OPEN MEETING AGENDA ITEM

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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission
DOCKETED
MAY 18 2011
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IN THE MATTER OF THE APPLICATION OF SOUTHLAND UTILITIES COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT **AND** **IN THE MATTER OF THE APPLICATION OF SOUTHLAND UTILITIES COMPANY, INC. FOR A RATE INCREASE**	DOCKET NO. W-02062A-09-0466 DOCKET NO. W-02062A-09-0515 **COMMENTS TO THE RECOMMENDED OPINION AND ORDER**

Southland Utilities Company, Inc. ("Southland" or "Company") hereby files its comments on the Recommended Opinion and Order ("Recommendation"). The critical issue raised in the Recommendation concerns how the proposed WIFA loan is repaid. Southland requests the Arizona Corporation Commission ("Commission") either adopt the Company's proposed rates or approve the proposed surcharge to include all of the proposed debt service.

1.0 Explanation of the Recommendation's Debt Service Approach.

The Recommendation adopts Staff's approach using two revenue streams to pay debt service for the proposed $1,825,941 WIFA loan. The Recommendation proposes: (1) $780,000 of debt service must be paid from the Company's base rates; and (2) the remaining $1,045,941 would be paid through a surcharge. The problem is that there was no increase in revenues to pay the debt service on the $780,000 – it is simply piled on the Company's base rate as an unfunded commitment.

The Company is supposed to use revenues from base rates before a WIFA surcharge can be applied. Thus, only if it commits to using all of its revenues (and then some) to pay operating expenses and debt service expense on the $780,000 will the WIFA surcharge be initiated. As explained below, this effectively means that the Company must commit to losing money if it wants to borrow money from WIFA to make the system repairs and improvements.

2.0 Recommended Debt Service Approach Results in the Company Losing More than $20,000 a year.

The Recommendation adopts an annual revenue requirement of $284,608. Recommendation at p. 11, ¶ 42. As proposed in the Recommendation, both the operating expenses and debt service expense on $780,000 of the WIFA loan would have to be paid from these revenues. *Id.* at p. 17, ¶ 60. Annual operating expenses are $242,810. *Id.* at p. 4, ¶ 8. Annual debt service expense on $780,000 amortized for 20 years at 5.25% is

$63,071.81. Together, projected operating and debt service expenses amount to $305,881.81. This amount would exceed annual revenues by $21,273.81. In other words, as shown by the calculation below, at best the Company would lose $21,273.81 each year:

Revenue		$284,608
Operating Expenses	–	$242,810
Debt Service	–	$63,072
Annual Result	–	$21,274

This is simply untenable for the Company.

3.0 Solution: Adopt the Company's Proposed Rates or Allow the Surcharge to Include the $780,000 Debt Service.

The Company still believes its proposed rates are reasonable and should be adopted. Nevertheless, the Company does believe that a surcharge approach is reasonable and understands why it is attractive to the Commission and customers. In fact, the Company urges the Commission to approve a surcharge for the entire $1.8 million in debt service. Such a surcharge is by far the most straightforward way to ensure that all of the money collected by the Company through the surcharge would go straight to WIFA. Put another way, the debt service expense would become a simple pass-through from the customer to WIFA without the Company making or losing money.

RESPECTFULLY SUBMITTED this 18th day of May, 2011.

MOYES SELLERS LTD.

Steve Wene

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Attorneys for Southland Utilities Company, Inc.

Original and 15 copies of the foregoing filed this 18th day of May, 2011, with:

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