A	N/A	N/A	N/A
	6" Turbine Meter	N/A	2,210.00	5,025.00	7,235.00	2,210.00	5,025.00	7,235.00
28	6" Compound Meter	N/A	2,330.00	6,920.00	9,250.00	2,330.00	6,920.00	9,250.00

	Present Rates	Company Proposed	Staff Recommended
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$30.00	\$30.00
Establishment (After Hours)	30.00	40.00	40.00
Reconnection (Delinquent)	25.00	40.00	40.00
Reconnection (Delinquent and After Hours)	N/A	50.00	50.00
Meter Test (if correct)	\$30.00	35.00	35.00
Deposit	(a)	*	*
Deposit Interest	(a)	*	*
Re-Establishment (Within 12 Months)	(b)	**	**
NSF Check	\$15.00	\$25.00	\$25.00
Deferred Payment, Per Month	(c)	1.5% per mo.	1.5% per mo.
Meter Re-Read (If Correct)	\$15.00	\$20.00	\$20.00
Late Fee	(d)	1.5% per mo.	1.5% per mo.
Main Extension	N/A	Cost	N/A
Monthly Service Charge for Fire Sprinkler	N/A	***	****

- 10 (a) Deposits Per Commission Rules A.A.C. R14-2-403(B)(7)(a) (b), and (c); interest per Commission Rules R14-2-403(D).
- 11 (b) Service Establishments re-establishments or reconnection charges per Commission Rule R14-2-403(D).
- 12 (c) Deferred Payments Per Commission Rules R14-2-409(G)(6).
- 13 (d) Late payment penalty of 1.5 percent of the unpaid balance.
- 14 * Per Commission Rules R14-2-403.B.
- 15 ** Months off the system times the monthly minimum per R14-2-403.d.
- 16 *** 1% of monthly minimum for a comparable sized meter connection, but less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary service line.
- 17 **** 2% of month minimum for a comparable sized meter connection, but less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary service line.

17 44. Southland objects to Staff's rate design. Southland's proposed rate design sets the
 18 monthly minimum charge at 50 percent of the needed revenue, leaving the other 50 percent to be
 19 generated from the commodity charges. The Company states, "[t]his is a widely accepted approach
 20 and makes sense here because the Company will have substantial debt service obligation which will
 21 not change due to operating factors."³⁰ Staff recommends a monthly minimum equal to 46 percent of
 22 Staff's recommended revenue requirement. Southland admits that Staff's proposal is close to the
 23 Company's, but asserts that 50 percent is better given the substantial debt it will be undertaking,
 24 allowing for more money not tied to the fluctuations in income that can be attributed to commodity
 25 charges.³¹

26 45. Southland also objects to Staff's use of a four-tier commodity structure as opposed to

27
 28 ³⁰ Southland's Initial Post-Hearing Brief, page 4-5.
³¹ Tr. at 48, 68-69

1 a three-tier structure, which the Company asserts has been Staff's standard formula for small water
 2 utilities for many years. The Company asserts that the three-tier structure that it proposes works well
 3 and is administratively less burdensome. Ms. Rowell testified:

4 You need to have certain amount of guaranteed revenue to pay bills. And
 5 when you throw this kind of tier rates that encourages conservation, you're
 6 intentionally wrecking the demand because people will want to use less
 7 water so they can pay less. ... [W]hen those people start conserving, there
 is going to be less revenue. And I'm afraid if the guaranteed revenue that
 [the Company] will get from the monthly minimum is too low and people
 start conserving, they will be right back in for more rates.³²

8 46. Staff responds by noting that its proposed 46 percent of revenue generated by the
 9 monthly minimum produces sufficient funds to cover the debt service on the amount of the loan
 10 included in permanent rates.³³ As for Staff's recommended four-tier rate design, Staff responds that
 11 the complained of fourth tier is directed at high usage customers and, accordingly, "there is no effect
 12 on the typical bill analysis."³⁴ Staff noted that its rate design is not unusual and a low first tier helps
 13 to maintain affordability, especially considering the magnitude of the proposed rate increase. As Mr.
 14 Becker testified, the four tier rate design will also encourage efficient water use by sending an
 15 appropriate price signal for high water use customers.³⁵

