



0000125322

1 Steve Wene, No. 019630  
2 MOYES SELLERS & SIMS LTD.  
3 1850 N. Central Avenue, Suite 1100  
4 Phoenix, Arizona 85004  
5 (602)-604-2189  
6 swene@lawms.com  
7 Attorney for Southland Utilities Company, Inc.

RECEIVED

ORIGINAL

2011 MAY 18 P 12:39

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

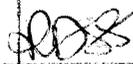
10 **COMMISSIONERS**

11 GARY PIERCE, CHAIRMAN  
12 PAUL NEWMAN  
13 SANDRA D. KENNEDY  
14 BOB STUMP  
15 BRENDA BURNS

Arizona Corporation Commission

DOCKETED

MAY 18 2011

DOCKETED BY 

16 **IN THE MATTER OF THE APPLICATION**  
17 **OF SOUTHLAND UTILITIES COMPANY,**  
18 **INC. FOR AUTHORITY TO INCUR LONG-**  
19 **TERM DEBT**

DOCKET NO. W-02062A-09-0466  
DOCKET NO. W-02062A-09-0515

20 **AND**

**COMMENTS TO THE**  
**RECOMMENDED OPINION AND**  
**ORDER**

21 **IN THE MATTER OF THE APPLICATION**  
22 **OF SOUTHLAND UTILITIES COMPANY,**  
23 **INC. FOR A RATE INCREASE**

24  
25 Southland Utilities Company, Inc. ("Southland" or "Company") hereby files its  
26 comments on the Recommended Opinion and Order ("Recommendation"). The critical  
27 issue raised in the Recommendation concerns how the proposed WIFA loan is repaid.  
28

Southland requests the Arizona Corporation Commission ("Commission") either adopt

1 the Company's proposed rates or approve the proposed surcharge to include all of the  
2 proposed debt service.

3  
4 **1.0 Explanation of the Recommendation's Debt Service Approach.**

5 The Recommendation adopts Staff's approach using two revenue streams to pay  
6 debt service for the proposed \$1,825,941 WIFA loan. The Recommendation proposes:  
7 (1) \$780,000 of debt service must be paid from the Company's base rates; and (2) the  
8 remaining \$1,045,941 would be paid through a surcharge. The problem is that there was  
9 no increase in revenues to pay the debt service on the \$780,000 – it is simply piled on the  
10 Company's base rate as an unfunded commitment.  
11

12  
13 The Company is supposed to use revenues from base rates before a WIFA  
14 surcharge can be applied. Thus, only if it commits to using all of its revenues (and then  
15 some) to pay operating expenses and debt service expense on the \$780,000 will the  
16 WIFA surcharge be initiated. As explained below, this effectively means that the  
17 Company must commit to losing money if it wants to borrow money from WIFA to make  
18 the system repairs and improvements.  
19  
20

21 **2.0 Recommended Debt Service Approach Results in the Company Losing More  
22 than \$20,000 a year.**

23 The Recommendation adopts an annual revenue requirement of \$284,608.  
24 Recommendation at p. 11, ¶ 42. As proposed in the Recommendation, both the operating  
25 expenses and debt service expense on \$780,000 of the WIFA loan would have to be paid  
26 from these revenues. *Id.* at p. 17, ¶ 60. Annual operating expenses are \$242,810. *Id.* at  
27 p. 4, ¶ 8. Annual debt service expense on \$780,000 amortized for 20 years at 5.25% is  
28

1 \$63,071.81. Together, projected operating and debt service expenses amount to  
2 \$305,881.81. This amount would exceed annual revenues by \$21,273.81. In other  
3 words, as shown by the calculation below, at best the Company would lose \$21,273.81  
4 each year:

5	Revenue	\$284,608
6	Operating Expenses	— \$242,810
7	Debt Service	— \$63,072
8	Annual Result	<u>— \$21,274</u>

9  
10 This is simply untenable for the Company.

11 **3.0 Solution: Adopt the Company's Proposed Rates or Allow the Surcharge to**  
12 **Include the \$780,000 Debt Service.**

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

21  
22  
23 RESPECTFULLY SUBMITTED this 18<sup>th</sup> day of May, 2011.

24  
25 **MOYES SELLERS LTD.**

26  
27   
28 Steve Wene  
Attorneys for Southland Utilities Company, Inc.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

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

Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

*Cornally-Hebert*