

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

- GARY PIERCE, Chairman
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2011 OCT 14 P 4:38

OCT 14 2011

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
LIVCO WATER COMPANY FOR APROVAL OF
A RATE INCREASE.

DOCKET NO. W-02121A-11-0213

IN THE MATTER OF THE APPLICATION OF
LIVCO WATER COMPANY FOR AUTHORITY
TO INCUR LONG-TERM DEBT.

DOCKET NO. W-02121A-11-0257

**STAFF'S RESPONSE
TO LIVCO WATER COMPANY'S
COMMENTS TO STAFF REPORT**

On September 19, 2011, the Arizona Corporation Commission ("Commission") Utilities Division Staff ("Staff") was ordered to file a Response to Livco Water Company Inc.'s ("Livco" or "Company") Comments to the Staff Report filed in this matter on or before October 14, 2011. Included in the Staff Report filed on September 6, 2011, was a recommendation that Company implement five Best Management Practices ("BMPs") from the Arizona Department of Water Resources' ("ADWR") BMP list.

On September 16, 2011, the Company filed Comments objecting to many of the recommendations made in the Staff Report. Included in the Company's Comments is a legal argument regarding Staff's recommendation that the Company implement five BMPs. Specifically, the Company argues that "[t]he state administrative procedure statutes prohibit the Commission from including BMP conditions unless there is a statute or rule specifically authorizing such a condition."¹ The Company further argues that the Commission cannot require regulated utilities to adopt BMPs until the Commission has undertaken a "rulemaking on this issue."² This brief will respond to the Company's assertions that the Commission does not have the legal authority to require the utilities it regulates to adopt BMPs. The remaining Company comments will be addressed in the attached Response to the Company's Comments.

¹ Company Comments Re Staff Report, Attachment 1 (September 16, 2011).

² *Id.*

1 **I. THE COMMISSION HAS THE AUTHORITY TO REQUIRE THE UTILITIES IT**
2 **REGULATES TO ADOPT BEST MANAGEMENT PRACTICES.**

3 The Commission is constitutionally created and has vast authority over all aspects of
4 ratemaking. The Commission's ability to require BMPs fits squarely within the Commission's
5 ratemaking authority granted to it by the Constitution. Unlike most other administrative agencies, the
6 Commission's authority is not limited to statutory delegations. The Commission is not required to
7 promulgate rules related to BMPs.

8 **II. THE COMMISSION IS A CONSTITUTIONALLY CREATED AGENCY WITH**
9 **AUTHORITY OVER (1) ALL NECESSARY ASPECTS OF RATEMAKING AND (2)**
10 **THE HEALTH AND SAFETY OF A UTILITY, ITS EMPLOYEES, AND PATRONS.**

11 **A. The Commission's Constitutionally Granted Ratemaking Authority.**

12 Article XV, Section 3 of the Arizona Constitution grants the Commission broad authority
13 over all necessary aspects of ratemaking. Specifically the Constitution states:

14 The Corporation Commission *shall* have full power to, and shall, prescribe just and
15 reasonable classifications to be used and just and reasonable rates and charges to be
16 made and collected, by public service corporations within the State for service
17 rendered therein, *and make reasonable rules, regulations, and orders*, by which such
18 corporations shall be governed in the transaction of business within the State and
19 *may...make and enforce reasonable rules, regulations, and orders for the*
20 *convenience, comfort, and safety, and the preservation of the health, of the employees*
21 *and patrons of such corporations*

22 (Emphasis added). The Commission has exclusive and plenary authority over ratemaking matters.
23 *Arizona Corp. Comm'n v. State ex rel. Woods*, 171 Ariz. 286, 292, 830 P.2d 807, 813 (1992). This
24 authority extends well beyond just setting rates to all matters determined by the Commission to be
25 necessary to the ratemaking process. *Woods*, 171 Ariz. at 292, 830 P.2d at 813 (1992).

26 The five BMPs at issue are intended to promote the efficient use of water. Water use
27 efficiency directly relates to ratemaking because less water usage results in the need for less water
28 utility infrastructure in the future. The reduced need to build water utility infrastructure, in turn,
results in lower water rates in the future for the Company's customers.

Furthermore, requiring reasonable facilities and methods of operation to stabilize the
availability of the Company's principal public service resource, water, necessarily implicates
ratemaking because the reasonable and prudent costs of operating the water system will be passed on

1 through Commission-determined rates to customers. There is consequently a direct connection
2 between the five BMPs at issue and the rates set by the Commission under its exclusive and plenary
3 authority to ensure just and reasonable rates. *See Miller v. Arizona Corp. Com'n*, 227 Ariz. 21, ¶31,
4 251 P.3d 400, 408 (App. 2010) (“[p]rophylactic measures designed to prevent adverse effects on
5 ratepayers...fall within the Commission’s [plenary ratemaking] power”).