16 47. For a residential customer served by a 5/8 x 3/4-inch meter with average usage of
 17 6,030 gallons per month, the current monthly charges are \$18.02. Under the Company's final
 18 proposed rates, a customer with the same average usage would experience an increase of \$23.08 per
 19 month, or 128.07 percent, to \$41.10. For a residential customer with a median usage of 3,756 gallons
 20 per month, the current monthly charges are \$15.00. The Company's proposal would increase this
 21 current monthly bill by \$16.27, or 108.47 percent, to \$31.27.

22 48. An average usage customer on a 5/8 x 3/4-inch meter under Staff's recommended
 23 rates would experience an increase of \$13.20 per month, or 73.25 percent, from \$18.02 to \$31.22.
 24 Staff's recommendation would increase the median usage customer's monthly bill by \$9.37, or 62.50
 25 percent, from \$15.00 to \$24.37.

26 _____
 27 ³² Tr. at 69.

³³ Tr. at 116. Staff's Responsive Brief, page 6.

³⁴ Staff's Responsive Brief, page 6.

28 ³⁵ Tr. at 125-126.

1 49. Both Staff's and the Company's rates noted above are without the WIFA Surcharge,
2 which, as will be discussed below, would result in a substantial additional increase to monthly
3 customer bills.³⁶

4 50. We find that Staff's rate design is reasonable and we adopt Staff's recommendations.

FINANCE APPLICATION

5
6 51. Southland's Finance Application requested Commission approval to obtain a
7 \$1,825,941 loan from WIFA for a term of 20 years at an interest rate of 5.25 percent. Southland
8 plans to use the funds to repay a short-term loan and to finance a number of system improvements.

9 52. According to Southland, the Company had previously borrowed \$494,922 from
10 Tucson/Sierra Properties, L.L.P. in order to replace one failing and inadequate storage tank and to
11 purchase a second storage tank in order to alleviate issues arising during the high-demand summer
12 months. Southland seeks to use part of the funds from the WIFA loan to repay this short-term loan.
13 The promissory note for the loan was dated October 1, 2008, and became due and payable on
14 September 29, 2009. The interest rate on the loan was 2.19 percent.

15 53. The proceeds of the loan were used to replace a leaking 25,000 gallon storage tank
16 with a new 165,000 gallon tank and booster pump at the system's Site 2, and the installation of a new
17 165,000 gallon tank at the system's Site 3. Staff notes that ADEQ issued its approval of construction
18 certificates for these improvements on September 18, 2008.³⁷ According to Staff engineering
19 witness, Katrin Stukov, the Company advised Staff that when the tank at Site 3 is completely hooked-
20 up to the system, it will help "alleviate water shortages when wells become inoperable due to
21 mechanical failure or in the event well production declines during times of peak demand."³⁸

22 54. Staff reviewed the cost of these improvements and found that the improvements at Site
23 2 totaled \$348,147.92 and the improvements for Site 3 totaled \$257,703.51, for a total construction
24 cost of \$605,851.43.³⁹

25 55. Staff concluded that the storage tank and booster pump station installed at Site 2 at a
26

27 ³⁶ Staff's proposed WIFA Surcharge for a customer on a 5/8 x 3/4-inch meter will be approximately \$13.39.

³⁷ Direct Testimony of Katrin Stukov, page 15.

³⁸ *Id.*

28 ³⁹ *Id.*, Table E.

1 cost of \$348,147.92 are reasonable and appropriate. Staff also concluded that the Site 3 storage tank
 2 and related costs totaling \$257,703.51 are also reasonable and appropriate, but because the Site 3
 3 improvements are not yet used and useful, no future rate making or rate base purposes should be
 4 inferred.

5 56. Accordingly, we approve the Company's use of the WIFA loan proceeds to repay the
 6 \$494,622 short-term loan.

7 57. The remainder of the funds will be used for system improvements such as acquisition
 8 of an on-site generator, connecting the additional storage tank to the system and replacement of 40-
 9 year old failing asbestos-cement pipelines.

