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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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9 PAUL NEWMAN
10 SANDRA D. KENNEDY
11 BOB STUMP
12 BRENDA BURNS

Arizona Corporation Commission

DOCKETED

JUN 2 2011

DOCKETED BY	<i>MW</i>
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13
14 **IN THE MATTER OF THE APPLICATION**
15 **OF SOUTHLAND UTILITIES COMPANY,**
16 **INC. FOR AUTHORITY TO INCUR LONG-**
17 **TERM DEBT**

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

18 **AND**

**PROPOSAL TO IMPLEMENT
SURCHARGE**

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

22
23 Southland Utilities Company, Inc. ("Southland" or "Company") hereby files its
24 proposal to implement the surcharge suggested in the Recommended Opinion and Order
25 ("Recommendation").
26

27 **WIFA Surcharge**

28 The Company has applied for permission to enter into a loan agreement to borrow

1 \$1,825,941 from Water Infrastructure Finance Authority (“WIFA”). The Company will
2 use the loan proceeds to replace failing asbestos-cement pipelines, bring a water storage
3 tank into operation, install a booster pump, install fire hydrants, and install an onsite
4 backup generator. Staff has determined that the projects and cost estimates are
5 reasonable. Recommendation at ¶ 53-58.
6

7
8 Staff proposed the implementation of a surcharge in the amount of \$13.39 per
9 month per customer to service \$1,045,941 of WIFA debt (hereinafter “WIFA
10 Surcharge”). Recommendation at ¶ 62, 70. Adding the WIFA Surcharge to the
11 Company’s recommended base rates results in the average customer’s monthly bill being
12 \$37.76. Recommendation at ¶ 63. Both Staff and Judge Martin determined this average
13 monthly water bill would be reasonable. Recommendation at ¶ 70. Furthermore, the
14 WIFA Surcharge would only become effective after the WIFA loan is finalized, which
15 will take months. Recommendation at ¶ 71. Southland agrees this is reasonable.
16
17

18 **Explanation of Southland’s Proposed Revisions to the Recommendation.**
19

20 Southland is proposing that the Commission approve the \$13.39 WIFA Surcharge
21 to become effective after the WIFA loan is finalized. This WIFA Surcharge would be a
22 direct pass through from the customers to WIFA to service \$1,045,941 of WIFA debt. If
23 the projects cost more than that amount, then Southland would service the rest of the debt
24 using its cash flow from depreciation or operating income.
25

26 Put another way, the WIFA Surcharge will pay for the first \$1,045,941 of debt
27 service and the Company would pay for the remainder using its own money. If the
28 Company somehow found a way to reduce the cost of the projects, then it could use the

1 cash flow for operations or other system repairs and improvements. Meanwhile, the
2 customers will pay no more than what Staff and Judge Martin have already deemed
3 reasonable.
4

5 This approach gives the Company an opportunity to alleviate the problem raised in
6 the Recommendation – namely, if \$780,000 of debt service is supposed to be paid from
7 base rate revenues as an unfunded commitment, then at best the Company would lose
8 \$21,273.81 each year:
9

10	Revenue		\$284,608
11	Operating Expenses	–	\$242,810
12	Debt Service	–	\$63,072
13	Annual Result	–	<u>\$21,274</u>

14 But under Southland’s proposal, the Company may be able to find ways that would
15 alleviate this problem while creating an incentive to ensure that the project is cost-
16 effective.
17

18 Finally, at the Open Meeting, Staff pointed out that Staff typically does not
19 support plant becoming part of rate base unless the Company used its own money to add
20 the plant. In other words, Staff would not recommend that any plant installed by
21 Southland using the \$1,045,941 WIFA Surcharge funds would become part of the
22 Company’s rate base. Admittedly, Southland disagrees with Staff’s position, but this is
23 not an issue that the Commission needs to decide at this time. Southland is aware of
24 Staff’s position, and in fact, the Recommendation already states that “appropriate rate-
25 making treatment for the plant built with WIFA Surcharge funds will be addressed in the
26 Company’s next rate case.” Recommendation at p. 24, ln. 25-26.
27
28

1 **Proposed Revisions to the Recommendation**

2 If the Commission adopts Southland's proposal, the Recommendation should be
3 revised as follows:
4

- 5 • In ¶ 71, strike all but the first sentence;
- 6 • In ¶ 72, strike all;
- 7
- 8 • In ¶ 73, in the first sentence strike "upon Commission approval of the WIFA
9 surcharge";
- 10 • In the sentence starting on page 24, line 17, strike all; and
- 11 • In the sentence starting on page 24, line 20, revise the sentence as follows: "IT IS
12 FURTHER ORDERED that, within 10 days of filing of the executed financing
13 documents, Southland Utilities Company, Inc. shall open an interest-bearing
14 account in which all WIFA Surcharge funds collected from customers will be
deposited.

15 RESPECTFULLY SUBMITTED this 2nd day of June, 2011.

16 **MOYES SELLERS LTD.**

17
18 

19 Steve Wene
20 Attorneys for Southland Utilities Company, Inc.

21 Original and 15 copies of the foregoing
22 filed this 2nd day of June, 2011, with:

23 Docket Control
24 Arizona Corporation Commission
25 1200 West Washington
26 Phoenix, Arizona 85007

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