6 **B. The Commission’s Authority Extends To More Than Ratemaking.**

7 In addition to granting the Commission plenary ratemaking authority, Article XV, Section 3
8 states:

9 The corporation commission shall have full power to . . . make reasonable rules,
10 regulations, and orders, by which such corporations shall be governed in the
11 transaction of business within the state . . . and make and enforce reasonable rules,
12 regulations, and orders for the convenience, comfort, and safety, and the preservation
13 of the health, of the employees and patrons of such corporations[.]

14 A.R.S. § 40-202(A) provides that the “commission may supervise and regulate every public service
15 corporation in the state and do all things, whether specifically designated in this title or in addition
16 thereto, necessary and convenient in the exercise of such power and jurisdiction.” A.R.S. § 40-
17 321(A) states:

18 [w]hen the commission finds that the equipment, appliances, facilities or service of
19 any public service corporation, or the methods of manufacture, distribution,
20 transmission, storage or supply employed by it are unjust, unreasonable, unsafe,
21 improper, inadequate or insufficient, the commission shall determine what is just,
22 reasonable, safe, proper, adequate or sufficient, and shall enforce its determination *by*
23 *order* or regulation.

24 (emphasis added).

25 The five BMPs at issue promote the efficient use of water. As the Company is certificated to
26 provide water service and has an obligation to provide water service to ratepayers within its service
27 territory, it is within the Commission’s regulatory authority to ensure delivery of adequate water
28 service to the Company’s customers by ordering the Company to adopt these BMPs. Moreover, it is
well within the Commission’s power to exercise its authority to ensure adequate service at reasonable
rates.

1 **III. THE COMMISSION IS NOT REQUIRED TO ADOPT RULES IN ORDER TO**
2 **REQUIRE THE UTILITIES IT REGULATES TO ADOPT BEST MANAGEMENT**
3 **PRACTICES.**

4 “The Corporation Commission... may... make and enforce reasonable rules, regulations, *and*
5 *orders* for the convenience, comfort, and safety, and the preservation of the health, of the employees
6 and patrons of such corporations....” Arizona Constitution Article XV, Section 3 (emphasis added).

7 The legislature has granted the Commission authority to act by individual orders as well.

8 When the commission finds that the equipment, appliances, facilities or service of any
9 public service corporation, or the methods of manufacture, distribution, transmission,
10 storage or supply employed by it are unjust, unreasonable, unsafe, improper,
11 inadequate or insufficient, the commission shall determine what is just, reasonable,
12 safe, proper, adequate or sufficient, and *shall enforce its determination by order* or
13 regulation.

14 A.R.S. § 40-321(A) (emphasis added). Likewise, the Commission has been granted the
15 power to oversee health and safety concerns by order.

16 The commission may *by order*, rule or regulation, require every public service
17 corporation to maintain and operate its line, plant, system, equipment, and premises in
18 a manner which will promote and safeguard the health and safety of its employees,
19 passengers, customers and the public, and may prescribe the installation, use,
20 maintenance and operation of appropriate safety or other devices or appliances... and
21 require the performance of any other act which health or safety requires.

22 A.R.S. § 40-336 (emphasis added). The Arizona Court of Appeals has also acknowledged an
23 administrative agency’s ability to issue individual orders rather than promulgating rules for every
24 issue that arises. In *Ariz. Corp. Comm’n v. Palm Springs*, the court stated:

25 In other words, problems may arise in a case which the administrative agency
26 could not reasonably foresee, problems which must be solved despite the absence
27 of a relevant general rule. Or the agency may not have had sufficient experience
28 with a particular problem to warrant rigidifying its tentative judgment into a hard
and fast rule. Or the problem may be so specialized and varying in nature as to be
impossible of capture within the boundaries of a general rule. In those situations,
the agency must retain power to deal with the problems on a case-to-case basis if
the administrative process is to be effective. There is thus a very definite place
for the case-by-case evolution of statutory standards.

29 24 Ariz. App. 124, 129, 536 P.2d 245, 249 (Ariz. App. 1975) *citing Columbia Broadcasting System*
30 *v. United States*, 316 U.S. 407, 421, 62 S.Ct. 1194, 1202 (1942). Clearly, the Commission possesses
31 authority to require water utilities to adopt BMPs through individual orders.

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RESPECTFULLY SUBMITTED this 14th day of October, 2011.



Scott M. Hesla
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Original and thirteen (13) copies
of the foregoing were filed this
14th day of October, 2011 with:

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

Copies of the foregoing were mailed
this 14th day of October, 2011 to:

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Attorneys for Livco Water Company

Jenni Wicks
LIVCO WATER COMPANY
P.O. Box 659
Concho, AZ 85924-0659



MEMORANDUM

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

DATE: October 14, 2011

RE: STAFF'S RESPONSE TO LIVCO WATER COMPANY, INC.'S COMMENTS TO THE STAFF REPORT ISSUED ON SEPTEMBER 6, 2011, REGARDING APPLICATIONS FOR A PERMANENT RATE INCREASE AND A FINANCING APPROVAL. (DOCKET NOS. W-02121A-11-0213 AND W-02121A-11-0257)

On September 19, 2011, a Procedural Order was issued directing Staff to file a response to Livco Water Company, Inc.'s Comments to the Staff Report by October 14, 2011.

