

OPEN MEETING ITEM



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

ORIGINAL



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ARIZONA CORPORATION COMMISSION

2011 NOV 28 P 2:20

AZ CORP COMMISSION
DOCKET CONTROL

DATE: NOVEMBER 28, 2011
DOCKET NOS.: W-02237A-11-0084 and W-02237A-11-0180

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Order on:

ORANGE GROVE WATER COMPANY, INC.
(FINANCE/RATES)

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:

DECEMBER 7, 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:

DECEMBER 13, 2011 and DECEMBER 14, 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

NOV 28 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

7 IN THE MATTER OF THE APPLICATION OF
8 ORANGE GROVE WATER COMPANY, INC.
9 FOR APPROVAL OF FINANCING.

DOCKET NO. W-02237A-11-0084

9 IN THE MATTER OF THE APPLICATION OF
10 ORANGE GROVE WATER COMPANY, INC.
11 FOR A RATE INCREASE.

DOCKET NO. W-02237A-11-0180

DECISION NO. _____

11 **ORDER**

12 Open Meeting
13 December 13 and 14, 2011
14 Phoenix, Arizona

14 **BY THE COMMISSION:**

15 * * * * *

16 Having considered the entire record herein and being fully advised in the premises, the
17 Arizona Corporation Commission (“Commission”) finds, concludes, and orders that:

18 **FINDINGS OF FACT**

19 **Procedural History**

20 1. On February 22, 2011, Orange Grove Water Company, Inc. (“Orange Grove” or
21 “Company”) filed with the Commission an application requesting approval of a loan from the Water
22 Infrastructure Financing Authority (“WIFA”) in the approximate face amount of \$200,000 with a 20
23 year term, secured by the Company’s assets, for the purpose of funding construction of a new
24 100,000 gallon storage tank, chlorine disinfection system, booster pump station, and electrical
25 upgrades to support the new booster pumps.

26 2. On April 27, 2011, Orange Grove filed an application for an increase in its permanent
27 rates and charges.

1 3. On May 4, 2011, the Company filed proof of mailing that it had mailed notice to its
2 customers of its application for a permanent rate increase on May 2, 2011.

3 4. On May 20, 2011, the Commission's Utilities Division ("Staff") issued a Notice of
4 Sufficiency indicating that the Company's rate application was sufficient, and classifying the
5 Company as a Class D utility.

6 5. On June 10, 2011, Staff filed a Motion to Consolidate the rate application and the
7 financing application.

8 6. On June 15, 2011, a Procedural Order was issued consolidating the rate application
9 and financing application dockets.

10 7. On July 25, 2011, the Company filed an Affidavit indicating the provision of public
11 notice of the financing application.

12 8. On August 9, 2011, after conducting an investigation of the Company's proposed rates
13 and charges for water service and the financing request, Staff filed its Staff Report on the Company's
14 rate application and financing application. The Staff Report indicated that any party wishing to file
15 comments to the Staff Report should file them with the Commission's Docket Control by 4:00 p.m.
16 on or before August 19, 2011.

17 9. On August 19, 2011, Orange Grove filed its Comments to the Staff Report.

18 10. On August 24, 2011, a Procedural Order was issued directing Staff to file a Response
19 to the Comments, and directing that the Response include any updated schedules, if applicable.

20 11. On September 16, 2011, Staff filed a Response to Orange Grove's Comments
21 ("Response"), and a Revised Staff Report.

22 12. On September 27, 2011, Orange Grove filed a Reply to Staff's Response ("Reply").

23 13. On November 4, 2011, a Procedural Order was issued extending the time period
24 prescribed by Arizona Administrative Code R14-2-103(B)(11)(d) for 30 days in order to allow
25 sufficient time for the review of Orange Grove Water Company, Inc.'s Reply.

26 **Background**

27 14. Pursuant to authority granted by the Commission in Decision No. 39886 (January 29,
28 1969), Orange Grove provides water utility service to the public in a territory located seven miles

1 south of Yuma in Yuma County, Arizona. Orange Grove is organized as a C Corporation.

2 15. Orange Grove's present rates and charges for water service were approved in Decision
3 No. 71110 (June 5, 2009), based on a test year ended December 31, 2007.