10 58. Staff reviewed the projects proposed in the Finance Application and determined the
 11 projects are appropriate and the cost estimates projected by the Company are reasonable. Staff made
 12 no used and useful determination of the proposed plant and no particular future treatment should be
 13 inferred for rate-making or rate base purposes.

14 59. As discussed earlier, because of Staff's concerns regarding the large amount of debt
 15 authorization requested, and the associated increase in permanent base rates, Staff believed it better to
 16 collect revenues to service the requested loan through both permanent base rates and a WIFA
 17 Surcharge.

18 60. Mr. Becker testified that WIFA requires that a company requesting a loan maintain a
 19 DSC⁴⁰ of 1.2. Using a *pro forma* DSC of 1.25,⁴¹ Staff calculated that, in addition to base rates that
 20 support the debt service on \$780,000 of the requested \$1.8 million loan, a WIFA Surcharge
 21 component of \$107,783 per year is necessary to provide the additional funds to meet the debt service
 22 on the remaining \$1 million. Added to Staff's recommended permanent revenues of \$284,608, the
 23 combined revenues would be \$392,391.⁴²

24 61. Southland accepted Staff's proposed bifurcation of revenue generation between
 25

26 ⁴⁰ DSC ratio represents the number of times internally generated cash will cover required principal and interest payments
 27 on short-term and long-term debt. A DSC of greater than 1.0 indicates that cash flow from operations is sufficient to
 28 cover expected debt service. A DSC of less than 1.0 means that debt service obligations cannot be met by cash generated
 from operations and that another source of funds is necessary to preclude default on the debt obligation.

⁴¹ Staff added a "cushion" of 0.05 for contingencies. Tr. at page 113-114.

⁴² Staff's Responsive Brief, page 2, and Final Schedule GWB-18.

1 permanent rates and the WIFA Surcharge.⁴³

2 62. Staff's proposed WIFA Surcharge per customer on a 5/8 x 3/4-inch meter, per month
3 is \$13.39. Applying Staff's proposed WIFA Surcharge to the Company's recommended base rates,
4 an average usage customer on a 5/8 x 3/4-inch meter would experience a total increase of \$36.47 per
5 month, or 202.39 percent, from \$18.02 to \$54.49. Southland's recommendations including the WIFA
6 Surcharge would increase the median usage customer's monthly bill by a total of \$29.66, or 197.73
7 percent, from \$15.00 to \$44.66.

8 63. Applying Staff's proposed WIFA Surcharge to its recommended base rates, an
9 average usage customer on a 5/8 x 3/4-inch meter would experience a total increase of \$26.59 per
10 month, or 147.56 percent, from \$18.02 to \$44.61. Staff's recommendation including the WIFA
11 Surcharge would increase the median usage customer's monthly bill by a total of \$22.76, or 151.80
12 percent, from \$15.00 to \$37.76.

13 64. Staff concludes that issuance of a long-term amortizing loan of approximately 18 to 22
14 years for the \$1,825,941 estimated cost of the capital improvements and for repayment of the short-
15 term loan is appropriate, is within Southland's corporate powers, is compatible with the public
16 interest, would not impair its ability to provide services and would be consistent with sound financial
17 practices.

18 65. Staff recommends Commission authorization for Southland to obtain an 18-to-22 year
19 amortizing loan, at a rate in an amount not to exceed \$1,825,941, to finance the stated improvements
20 and repay the short-term loan, and at an interest rate not to exceed that which is available from
21 WIFA.

22 66. Staff further recommends that the Commission authorize Southland to pledge its assets
23 in the State of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with the
24 WIFA loan.

25 67. Staff further recommends that any authorization to incur debt granted in this
26 proceeding terminate on June 30, 2013. Because of the timing of the issuance of this Decision, we
27

28 ⁴³ Rebuttal Testimony of Somn Rowell, page 2.

1 believe it is reasonable to extend the termination date to December 31, 2013.

2 68. Staff further recommends authorizing Southland to engage in any transaction and to
3 execute any documents necessary to effectuate the authorization granted.