Pursuant to that Order, Staff hereby submits the attached responses.

SMO:GWB:kdh

Originator: Gerald Becker

Service List for: Livco Water Company, Inc.
Docket Nos. W-02121A-11-0213 and W-02121A-11-0257

Ms. Jenni Wicks
Livco Water Company
Post Office Box 659
Concho, Arizona 85924

**ARIZONA CORPORATION COMMISSION
STAFF'S RESPONSES TO
LIVCO WATER COMPANY INC.'S
COMMENTS TO THE STAFF REPORT
DOCKET NOS. W-02121A-11-0213 AND W-02121A-11-0257**

CONTRIBUTION-IN-AID-OF CONSTRUCTION ("CIAC")

1. Company Statement: "The Company disagrees with Staff's adjustment of \$4,400 to increase the CIAC balance from \$143,253 to \$147,653 for a related land transaction...The compensation for the land was recognition of additional paid-in-capital (equity)."

Response: Staff has reconsidered its original recommendation and now agrees with the Company's position. Staff has made corresponding adjustments to its rate base calculation as shown on Responsive Schedules GWB-1.1 and GWB-1.2. Staff also discovered an error in its depreciation expense calculation. Staff has decreased depreciation expense by \$117 from \$21,447 in its original filing to \$21,330 as shown as Adjustment E on Responsive Schedule GWB-3, Page 1. The effect of these changes is that Staff now recommends total revenues of \$193,997 as compared with \$193,576 in Staff's original filing, for an increase of \$421, accounted for along with the income tax effects, as follows:

Increase in revenue	\$421
Less:	
Decrease in depreciation expense	(\$117)
Increase in income tax expense	<u>\$113</u>
Increase in operating income	<u>\$426</u>
Increase in return (\$4,400 reduction to CIAC, times 10% rate of return)	<u>\$440</u>
Un-reconciled amount, due to rounding	(\$14)

RATE CASE EXPENSE

2. Company Statement: "Staff is arguing that a small water company should receive no more than \$4,000 to promulgate a rate case."

Response: Rate case expense should be based on actual and reasonable costs. Staff's recommendation of \$4,000 in total rate case expense is reasonable for the instant case.

3. Company Statement: "This so-called analysis is flawed and misleading. First, it appears that Staff has excluded at least one prior case from its analysis and there may be more.

Staff analysis is at best incomplete. For example, Staff excludes Livco Water Company's prior rate case in which it was granted expense of \$13,500 or \$3,375 annually."

Response: Staff agrees that Livco Water Company Inc. ("Livco") was authorized an annual rate case expense of \$3,375 amortized over 4 years for a total of \$13,500 in a prior proceeding. Staff has revised its analysis to include this amount and recalculated the mean and median rate case expense to be \$1,179 and \$500, respectively, as shown on Responsive Schedule GWB-3, Page 2. The recalculated mean and median rate case expense of \$1,179 and \$500, respectively, compares with the mean and median rate case expense of \$1,075 and \$500, respectively, in Staff's original filing.

Further, Staff notes that while Livco expresses concerns about Staff's analysis, Livco then uses Staff's data to calculate its own estimate of average and mean rate case expenses of \$2,437 and \$2,500, respectively, for Class D companies which compare with the \$3,333 of rate case expense requested by Livco in this proceeding. In its comments to the Staff Report, Livco does not provide any arithmetic support to justify the amounts in excess of its own calculated average and mean rate case expenses.

In its analysis, Livco includes the annual rate case expense of \$600 for Sonoita Water but excludes \$500 for Ehrenberg Improvement and \$1,000 for Baca Float Water. Livco does not provide adequate, objective, and verifiable reasons to consider the rate case expense of certain cases while excluding others. The Company's explanations are qualified with phrases such as "in all likelihood" and "it does not appear." Staff does not accept Livco's treatment of these items due to unexplained inconsistencies.

Livco further alleges that some companies are unaware that they can recover rate case expenses, but does not provide any verifiable information to support its claim. Staff continues to recommend that rate case expense be calculated based on the most complete information unless there are specific verifiable reasons to exclude certain information from the analysis.

4. Company Statement: "Second, Staff includes the rate cases for which no rate case expense was requested. These should be eliminated from the analysis."

Response: The short form rate case application, which is used by Class D and E water companies, was designed to significantly reduce or eliminate rate case expense. The Commission purposefully built rate case cost reductions into the short form rate application, allowing the Company to complete the application with little or no help due to the simplified filing requirements and the "fill-in-the-blank" type format. Further, these applications are processed without a hearing, generally eliminating the need for a lawyer. Thus, it is reasonable to include in the analysis those companies that chose to take advantage of the built-in cost efficiencies afforded by the short-form rate application.