4 16. Staff conducted a field inspection of the Company's plant facilities on July 22, 2011,
5 and reports that the Company's water system consists of two wells, one with a yield of 55 gallons per
6 minute ("GPM") and one backup well with a yield of 300 GPM; one 5,000 gallon pressure tank; a
7 distribution system serving 301 metered connections as of year end 2010, and 306 connections during
8 the peak month of use in June 2010. There are 10 fire hydrants in the Company's system.

9 **Rate Application**

10 17. The rate application is based on a test year ended December 31, 2010.

11 18. During the test year, the Company provided service to an average of 303 metered
12 customers, all of whom are served by 5/8 x 3/4 - inch meters.

13 19. The water rates and charges for the Company at present, as proposed by the Company
14 and as recommended by Staff are as follows:

| | <u>Present Rates</u> | <u>Proposed Rates</u> | |
|---|----------------------|-----------------------|--------------|
| <u>MONTHLY USAGE CHARGE:</u> | | <u>Company</u> | <u>Staff</u> |
| 5/8" x 3/4" Meter | \$ 11.50 | \$ 14.17 | \$ 12.00 |
| 3/4" Meter | 17.25 | 17.25 | 18.00 |
| 1" Meter | 28.75 | 28.75 | 30.00 |
| 1-1/2" Meter | 57.50 | 57.50 | 60.00 |
| 2" Meter | 92.00 | 92.00 | 96.00 |
| 3" Meter | 184.00 | 184.00 | 180.00 |
| 4" Meter | 287.50 | 287.50 | 300.00 |
| 6" Meter | 575.00 | 575.00 | 600.00 |
| Gallons Included in Monthly Customer Charge: | 0 | 0 | 0 |
| | | | |
| <u>COMMODITY CHARGE:</u> (Per 1,000 gallons) | | | |
| 0 to 3,000 gallons | \$2.00 | \$2.46 | \$2.00 |
| 3,001 to 8,000 gallons | 2.25 | 2.77 | 2.75 |
| All gallons in excess of 8,000 | 2.75 | 3.39 | 3.31 |
| Standpipe, Bulk Water | N/A | 3.39 | 3.31 |

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

| | <u>Present Rates</u> | <u>Company Proposed</u> | <u>Service Line Charge</u> | <u>Meter Installation</u> | <u>Total</u> |
|--------------------|----------------------|-------------------------|----------------------------|---------------------------|--------------|
| 5/8" x 3/4 " Meter | \$ 520.00 | \$ 520.00 | \$ 415.00 | \$ 105.00 | \$ 520.00 |
| 3/4 " Meter | 620.00 | 620.00 | 415.00 | 205.00 | 620.00 |
| 1" Meter | 730.00 | 730.00 | 465.00 | 265.00 | 730.00 |
| 1-1/2" Meter | 995.00 | 995.00 | 520.00 | 475.00 | 995.00 |
| 2" Turbo Meter | 1,795.00 | 1,795.00 | 800.00 | 995.00 | 1,795.00 |
| 2" Compound Meter | 2,640.00 | 2,640.00 | 800.00 | 1,840.00 | 2,640.00 |
| 3" Turbo Meter | 2,635.00 | 2,635.00 | 1,015.00 | 1,620.00 | 2,635.00 |
| 3" Compound Meter | 3,630.00 | 3,630.00 | 1,135.00 | 2,495.00 | 3,630.00 |
| 4" Turbo Meter | 4,000.00 | 4,000.00 | 1,430.00 | 2,570.00 | 4,000.00 |
| 4" Compound Meter | 5,155.00 | 5,155.00 | 1,610.00 | 3,545.00 | 5,155.00 |
| 6" Turbo Meter | 7,075.00 | 7,075.00 | 2,150.00 | 4,925.00 | 7,075.00 |
| 6" Compound Meter | 5,090.00 | 5,090.00 | 2,270.00 | 2,820.00 | 5,090.00 |

| <u>SERVICE CHARGES:</u> | <u>Current Charges</u> | <u>Company Proposed</u> | <u>Staff Recommended</u> |
|--|------------------------|-------------------------|--------------------------|
| Establishment | \$25.00 | \$25.00 | \$25.00 |
| Establishment (After Hours) | 40.00 | 40.00 | (b) |
| Reconnection (Delinquent) | 40.00 | 40.00 | 40.00 |
| After Hours Charge (Flat Rate) | N/A | N/A | 30.00 |
| Meter Test (If Correct) | 25.00 | 25.00 | 25.00 |
| Deposit | * | * | * |
| Deposit Interest | * | * | * |
| Re-Establishment (Within 12 Months) | ** | ** | ** |
| Re-Establishment (Within 12 Months after Hours) | ** | ** | (b) |
| NSF Check | \$25.00 | \$25.00 | \$25.00 |
| Deferred Payment – Per Month | 1.50% | 1.50% | 1.50% |
| Meter Re-Read (If Correct) | \$30.00 | \$30.00 | \$20.00 |
| Late Payment Charge Penalty | NT | 1.50% | 1.50% |
| Moving Customer Meter (Customer Request) | *** | *** | (a) |
| After Hours Service Charge (Rule A.A.C. R14-2-403.D) | Cost | Cost | (b) |