4 69. Staff further recommends that Southland file with Docket Control, as a compliance
5 item in this matter, copies of the loan documents within 60 days of the execution of any financing
6 transaction authorized herein.

7 70. We find that above-stated recommendations are reasonable and shall be adopted.

8 71. Staff also recommends that the WIFA Surcharge become effective for all service
9 rendered the first day of the month following the closing of the WIFA loan. However, in other
10 Commission decisions, we have required that, once the loan closes, the amount of the surcharge
11 should be recalculated and approved by the Commission. This is done to ensure as much as possible
12 that a company does not overcharge or undercharge its customers in collecting revenues dedicated to
13 debt service.⁴⁴

14 72. Because the variables used to calculate the WIFA Surcharge could change prior to
15 implementation of the loan, we believe it is reasonable to require that, within 30 days of the
16 Company's filing of the executed loan documents, Staff should calculate the actual WIFA Surcharge
17 and prepare a memorandum and proposed order for the Commission's consideration.

18 73. We also believe it is reasonable to require that, upon Commission approval of the
19 WIFA Surcharge, Southland should open an interest-bearing account in which all WIFA Surcharge
20 funds collected from customers will be deposited and that the only disbursements of funds from this
21 interest-bearing account will be for the purpose of debt service payments to WIFA.

22 74. Additionally, we believe it is reasonable to require Southland to file a rate application
23 no later than June 30, 2015, using a December 31, 2014, test year.

24 MISCELLANEOUS MATTERS

25 75. Staff recommends that the Company use the depreciation rates by individual National
26 Association of Regulatory Utility Commissioners category, as set forth in the Direct Testimony of

27

28 ⁴⁴ See, for example, Decision No. 72052 (January 6, 2011), *In the Matter of the Application of Heart Cab Co., DBA Sulger Water Company #2 for a Permanent Rate Increase*, Docket No. W-02355A-09-0275, et al.

1 Katrin Stukov, Exhibit KS, Table B, and attached hereto as Exhibit A.

2 76. Southland water system's plant is located on three separate sites and includes two
3 wells, three storage tanks (only two of which are in service), five booster pumps, a pressure tank, a
4 bladder tank and a distribution system. Although the Company was experiencing a water loss of 6.5
5 percent, well within the acceptable limit of 10 percent, this calculation was mostly based on records
6 other than the 2008 TY because some records had been destroyed during a fire.

7 77. Accordingly, Staff recommends that Southland be required to monitor and assure that
8 its well pump meters are operating properly, and that the Company should repair or replace any meter
9 not operating properly.

10 78. Staff's recommendations are reasonable and shall be adopted.

11 79. Staff noted that it received compliance status reports from ADEQ indicating that
12 Southland's water system is currently delivering water that meets water quality standards required by
13 A.A.C., Title 18, Chapter 4.

14 80. Southland's water system is not located in an Arizona Department of Water Resources
15 ("ADWR") Active Management Area. ADWR has determined that the Company is currently in
16 compliance with departmental requirements governing water providers and/or community water
17 systems.

18 81. Staff stated that Southland has no delinquent Commission compliance issues.

19 82. The Company has an approved curtailment tariff and an approved backflow
20 prevention tariff on file with the Commission.

21 83. Because an allowance for the property tax expense is included in Southland's rates and
22 will be collected from its customers, the Commission seeks assurances from the Company that any
23 taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to
24 the Commission's attention that a number of water companies have been unwilling or unable to fulfill
25 their obligation to pay the taxes that were collected from its ratepayers, some for as many as twenty
26 years. It is reasonable, therefore, that as a preventive measure the Company shall annually file, as
27 part of its annual report, an affidavit with the Commission's Utilities Division attesting that the
28 company is current in paying its property taxes in Arizona.

CONCLUSIONS OF LAW

1
2 1. Southland is a public service corporation within the meaning of Article XV of the
3 Arizona Constitution and A.R.S. §§40-250, 40-251, 40-285 and 40-367.