The fact that some companies file a rate case with no incremental expense claim does not mean that those companies should be excluded from the analysis. The Company appears to be missing the point that some Class D companies are able to file successful rate cases without burdening their ratepayers with the cost of certain outside services.

Also, Staff used its analysis of rate case expense for Class D water companies to determine that Staff's recommended \$4,000 in total rate case expense was within a reasonable range. For informational purposes only, when Staff removed the companies for which there was no rate case expense, the average annual rate case expense was \$1,853. Staff's recommended annual rate case expense of \$1,333 is still within a reasonable range.

5. Company Statement: "Most small water companies do not have the requisite regulatory accounting and attorney skills necessary to conduct a rate case."

Response: See answer to #4, above.

RATE DESIGN

6. Company Statement: "The Staff rate design approach is unbalanced and disproportionately impacts the higher water use customers and/or larger metered customers."

Response: Except for the changes discussed below, Staff's recommended rate design is unchanged with this filing. Staff remains steadfast on recommending a rate design that provides affordable service of non-discretionary usage levels and encourages efficient use of water. Staff has included with this filing an updated rate design, as necessary, to reflect any changes in revenue requirements that arise from Staff's reconsideration of Livco's CIAC balance as discussed in #1 above, along with a revised rate structure for customers served by the Old Concho interconnect.

Based on the Company's filing, Staff has reconsidered the rate design for the Old Concho interconnect and recommends that the break over point be increased from 150,000 gallons to 400,000 gallons to reflect the residential nature of the 35 to 40 customers who ultimately receive service under this rate. Dividing 400,000 gallons by 40 customers results in an equivalent 10,000 gallon break over point after which Old Concho would be charged a commodity rate equal to the third tier rate charged to residential customers with a 5/8 x 3/4-inch meter for usage in excess of 10,000 gallons per month. The increase to the break over point from 150,000 gallons to 400,000 gallons reduces the increase originally recommended by Staff and results in an increase of total revenues from Old Concho of \$3,130, or 32.24 percent, from test year revenues of \$9,708 to \$12,838. This increase of 32.24 percent compares with Staff's overall recommended revenue increase of 33.75 percent. The associated reduction in revenue from Old Concho will be mitigated by increasing the top

volumetric rate from \$4.25 per thousand gallons, as originally recommend by Staff, to \$4.52 per thousand gallons.

Staff's revised schedule of rates and charges are shown on Responsive Schedule GWB-4. Staff's revised typical bill analysis is shown on Responsive Schedule GWB-5. The increase in the top tier rate does not change the bill impacts of the typical mean and median residential customers, since these customers typically use less than the 10,000 gallon, third tier, break over point.

SUMMARY OF FILING

WITHOUT NEW WIFA LOAN

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$142,037	\$142,037	\$191,947	\$191,308
Surcharge WIFA loan	0	0	0	0
Other Water Revenues	2,689	2,689	2,689	2,689
Total Operating Revenue	\$144,726	\$144,726	\$194,636	\$193,997
Operating Expenses:				
Operation and Maintenance	\$135,690	\$134,196	\$136,237	\$134,196
Depreciation	21,447	21,330	21,447	21,330
Property & Other Taxes	11,390	11,390	11,390	11,390
Income Tax	(4,980)	50	5,349	5,388
Total Operating Expense	\$163,547	\$166,966	\$174,423	\$172,304
Operating Income/(Loss)	(\$18,821)	(\$22,240)	\$20,213	\$21,693
Rate Base O.C.L.D.	\$201,529	\$217,031	\$201,529	\$217,031
Rate of Return - O.C.L.D.	-9.34%	-10.25%	10.03%	10.00%
Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	9.80	10.16
Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	6.30	6.41
Operating Margin	-13.00%	-15.37%	10.39%	11.18%

- NOTES: 1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
2. The Debt Service Coverage Ratio (DSC) represent the Company's ability to pay principal and interest before taxes and depreciation
3. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

N/M Not Meaningful

SUMMARY OF FILING

WITH NEW WIFA LOAN

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$142,037	\$142,037	\$191,947	\$191,308
Surcharge WIFA loan	0	0	0	0
Other Water Revenues	2,689	2,689	2,689	2,689
Total Operating Revenue	\$144,726	\$144,726	\$194,636	\$193,997
Operating Expenses:				
Operation and Maintenance	\$135,690	\$134,196	\$136,237	\$134,196
Depreciation	21,447	21,330	21,447	21,330
Property & Other Taxes	11,390	11,390	11,390	11,390
Income Tax	(4,980)	50	5,349	5,388
Total Operating Expense	\$163,547	\$166,966	\$174,423	\$172,304
Operating Income/(Loss)	(\$18,821)	(\$22,240)	\$20,213	\$21,693
Rate Base O.C.L.D.	\$201,529	\$217,031	\$201,529	\$217,031
Rate of Return - O.C.L.D.	-9.34%	-10.25%	10.03%	10.00%
Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	6.54	6.78
Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	4.82	4.91
Operating Margin	-13.00%	-15.37%	10.39%	11.18%