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 | **** |

(a) Cost to include parts, labor, overhead, and all applicable taxes, including income tax if applicable
 (b) Staff recommends discontinuance.
 * Per Commission Rule A.A.C. R14-2-403(B).
 ** Number of months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

1 *** Per Commission Rule A.A.C. R14-2-405.

2 **** 2.00% of monthly minimum for comparable sized meter connection, but no less than \$10.00 per month.
3 The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the
4 primary water service line.

5 20. The application proposed total operating revenue of \$131,365, an increase of \$23,125,
6 or 21.36 percent, over the Company's adjusted test year revenue of \$108,240.

7 21. Staff recommends total base rates revenue of \$118,307, an increase of \$10,067, or
8 9.30 percent, over the Company's adjusted test year revenue of \$108,240. In addition to base rates
9 revenue, Staff recommends a WIFA loan surcharge that would generate revenue to service the WIFA
10 debt.

11 Rate Base

12 22. The Company proposed an original cost rate base ("OCRB") of \$11,985. The
13 Company did not propose a fair value rate base ("FVRB") that differs from OCRB.

14 23. Staff recommends several adjustments to the Company's proposed OCRB and
15 recommends an OCRB of \$28,892. Staff increased the Meters and Meter Installation account by
16 \$397, from \$15,757 to \$16,154; increased Accumulated Depreciation by \$17, from \$184,294 to
17 \$184,311 to reflect depreciation expense from the end of the test year in the last rate case to the end
18 of the test year in this case; increased accumulated amortization of contributions in aid of
19 construction ("CIAC") by \$4,689, from \$19,435 to \$24,124; and increased working capital by
20 \$11,838, from \$0 to \$11,838.

21 24. Staff notes that the Company did not have a written retirement policy requiring it to
22 keep records of the actual cost of its plant retirements. Staff states that the Company has estimated
23 the cost for some of its retirements using a trend analysis. Staff states that this led to a situation in the
24 Company's last rate case wherein the estimated cost of a plant retirement removed from the
25 accumulated depreciation account was more than the total accumulated depreciation balance for the
26 account, which resulted in an accumulated depreciation balance of negative \$4,100. Staff notes that a
27 negative accumulated depreciation balance increases rate base. Staff therefore recommends that the
28 Company be required to file with the Commission a written plant retirement policy.

1 25. The Company disagrees with Staff's proposed 12.50 percent depreciation rate for
2 pumping equipment, asserting in its Reply to Staff's Response that an appropriate depreciation rate is
3 instead 17.85 percent, based on its pumping equipment replacement history. In its Response, Staff
4 states that it does not agree that the depreciation rate for pumping equipment should be changed from
5 the 12.50 percent approved by the Commission unless the Company provides a depreciation study.

6 26. If the Company wishes to request a change to depreciation rates, it may file a
7 depreciation study in its next rate case in support thereof.

8 27. The Company's FVRB is determined to be \$28,892.

9
10 Operating Expense

11 28. Based on its analysis, Staff recommends total test year Operating Expense of
12 \$106,326. Staff's adjustments to various operating expenses resulted in a decrease of \$2,994 to the
13 Company's request, from \$109,320 to \$106,326. Staff's adjustments decreased Repairs and
14 Maintenance expense by \$2,590, from \$11,121 to \$8,531. Staff also reduced Office Supplies and
15 Expense by \$250, from \$9,670 to \$9,420 in order to remove a non-recurring cost for relocating a
16 computer from one location to another within the owner's residence due to a remodel. Another Staff
17 adjustment decreased Contractual Services Expense by \$308, from \$4,512 to \$4,204 to remove late
18 fees on invoices from Gaffin, CPA. Staff increased Water Testing Expense by \$100, from \$3,634 to
19 \$3,734 to comport with the Staff Engineering recommendation. Staff made an adjustment to
20 Miscellaneous Expense decreasing it by \$300, from \$1,387 to \$1,087 to remove costs incurred for a
21 funeral. Staff increased Depreciation Expense by \$281, from \$4,986 to \$5,267, and increased Income
22 Tax Expense by \$615, from negative \$108 to \$507, to reflect Staff's calculation of those expense
23 amounts.