4 2. The Commission has jurisdiction over Southland and the subject matter contained in
5 the Company's Rate Application and Finance Application.

6 3. Notice of the Rate Application and Finance Application was given in accordance with
7 Arizona law.

8 4. The rates and charges established herein are just and reasonable and in the public
9 interest.

10 5. The financing approved herein is for lawful purposes within Southland's corporate
11 powers, is compatible with the public interest, with sound financial practices, and with the proper
12 performance by Southland of service as a public service corporation, and will not impair its ability to
13 perform the service.

14 6. The financing approved herein is for the purposes stated in the Finance Application
15 and as stated herein is reasonably necessary for those purposes, and such purposes are not, wholly or
16 in part, reasonably chargeable to operating expenses or to income.

17 7. The recommendations stated herein are reasonable and should be adopted.

18 **ORDER**

19 IT IS THEREFORE ORDERED that Southland Utilities Company, Inc. is hereby authorized
20 and directed to file with the Commission by May 31, 2011, revised schedules of rates and charges
21 consistent with the discussion herein, as set forth below:

22 **MONTHLY USAGE CHARGE:**

23 5/8" x 3/4" Meter	\$ 16.00
3/4" Meter	22.50
24 1" Meter	37.50
1-1/2" Meter	75.00
25 2" Meter	120.00
26 3" Meter	240.00
27 4" Meter	375.00
6" Meter	750.00

COMMODITY CHARGES

(Per 1,000 Gallons)

5/8 x 3/4-Inch Meter

0 to 2,000 gallons	\$1.55
2,001 to 6,000 gallons	3.00
6,001 to 12,000 gallons	4.00
Over 12, 000 gallons	6.18

3/4-Inch Meter

1 to 12,000 gallons	4.000
Over 12, 000 gallons	6.180

1-Inch Meter

1, to 30,000 gallons	4.000
Over 30,000 gallons	6.180

1 1/2-Inch Meter

1 to 60,000 gallons	4.000
Over 60,000 gallons	6.180

2-Inch Meter)

1 to 90,000 gallons	4.000
Over 90,000 gallons	6.180

3-Inch Meter

1 to 125,000 gallons	4.000
Over 125,000 gallons	6.180

4-Inch Meter

1 to 200,000 gallons	4.000
Over 200,000 gallons	6.180

6-Inch Meter

1 to 400,000 gallons	4.000
Over 400,000 gallons	6.180

SERVICE LINE AND METER INSTALLATION CHARGES:

	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>
5/8" x 3/4 " Meter	\$ 445.00	\$155.00	\$ 600.00
3/4 " Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2"	N/A	N/A	N/A
2" Turbine Meter	830.00	1,045.00	1,875.00
2" Compound Meter	830.00	1,890.00	2,720.00
3"	N/A	N/A	N/A

1	3" Turbine Meter	1,045.00	1,670.00	2,715.00
	3" Compound Meter	1,165.00	2,545.00	3,710.00
2	4"	N/A	N/A	N/A
	4" Turbine Meter	1,490.00	2,670.00	4,160.00
3	4" Compound Meter	1,670.00	3,645.00	5,315.00
	6"	N/A	N/A	N/A
4	6" Turbine Meter	2,210.00	5,025.00	7,235.00
5	6" Compound Meter	2,330.00	6,920.00	9,250.00

SERVICE CHARGES:

6	Establishment		\$30.00
7	Establishment (After Hours)		40.00
	Reconnection (Delinquent)		40.00
8	Reconnection (Delinquent and After Hours)		50.00
9	Meter Test (if correct)		35.00
	Deposit		*
10	Deposit Interest		*
	Re-Establishment (Within 12 Months)		**
11	NSF Check		\$25.00
	Deferred Payment, Per Month		1.5% per mo.
12	Meter Re-Read (If Correct)		\$20.00
	Late Fee		1.5% per mo.
13	Main Extension		N/A
14	Monthly Service Charge for Fire Sprinkler		***

15 * Per Commission Rules R14-2-403.B

16 ** Months off the system times the monthly minimum per R14-2-403.d

17 *** 2% of month minimum for a comparable sized meter connection, but less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary service line.