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
 2. The Debt Service Coverage Ratio (DSC) represent the Company's ability to pay principal and interest before taxes and depreciation
 3. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

N/M Not Meaningful

Livco Water Company

Docket No. W-02121A-11-0213 & W-02121A-11-0257

Test Year Ended December 31, 2010

Schedule GWB-2

Page 1 of 2

RESPONSIVE

RATE BASE

	----- Original Cost -----		Staff
	Company	Adjustment	
Plant in Service	\$588,900	\$0	\$588,900
Less:			
Accum. Depreciation	343,239	0	343,239
Net Plant	\$245,661	\$0	\$245,661
Less:			
Plant Advances	\$24,857	\$0	\$24,857
Customer Deposits	8,349	0	8,349
Total Advances	\$33,206	\$0	\$33,206
Contributions Gross	\$143,253	\$0	\$143,253
Less:			
Accumulated Amortization of CIAC	131,643	\$0	131,643
Net CIAC	\$11,610	\$0	\$11,610
Total Deductions	\$44,816	\$0	\$44,816
Plus:			
1/24 Power	\$0	\$636 B	\$636
1/8 Operation & Maint.	\$0	14,866 C	14,866
Inventory	0	0	0
Prepayments	684	0	684
Total Additions	\$684	\$15,502	\$16,186
Rate Base	\$201,529	\$15,502	\$217,031

Explanation of Adjustment:

A Not used

B To record adjustment for cash working capital.

C To record adjustment for cash working capital.

Livco Water Company

Docket No. W-02121A-11-0213 & W-02121A-11-0257

Test Year Ended

December 31, 2010

Schedule GWB-2

Page 2 of 2

RESPONSIVE

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$1,882	\$0	\$1,882
302 Franchises	0	0	\$0
303 Land & Land Rights	5,460	0	\$5,460
304 Structures & Improvements	15,988	0	\$15,988
307 Wells & Springs	51,956	0	\$51,956
311 Pumping Equipment	74,869	0	\$74,869
320 Water Treatment Equipment	0	0	\$0
320.1 Water Treatment Plants	0		\$0
320.2 Solution Chemical Feeders	0		\$0
330 Distribution Reservoirs & Standpipes	65,020	(65,020) A	\$0
330.1 Storage Tanks	0	65,020 A	\$65,020
330.2 Pressure Tanks	0		\$0
331 Transmission & Distribution Mains	236,293	0	\$236,293
333 Services	0	0	\$0
334 Meters & Meter Installations	100,630	0	\$100,630
335 Hydrants	9,101	0	\$9,101
336 Backflow Prevention Devices	0	0	\$0
339 Other Plant and Misc. Equipment	327	0	\$327
340 Office Furniture & Equipment	6,439	0	\$6,439
340.1 Computer & Equipment	2,371	0	\$2,371
343 Tools Shop & Garage Equipment	16,334	0	\$16,334
344 Laboratory Equipment	0	0	\$0
345 Power Operated Equipment	0	0	\$0
346 Communication Equipment	0	0	\$0
347 Miscellaneous Equipment	1,863	0	\$1,863
348 Other Tangible Plant	367	0	\$367
105 C.W.I.P.	0	0	
TOTALS	\$588,900	\$0	\$588,900

Explanation of Adjustment:

A To reclassify Storage Tanks from Distribution Reservoirs & Standpipes

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$142,037	\$0	\$142,037
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	2,689	0	2,689
Total Operating Revenue	\$144,726	\$0	\$144,726
Operating Expenses:			
601 Salaries and Wages	\$67,108	\$0	\$67,108
610 Purchased Water	0	0	0
615 Purchased Power	15,571	(304) A	15,267
618 Chemicals	0	0	0
620 Repairs and Maintenance	4,137	0	4,137
621 Office Supplies & Expense	13,077	0	13,077
630 Outside Services	9,563	0	9,563
635 Water Testing	1,725	810 B	2,535
641 Rents	10,530	0	10,530
650 Transportation Expenses	4,695	0	4,695
657 Insurance - General Liability	4,612	0	4,612
659 Insurance - Health and Life	1,339	0	1,339
666 Regulatory Commission Expense - Rate Case	3,333	(2,000) C	1,333
675 Miscellaneous Expense	0	0	0
403 Depreciation Expense	21,447	(117) E	21,330
408 Taxes Other Than Income	6,498	0	6,498
408.11 Property Taxes	4,892	0	4,892
409 Income Tax	(4,980)	5,030 D	50
Total Operating Expenses	\$163,547	\$3,419	\$166,966
OPERATING INCOME/(LOSS)	(\$18,821)	(\$3,419)	(\$22,240)