24 29. The Company proposed \$7,500 in rate case expense, amortized over four years, for
25 \$1,875 in annual rate case expense. Staff reduced Rate Case Expense by \$542, from \$1,875 to
26 \$1,333, to reflect Staff's three year normalization of \$4,000 in rate case expense. Staff states that its
27 recommendation is based on Staff's analysis of rate case expense for Class D water utilities, the fact
28

1 that there are few contested issues, and the fact that the Company's last rate case filing was three
2 years ago.

3 30. The Company disagrees with Staff's reduction to Rate Case Expense, stating that it
4 has spent over \$6,500 to date, which does not include the costs of Company's Reply to Staff's
5 Response, any future exceptions to a Recommended Order, and future attendance at the
6 Commission's Open Meeting. The Company states that in Decision No. 71110, its last rate case, the
7 Company was awarded \$13,500 in rate case expense annualized over 4 years, for annual rate case
8 expense of \$3,375.

9 31. The Company's proposed rate case expense of \$7,500, normalized over four years is
10 reasonable.

11 32. The Company's adjusted test year Operating Expense is \$109,089.

12
13 Revenue Requirement

14 33. The Company's present water rates and charges produced test year Operating Revenue
15 of \$108,240. With Operating Expense of \$106,326, the Company had total adjusted test year
16 Operating Income of \$1,914, for a rate of return of 6.63 percent on FVRB, or an operating margin of
17 1.77 percent.

18 34. The water rates and charges proposed by the Company would produce Operating
19 Revenue of \$131,365 and adjusted Operating Expenses of \$114,018, resulting in an Operating
20 Income of \$17,347 for a 144.74 percent rate of return on FVRB, or an operating margin of 13.21
21 percent. The Company's proposal would constitute a \$23,125, or 21.36 percent, increase over test
22 year revenues.

23 35. The base water rates and charges as recommended by Staff would produce total
24 Operating Revenue of \$118,307 and adjusted Operating Expenses of \$108,547, resulting in an
25 Operating Income of \$9,760, for a 33.78 percent rate of return on FVRB, or an 8.25 percent operating
26 margin.¹ Staff's recommendation constitutes a \$10,067, or 9.30 percent, increase over adjusted test

27 _____
28 ¹ Staff states that the Company's low rate base prevented Staff from relying solely upon a rate of return analysis to derive the Company's revenue requirement.

1 year revenues.

2 36. Staff recommends that in addition to its recommended base rates, the Company be
3 authorized to implement a WIFA loan surcharge mechanism that will collect the additional revenue
4 the Company will need to meet its interest and principal payments on a \$30,000 WIFA loan, using
5 the actual loan amounts.

6 37. Staff states that its recommended revenue requirement, in conjunction with its
7 recommended WIFA loan surcharge mechanism, provides the Company with sufficient cash flow to
8 pay operating expenses; contingencies; principal, interest, and income taxes on the requested loan;
9 and to meet the minimum 1.2 debt service coverage ("DSC")² ratio required by WIFA.

10 38. The water rates and charges approved herein will produce total Operating Revenue of
11 \$118,849 and adjusted Operating Expenses of \$109,089, resulting in an Operating Income of \$9,760,
12 for a 33.78 percent rate of return on FVRB, or an 8.21 percent operating margin, for a \$10,609, or
13 9.80 percent, increase over adjusted test year revenues.

14 Rate Design

15 39. Staff recommends that the current inverted three tier rate design authorized in
16 Decision No. 71110 remain in place, with a first tier cutoff of 3,000 gallons, and a second tier cutoff
17 of 8,000 gallons. Staff's recommendation leaves in place the commodity charge of \$2.00 per
18 thousand gallons for monthly usage of 3,000 gallons or less, and adds the additional revenue
19 requirement primarily to the second tier of usage, from 3,001 to 8,000 gallons.