18 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective
19 for all service rendered on and after June 1, 2011.

20 IT IS FURTHER ORDERED that Southland Utilities Company, Inc. shall notify its
21 customers of the revised schedules of rates and charges authorized herein and the approximate WIFA
22 Surcharge by means of either an insert in its next regularly scheduled billing or by a separate mailing,
23 in a form acceptable to Staff.

24 IT IS FURTHER ORDERED that Southland Utilities Company, Inc. shall file as part of its
25 Annual Report an affidavit attesting that it is current on payment of its property taxes in Arizona.

26 IT IS FURTHER ORDERED that Southland Utilities Company, Inc. shall use the
27 Depreciation Table, attached hereto as Exhibit A, on a going forward basis.

28 IT IS FURTHER ORDERED that Southland Utilities Company, Inc. shall monitor and assure

1 that its well pump meters are operating properly and that Southland Utilities Company, Inc. shall
2 repair or replace any meter not operating properly.

3 IT IS FURTHER ORDERED that Southland Utilities Company, Inc. is hereby authorized to
4 obtain an 18-to-22 year amortizing loan in an amount not to exceed \$1,825,941 to finance the stated
5 improvements and repay the short-term loan, and at an interest rate not to exceed that which is
6 available from WIFA.

7 IT IS FURTHER ORDERED that the granted authorization to incur debt shall terminate on
8 December 31, 2013.

9 IT IS FURTHER ORDERED that such financing authority shall be expressly contingent upon
10 Southland Utilities Company, Inc.'s use of the proceeds for the purposes stated and approved herein.

11 IT IS FURTHER ORDERED that Southland Utilities Company, Inc. is authorized to engage
12 in any transactions and to execute any documents necessary to effectuate the authorization granted
13 herein.

14 IT IS FURTHER ORDERED that Southland Utilities Company, Inc. shall file with Docket
15 Control, as a compliance item in this docket, copies of its executed financing documents within 60
16 days after the transaction is closed.

17 IT IS FURTHER ORDERED that within 30 days of Southland Utilities Company, Inc.'s
18 filing of the executed loan documents, Staff shall calculate the actual WIFA Surcharge and prepare a
19 memorandum and proposed order for the Commission's consideration.

20 IT IS FURTHER ORDERED that, upon Commission approval of the WIFA Surcharge,
21 Southland Utilities Company, Inc. shall open an interest-bearing account in which all WIFA
22 Surcharge funds collected from customers will be deposited.

23 IT IS FURTHER ORDERED that the only disbursements of funds from this interest-bearing
24 account will be for the purpose of debt service payments to WIFA.

25 IT IS FURTHER ORDERED that appropriate rate-making treatment for the plant built with
26 WIFA Surcharge funds will be addressed in the Company's next rate case.

27 IT IS FURTHER ORDERED that Southland Utilities Company, Inc. shall file a rate
28 application no later than June 30, 2015, using a December 31, 2014, test year.

1 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
3 proceeds derived thereby for purposes of establishing just and reasonable rates.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRMAN _____ COMMISSIONER _____
9

10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____
11

12 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
13 Executive Director of the Arizona Corporation Commission,
14 have hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this _____ day of _____, 2011.

17 _____
18 ERNEST G. JOHNSON
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____
22
23
24
25
26
27
28

1 SERVICE LIST FOR: SOUTHLAND UTILITIES COMPANY, INC.

2 DOCKET NOS.: W-02062A-09-0466 and W-02062A-09-0515

3
4 Steve Wene
4 MOYES SELLERS & SIMS
5 1850 North Central Avenue, Suite 1100
5 Phoenix, AZ 85004

6 Janice Alward, Chief Counsel
7 Legal Division
7 ARIZONA CORPORATION COMMISSION
8 1200 West Washington Street
8 Phoenix, AZ 85007

9 Steven M. Olea, Director
10 Utilities Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
11 Phoenix, AZ 85007

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EXHIBIT A

TABLE B
DEPRECIATION RATE TABLE FOR WATER COMPANIES

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

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.