STAFF ADJUSTMENTS

A POWER EXPENSES - Per Company 15,571
Per Staff 15,267 (\$304)

To remove power expenses associated with revenue annualization

B WATER TESTING - Per Company \$1,725
Per Staff 2,535 \$810

To reflect normalized annual water testing cost

C REGULATORY COMMISSION EXPENSE - RATE CASE
- Per Company \$3,333
Per Staff 1,333 (\$2,000)

To recognize a normalized level of the estimated rate case expense

	Total Rate Case Expense	No. of Years Amortized	Annual Rate Case Expense	Company Name	Docket No.
1	\$0	0	\$0	Appaloosa Water	W-03443A-08-0313
2	\$0	0	\$0	Fisher's Landing	WS-04047A-07-0708
3	\$0	0	\$0	Groom Creek Water	W-01865A-07-0385 & 07-0384
4	\$13,500	4	\$3,375	Orange Grove Water	W-02237A-08-0455
5	\$0	0	\$0	Walnut Creek Water	W-02466A-08-0486
6	\$0	0	\$0	Northern Scottsdale	W-03270A-08-0225
7	\$0	0	\$0	D.S. Water	W-04049A-08-0339
8	\$0	0	\$0	Lagoon Estates	W-01825A-09-0345
9	\$0	0	\$0	Q Mtn Mobile Home	W-02518A-10-0227
10	Not specified	Not specified	\$54	Bellemont Water	W-02526A-09-0421
11	Not specified	Not specified	\$288	Granite Mountain	W-02467A-09-0333
12	Not specified	Not specified	\$500	Christopher Creek	W-20459A-08-0168
13	Not specified	Not specified	\$500	Ehrenberg Improvmnt	W-02273A-08-0251
14	\$3,000	5	\$600	Sonoma Valley Wtr	W-20435A-09-0296 & 09-0298
15	Not specified	Not specified	\$1,000	Baca Float Water	WS-01678A-09-0376
16	Not specified	Not specified	\$1,545	Montezuma Rimrock	W-04254A-08-0361
17	\$7,500	4	\$1,875	Virgin Mountain	W-03551 A-09-0205
18	\$6,000	3	\$2,000	Mountain Glenn	W-03875A-08-0421
19	\$7,500	3	\$2,500	Little Park Water	W-02192-09-0531
20	\$10,000	3	\$3,333	Whitehorse Ranch	W-0416A-09-0471
21	Not specified	Not specified	\$5,000	Beaver Dam Water	W-03067A-08-0266
22	\$13,500	4	\$3,375	Livco Water Co.	W-02121A-07-0506 & 07-0608
	Arithmetic Average (Mean)		\$1,179		
		Median	\$500		
		Mode	\$0		

D INCOME TAX - Per Company (\$4,980)
Per Staff 50 \$5,030

To adjust income tax to reflect state minimum income tax expense

Livco Water Company

Docket No. W-02121A-11-0213 & W-02121A-11-0257

Test Year Ended December 31, 2010

Schedule GWB-3

Page 3 of 3

RESPONSIVE

STAFF ADJUSTMENTS (Cont.)

For informational purposes only.

Pro Forma Annual Depreciation Expense:

Plant in Service	\$588,900
Less: Non Depreciable Plant	7,342
Fully Depreciated Plant	0
Depreciable Plant	<u>\$581,558</u>
Times: Staff Proposed Average Depreciation Rate	<u>4.87%</u>
Credit to Accumulated Depreciation	<u>\$28,302</u> *
Less: Amort. of CIAC* @ 4.87%	<u>6,971</u>
Pro Forma Annual Depreciation Expense	<u><u>\$21,330</u></u>

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$143,253
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	<u>0</u>
Amortizable Contribution(s)	<u>\$143,253</u>
Times: Staff Proposed Amortization Rate	<u>4.87%</u>
Amortization of CIAC	<u><u>\$6,971</u></u>