20 40. The Company disagrees with Staff's proposed a rate design. The Company states in
21 its Comments that the current rate design did not generate the Company's authorized revenues in the
22 first year the new rates were in effect, and asserts that the rate design has impacted the Company's
23 revenues. Staff states in its Response that factors other than rate design, such as the number of
24 customers and the downturn in the economy, may have affected the Company's revenue recovery.
25

26 _____
27 ² DSC represents the number of times internally generated cash will cover required principal and interest payments on
28 short term and long term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt
obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations
and that another source of funds is needed to avoid default.

1 Staff made no adjustment to its rate design recommendation.

2 41. Staff's addition of the additional revenue requirement primarily to the second tier of
3 usage is appropriate. We agree with Staff that factors other than rate design, such as the number of
4 customers and the downturn in the economy, may have affected the Company's revenue recovery.
5 Staff's proposed rate design is reasonable and will be adopted.

6 42. The Company's proposed rates would increase the median usage (6,611 gallons per
7 month) residential customer's bill from \$25.62 to \$31.55, for an increase of \$5.93, or 23.1 percent.

8 43. Staff's recommended base rates would increase the median usage (6,611 gallons per
9 month) residential customer's bill from \$25.62 to \$27.93, an increase of \$2.31, or 9.0 percent. Once
10 the WIFA loan surcharge is implemented, the typical residential customer's bill would increase by the
11 amount of the surcharge, approximately \$0.74, to \$28.67, for a total increase of \$3.05, or 11.9
12 percent.

13 44. The rates approved herein will increase a median usage (6,611 gallons per month)
14 residential customer's bill, from \$25.62 to \$28.08, an increase of \$2.46, or 9.60 percent. Once the
15 WIFA loan surcharge is implemented, the typical residential customer's bill will increase by the
16 amount of the surcharge, approximately \$0.74, to \$28.82, for a total increase of \$3.20, or 12.49
17 percent.

18 **Financing Application**

19 45. Decision No. 71110 ordered the Company to install a minimum of 60,000 gallons of
20 storage capacity, and to file a Certificate of Approval to Construct ("ATC") the storage capacity no
21 later than June 30, 2010, and a Certificate of Approval of Construction ("AOC") of the storage
22 capacity no later than December 31, 2010.

23 46. Decision No. 72437 (June 27, 2011) granted the Company's request for an extension
24 of time to December 30, 2011, to file the AOC.

25 47. The financing application requests approval of a WIFA loan for the purpose of
26 funding construction of a new 100,000 gallon storage tank, chlorine disinfection system, booster
27 pump station, and electrical upgrades to support the new booster pumps. The Company estimates
28

1 construction costs of \$200,000.

2 48. According to the Staff Report, after filing the financing application, the Company
3 informed Staff that it does not believe the proposed storage capacity is needed, because its existing
4 high yield (300 GPM) backup well has sufficient capacity to cover customer demand in the event of a
5 primary well failure, and because the proposed storage tank and booster pump system additions
6 would not be effective at improving fire flow within the system due to the fact that the aged
7 distribution system, which was installed 30 to 40 years ago, cannot support the high pressure needed
8 for adequate fire flow. The Company estimated a cost of \$30,000 for an alternative, on-site
9 emergency generator with sufficient capacity to run the Company's 300 GPM backup well in lieu of
10 adding the proposed storage tank and booster pump system additions.

11 49. Staff states that an emergency generator would improve the current system reliability
12 by ensuring that the backup well would always be available to meet peak demand even during times
13 when commercial power is lost, and that when commercial power is lost, a backup generator could
14 prove to be more effective at improving fire flow than adding the proposed storage.

15 50. Based on the Company's expressed concerns and Staff's analysis, Staff recommends
16 that the Company be given the option of installing an on-site emergency generator with sufficient
17 capacity to run the Company's 300 GPM backup well in lieu of adding the additional storage
18 capacity required by Decision No. 71110.

19 51. Staff reviewed the Company's estimates for the storage capacity option and the
20 backup generator option and concluded that they are reasonable. Staff did not make a used and
21 useful determination of the proposed plant, and did not recommend any particular future treatment for
22 ratemaking or rate base purposes.

23 52. Staff states that a \$30,000, 20-year amortizing loan at a 5.25 percent interest rate would
24 require payments estimated at \$202 per month, or \$2,674 annually. Based on its review the
25 Company's unaudited 2010 financial statements, Staff states that the Company lacks sufficient
26 earnings and operating cash flow to meet such a long-term debt obligation, and Staff therefore
27 believes that a surcharge mechanism that provides funds for the debt service on the WIFA loan is
28

1 appropriate. Staff recommended a surcharge mechanism calculation methodology as set forth in
 2 Exhibit A, attached hereto and incorporated herein.

3 **Staff Recommendations**

4 53. Staff recommends approval of its recommended rates and charges.

5 54. Staff also recommends the following:

- 6 • that the Company be required to file with the Commission a written plant
 7 retirement policy which at a minimum requires documentation that reflects (1) the
 8 plant item retired, (2) the cost of the plant item, (3) documentation to support the
 9 actual cost of the plant item, (4) whether the cost was actual or estimated, and (5)
 10 the year the plant item was retired;
- 11 • that the Company be given the option of installing an on-site emergency generator
 12 with sufficient capacity to run the Company's 300 GPM backup well in lieu of
 13 adding the proposed storage tank and booster pump system additions;
- 14 • that if the Company decides to install an emergency generator for the 300 GPM
 15 backup well in lieu of the storage tank and booster pump system, that the
 16 Company be required to file documentation with Docket Control, as a compliance
 17 item in this matter, demonstrating that the on-site emergency generator and
 18 associated improvements have been completed within 120 days of this Decision;
- 19 • approval of the Staff-recommended \$30,000 financing and approval of a surcharge
 20 mechanism that may result in a surcharge of \$0.74 per month per customer;
- 21 • that the actual amount of the WIFA loan surcharge be calculated based upon the
 22 actual amount of the WIFA loan and actual number of customers;
- 23 • that the Company be required to file with the Commission a WIFA loan surcharge
 24 tariff application that would enable the Company to meet its principal and interest
 25 obligations on the proposed WIFA loan;
- 26 • that the Company be required to follow the methodology presented on Exhibit A to
 27 calculate the additional revenue needed to meet its interest and principal payments
 28 on the WIFA loan using actual loan amounts;
- that the Company be required to make a WIFA loan surcharge filing within 60
 days of the loan closing;
- that approval of the loan and surcharge be rescinded if the Company has not drawn
 funds from the loan within one year of the date of this Decision;
- that the Company be required to file with the Commission's Docket Control,
 within 30 days of this Decision, as a compliance item in this Docket, a schedule of
 its approved rates and charges;
- that the Company be required to file with Docket Control, as a compliance item in
 this Docket, within 90 days of the effective date of this Decision, at least three
 Best Management Practices ("BMP") in the form of tariffs that substantially
 conform to the templates created by Staff, available at the Commission's website,
 for the Commission's review and consideration. A maximum of two of these

1 BMPs may come from the "Public Awareness/Public Relations" or "Education and
2 Training" categories of BMPs; and

- 3 • that the Company be required to continue to use the depreciation rates as presented
4 in Exhibit B.

4 **Compliance Issues**

5 55. A Staff review of the Commission's Consumer Services Section database for Orange
6 Grove from January 1, 2008 to July 8, 2011, found zero complaints.

7 56. The Utilities Division Compliance Section database showed no delinquent compliance
8 items for Orange Grove as of July 27, 2011.

9 57. Orange Grove is current on its property tax and sales tax payments.

10 58. Orange Grove is in good standing with the Commission's Corporations Division.

11 59. Based on an Arizona Department of Environmental Quality ("ADEQ") Compliance
12 Status Report dated April 12, 2011, the Company's water system has no major deficiencies and is
13 delivering water that meets water quality standards required by 40 CFR 141 and Title 18, Chapter 4
14 of the Arizona Administrative Code.

15 60. Orange Grove's service area is not located within any Arizona Department of Water
16 Resources ("ADWR") Active Management Area ("AMA"). As of March 3, 2011, Orange Grove was
17 compliant with ADWR requirements governing water providers and community water systems.

18 61. The Company's non-account water was 1.46 percent for the 12 month period ending
19 June 11, 2011, which is within acceptable limits.

20 62. Orange Grove has approved Curtailment Plan and Backflow Prevention Tariffs on file
21 with the Commission.

22 **Conclusions**

23 63. It is reasonable to require the Company to file with the Commission a written plant
24 retirement policy which at a minimum requires documentation that reflects (1) the plant item retired,
25 (2) the cost of the plant item, (3) documentation to support the actual cost of the plant item, (4)
26 whether the cost was actual or estimated, and (5) the year the plant item was retired.