RATE DESIGN

	Present Rates	Company Proposed	Staff Recom- mended
Monthly Customer Charge:			
5/8" x 3/4" Meter	\$15.50	\$20.62	\$18.50
3/4" Meter	17.75	23.61	23.84
1" Meter	27.00	35.91	36.26
1½" Meter	50.00	66.50	67.15
2" Meter	68.00	117.04	118.18
3" Meter	248.00	329.84	332.12
4" Meter	387.75	515.71	520.84
6" Meter	775.00	1,030.75	1,041.00
 Old Concho 2" Inter-Connect	 124.00	 164.92	 166.53
 Gallons Included in Monthly Customer Charge:	 0	 0	 0
 Residential 5/8" by 3/4" customers:			
Per 1,000 Gallons for 0 to 3,000 Gallons	\$1.25	\$1.78	\$1.50
Per 1,000 Gallons for 3,001 to 10,000 Gallons	\$2.00	\$2.84	\$2.74
Per 1,000 Gallons for Gallons in Excess of 10,000	\$2.40	\$3.41	\$4.52
 Commercial 5/8" by 3/4" and all 3/4" customers:			
Per 1,000 Gallons for 0 to 10,000 Gallons	\$2.00	\$2.84	\$2.74
Per 1,000 Gallons for Gallons in Excess of 10,000	\$2.40	\$3.41	\$4.52
 Commercial & Residential 1" customers:			
Per 1,000 Gallons for 0 to 24,000 Gallons	\$2.00	\$2.84	\$2.74
Per 1,000 Gallons for Gallons in Excess of 24,000	\$2.40	\$3.41	\$4.52
 Commercial & Residential 1 1/2" customers:			
Per 1,000 Gallons for 0 to 60,000 Gallons	\$2.00	\$2.84	\$2.74
Per 1,000 Gallons for Gallons in Excess of 60,000	\$2.40	\$3.41	\$4.52
 Commercial & Residential 2" customers, Except Old Concho:			
Per 1,000 Gallons for 0 to 150,000 Gallons	\$2.00	\$2.84	\$2.74
Per 1,000 Gallons for Gallons in Excess of 150,000	\$2.40	\$3.41	\$4.52
 Commercial & Residential 3" customers:			
Per 1,000 Gallons for 0 to 500,000 Gallons	\$2.00	\$2.84	\$2.74
Per 1,000 Gallons for Gallons in Excess of 500,000	\$2.40	\$3.41	\$4.52
 Commercial & Residential 4" customers:			
Per 1,000 Gallons for 0 to 830,000 Gallons	\$2.00	\$2.84	\$2.74
Per 1,000 Gallons for Gallons in Excess of 830,000	\$2.40	\$3.41	\$4.52
 Commercial & Residential 6" customers:			
Per 1,000 Gallons for 0 to 1,750,000 Gallons	\$2.00	\$2.84	\$2.74
Per 1,000 Gallons for Gallons in Excess of 1,750,000	\$2.40	\$3.41	\$4.52
 Old Concho 2" Interconnect:			
Per 1,000 Gallons for 0 to 400,000 Gallons	\$2.00	\$2.84	\$2.74
Per 1,000 Gallons for Gallons in Excess of 400,000	\$2.40	\$3.41	\$4.52
 Standpipe, Bulk Water, per thousand gallons	 \$5.00	 \$7.10	 \$9.42

Service Line and Meter Installation Charges	Present Rates			Company Proposed			Staff Recommended		
	Services	Meters	Total	Services	Meters	Total	Services	Meters	Total
5/8" x 3/4" Meter	\$370	\$130	\$500	\$445	\$155	\$600	\$445	\$155	\$600
3/4" Meter	\$370	\$205	\$575	\$445	\$255	\$700	\$445	\$255	\$700
1" Meter	\$420	\$240	\$660	\$495	\$315	\$810	\$495	\$315	\$810
1 1/2" Meter	\$450	\$450	\$900	\$550	\$525	\$1,075	\$550	\$525	\$1,075
2" Turbine Meter	\$580	\$945	\$1,525	\$830	\$1,045	\$1,875	\$830	\$1,045	\$1,875
2" Compound Meter	\$580	\$1,640	\$2,220	\$830	\$1,890	\$2,720	\$830	\$1,890	\$2,720
3" Turbine Meter	\$745	\$1,420	\$2,165	\$1,045	\$1,670	\$2,715	\$1,045	\$1,670	\$2,715
3" Compound Meter	\$765	\$2,195	\$2,960	\$1,165	\$2,545	\$3,710	\$1,165	\$2,545	\$3,710
4" Turbine Meter	\$1,090	\$2,270	\$3,360	\$1,490	\$2,670	\$4,160	\$1,490	\$2,670	\$4,160
4" Compound Meter	\$1,120	\$3,145	\$4,265	\$1,670	\$3,645	\$5,315	\$1,670	\$3,645	\$5,315
6" Turbine Meter	\$1,610	\$4,425	\$6,035	\$2,210	\$5,025	\$7,235	\$2,210	\$5,025	\$7,235
6" Compound Meter	\$1,630	\$6,120	\$7,750	\$2,330	\$6,920	\$9,250	\$2,330	\$6,920	\$9,250

Present Rates	Company Proposed	Staff Recommended
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Service Charges

Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	40.00	40.00	N/A
Reconnection (Delinquent)	40.00	40.00	40.00
After Hours Service Charge (Rule R14-2-403.D)	Cost	50.00	30.00
Meter Test	25.00	25.00	25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-establishment (Within 12 Months)	**	**	**
Re-establishment (Within 12 Months After Hrs)	**	**	N/A
NSF Check	25.00	25.00	25.00
Deferred Payment - per month	1.50%	1.50%	1.50%
Meter Re-read	20.00	20.00	20.00
Late Payment Penalty - per month	1.50%	1.50%	1.50%
Moving Customer Meter (Customer Request)	***	***	***