27 64. Decision No. 71110 ordered the Company to install a minimum of 60,000 gallons of
28 storage capacity, and to file an ATC for the storage capacity no later than June 30, 2010, and an AOC

1 for the storage capacity no later than December 31, 2010. Staff's recommendation that the Company
2 be given the option of installing an on-site emergency generator with sufficient capacity to run the
3 Company's 300 GPM backup well in lieu of adding the ordered storage capacity is reasonable.

4 65. The requirements of Decision No. 71110 relating to installation of new storage
5 capacity should be waived, conditioned upon the Company filing documentation with Docket
6 Control, as a compliance item in this matter, within 120 days of this Decision, demonstrating that the
7 on-site emergency generator and associated improvements have been completed.

8 66. The Company should be authorized to incur WIFA debt in an amount not to exceed
9 \$30,000, for a term not to exceed 20 years, pursuant to a loan agreement with the Water
10 Infrastructure Finance Authority of Arizona, at an interest rate not to exceed that available from the
11 Water Infrastructure Finance Authority of Arizona, for the purpose of installing an on-site emergency
12 generator and associated improvements with sufficient capacity to run the Company's 300 GPM
13 backup well.

14 67. The Company should be authorized to engage in any transaction and to execute any
15 documents necessary to effectuate the WIFA debt authorization granted herein.

16 68. The Company should be required to file with Docket Control, as a compliance item in
17 this docket, within 60 days after the date of execution, copies of all executed financing documents
18 related to the WIFA debt authorization granted herein.

19 69. The Company should be required to file with Docket Control, as a compliance item in
20 this docket, within 60 days of closing the WIFA loan, an application using actual loan amounts, based
21 on the methodology set forth in Exhibit A, requesting implementation of a WIFA debt surcharge to
22 collect the additional revenue needed to meet its interest and principal payments on the WIFA loan.

23 70. Staff should be required, within 30 days of the Company's filing of the application
24 requesting implementation of the WIFA debt surcharge, to calculate the appropriate WIFA debt
25 surcharge using the methodology depicted on Exhibit A, and to prepare and file a Recommended
26 Order for Commission consideration.

27

28

1 71. The Company should be required to file with Docket Control, within 30 days of the
2 date of the Decision authorizing implementation of the WIFA debt surcharge, as a compliance item in
3 this docket, a tariff explaining the terms and conditions of the WIFA debt surcharge.

4 72. The Company should be required to file with Docket Control, within 30 days of the
5 date of the Decision authorizing implementation of the WIFA debt surcharge, as a compliance item in
6 this docket, documentation evidencing that Orange Grove Water Company, Inc. has opened a
7 separate interest-bearing account in which it will deposit all WIFA debt surcharge monies
8 collected from customers. The only disbursement of funds from this account should be to make debt
9 service payments to WIFA.

10 73. Following Commission approval of a WIFA debt surcharge, the Company should be
11 required to file with Docket Control, by June 30 of each year until the WIFA debt is satisfied, as a
12 compliance item in this docket, a report reconciling all WIFA debt surcharge monies billed and
13 collected, along with copies of the prior year's monthly bank statements for the WIFA debt surcharge
14 account.

15 74. Any unused debt authorization granted in this proceeding should terminate on
16 December 31, 2012.

17 75. The Company should be required to continue to use the depreciation rates as presented
18 on Exhibit B.

19 76. The Company should be required to file with Docket Control, as a compliance item in
20 this Docket, within 90 days of the effective date of this Decision, at least three BMPs in the form of
21 tariffs that substantially conform to the templates created by Staff, available at the Commission's
22 website, for the Commission's review and consideration. A maximum of two of these BMPs may
23 come from the "Public Awareness/Public Relations" or "Education and Training" categories of
24 BMPs.

25 77. Because an allowance for the property tax expense is included in the Company's rates
26 and will be collected from its customers, the Commission seeks assurances from the Company that
27 any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has
28 come to the Commission's attention that a number of water companies have been unwilling or unable

1 to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as
2 twenty years. It is reasonable, therefore, that as a preventive measure the Company shall annually
3 file, as part of its annual report, an affidavit with the Utilities Division attesting that the Company is
4 current in paying its property taxes in Arizona.

5 **CONCLUSIONS OF LAW**

6 1. Orange Grove is a public service corporation within the meaning of Article XV of the
7 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301, 40-302, and 40-303.

8 2. The Commission has jurisdiction over Orange Grove and the subject matter of the rate
9 application and the financing application.