Monthly Service Charge for Fire Sprinkler

4" or Smaller	N/A	N/A	****
6"	N/A	N/A	****
8"	N/A	N/A	****
10"	N/A	N/A	****
Larger than 10"	N/A	N/A	****

- * Per Commission rule AAC R14-2-403.B
- ** Number of months off system times the monthly minimum per Commission rule AAC R14-2-403(D).
- *** Per Commission rule R14-2-405
- **** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary

Typical Bill Analysis
Residential 5/8 X 3/4-Inch Meters

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,211	\$ 25.67	\$ 35.08	\$ 9.41	36.64%
Median Usage	3,475	20.20	27.31	\$ 7.11	35.19%
Staff Recommended					
Average Usage	6,211	\$ 25.67	\$ 31.80	\$ 6.13	23.86%
Median Usage	3,475	20.20	24.30	\$ 4.10	20.30%

Present & Proposed Rates (Without Taxes)
Residential 5/8 X 3/4-Inch Meters

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 15.50	\$ 20.62	33.03%	\$ 18.50	19.35%
1,000	\$ 16.75	\$ 22.40	33.73%	\$ 20.00	19.40%
2,000	\$ 18.00	\$ 24.18	34.33%	\$ 21.50	19.44%
3,000	\$ 19.25	\$ 25.96	34.86%	\$ 23.00	19.48%
4,000	\$ 21.25	\$ 28.80	35.53%	\$ 25.74	21.13%
5,000	\$ 23.25	\$ 31.64	36.09%	\$ 28.48	22.49%
6,000	\$ 25.25	\$ 34.48	36.55%	\$ 31.22	23.64%
7,000	\$ 27.25	\$ 37.32	36.95%	\$ 33.96	24.62%
8,000	\$ 29.25	\$ 40.16	37.30%	\$ 36.70	25.47%
9,000	\$ 31.25	\$ 43.00	37.60%	\$ 39.44	26.21%
10,000	\$ 33.25	\$ 45.84	37.86%	\$ 42.18	26.86%
11,000	\$ 35.65	\$ 49.25	38.15%	\$ 46.70	31.00%
12,000	\$ 38.05	\$ 52.66	38.40%	\$ 51.22	34.61%
13,000	\$ 40.45	\$ 56.07	38.62%	\$ 55.74	37.80%
14,000	\$ 42.85	\$ 59.48	38.81%	\$ 60.26	40.63%
15,000	\$ 45.25	\$ 62.89	38.98%	\$ 64.78	43.16%
16,000	\$ 47.65	\$ 66.30	39.14%	\$ 69.30	45.44%
17,000	\$ 50.05	\$ 69.71	39.28%	\$ 73.82	47.49%
18,000	\$ 52.45	\$ 73.12	39.41%	\$ 78.34	49.36%
19,000	\$ 54.85	\$ 76.53	39.53%	\$ 82.86	51.07%
20,000	\$ 57.25	\$ 79.94	39.63%	\$ 87.38	52.63%
25,000	\$ 69.25	\$ 96.99	40.06%	\$ 109.98	58.82%
30,000	\$ 81.25	\$ 114.04	40.36%	\$ 132.58	63.18%
35,000	\$ 93.25	\$ 131.09	40.58%	\$ 155.18	66.41%
40,000	\$ 105.25	\$ 148.14	40.75%	\$ 177.78	68.91%
45,000	\$ 117.25	\$ 165.19	40.89%	\$ 200.38	70.90%
50,000	\$ 129.25	\$ 182.24	41.00%	\$ 222.98	72.52%
75,000	\$ 189.25	\$ 267.49	41.34%	\$ 335.98	77.53%
100,000	\$ 249.25	\$ 352.74	41.52%	\$ 448.98	80.13%

**STAFF'S RESPONSE
TO
LIVCO WATER COMPANY INC.'S COMMENTS
TO THE STAFF REPORT**

Docket Nos. W-02121A-11-0213 AND W-02121A-11-0257

September 23, 2011

Best Management Practices ("BMPs")

Staff response by: Marlin Scott, Jr.

Staff Response:

The five BMP Tariffs that the Company selected promote efficient use of water. Water utility efficiency is in the public interest and directly relates to ratemaking. Water use efficiency results in a reduced need to build water utility infrastructure in the future, such as wells, pumps, and storage tanks. The reduced need to build water utility infrastructure results in lower water rates in the future for the Company's customers.

Therefore, Staff continues to recommend the approval of the Company's selected five BMP Tariffs, 1.1, 3.6, 4.1, 4.2 and 5.2 that are attached to the Staff Report.