10 3. Notice of the financing application and the rate application were provided in the
11 manner prescribed by law.

12 4. The rates and charges authorized herein are just and reasonable and should be
13 approved without a hearing.

14 5. Staff's recommendations as set forth in Findings of Fact No. 54 are reasonable and
15 should be adopted.

16 6. The financing approved herein is for lawful purposes within Orange Grove's corporate
17 powers, is compatible with the public interest, with sound financial practices, and with the proper
18 performance by Orange Grove of service as a public service corporation, and will not impair Orange
19 Grove's ability to perform the service.

20 7. The financing approved herein is for the purposes stated in the application and is
21 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
22 chargeable to operating expenses or to income.

23 8. Approval of the financing should not guarantee or imply any specific treatment of any
24 capital additions for rate base or ratemaking purposes.

25 9. It is reasonable and in the public interest to rescind the financing authority granted
26 herein if the Company has not drawn funds from the loan within one year of the date of this Decision.

27 **ORDER**

28 IT IS THEREFORE ORDERED that Orange Grove Water Company, Inc. shall file, on or

1 before December 30, 2011, a revised rate schedule setting forth the following rates and charges:

2 **MONTHLY USAGE CHARGE:**

| | | |
|---|-------------------|----------|
| 3 | 5/8" x 3/4" Meter | \$ 12.15 |
| | 3/4" Meter | 18.15 |
| | 1" Meter | 30.15 |
| 4 | 1-1/2" Meter | 60.15 |
| | 2" Meter | 96.15 |
| 5 | 3" Meter | 180.15 |
| | 4" Meter | 300.15 |
| 6 | 6" Meter | 600.15 |

7 **COMMODITY CHARGE:** (Per 1,000 gallons)

| | | |
|---|--------------------------------|--------|
| 8 | 0 to 3,000 gallons | \$2.00 |
| | 3,001 to 8,000 gallons | 2.75 |
| 9 | All gallons in excess of 8,000 | 3.31 |

10 Standpipe, Bulk Water 3.31

11 **SERVICE LINE AND METER INSTALLATION CHARGES:**

(Refundable Pursuant to A.A.C. R14-2-405)

| | Service Line Charge | Meter Installation* | Total | |
|----|------------------------|------------------------|-----------|-----------|
| 13 | 5/8" x 3/4 " Meter | \$ 415.00 | \$ 105.00 | \$ 520.00 |
| | 3/4 " Meter | 415.00 | 205.00 | 620.00 |
| 14 | 1" Meter | 465.00 | 265.00 | 730.00 |
| | 1-1/2" Meter | 520.00 | 475.00 | 995.00 |
| 15 | 2" Turbo Meter | 800.00 | 995.00 | 1,795.00 |
| | 2" Compound Meter | 800.00 | 1,840.00 | 2,640.00 |
| | 3" Turbo Meter | 1,015.00 | 1,620.00 | 2,635.00 |
| 16 | 3" Compound Meter | 1,135.00 | 2,495.00 | 3,630.00 |
| | 4" Turbo Meter | 1,430.00 | 2,570.00 | 4,000.00 |
| 17 | 4" Compound Meter | 1,610.00 | 3,545.00 | 5,155.00 |
| | 6" Turbo Meter | 2,150.00 | 4,925.00 | 7,075.00 |
| 18 | 6" Compound Meter | 2,270.00 | 2,820.00 | 5,090.00 |

19
20 **SERVICE CHARGES:**

| | | |
|----|---|---------|
| 21 | Establishment | \$25.00 |
| | Reconnection (Delinquent) | 40.00 |
| 22 | After Hours Charge (Flat Rate) | 30.00 |
| | Meter Test (If Correct) | 25.00 |
| 23 | Deposit | * |
| | Deposit Interest | * |
| 24 | Re-Establishment (Within 12 Months) | ** |
| | NSF Check | \$25.00 |
| 25 | Deferred Payment – Per Month | 1.50% |
| | Meter Re-Read (If Correct) | \$20.00 |
| 26 | Late Payment Charge Penalty | 1.50% |
| | Moving Customer Meter (Customer Request) | *** |
| 27 | 4" or Smaller | **** |
| 28 | | |

| | |
|-----------------|------|
| 6" | **** |
| 8" | **** |
| 10" | **** |
| Larger than 10" | **** |

* Per Commission Rule A.A.C. R14-2-403(B).

** Number of months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** Cost to include parts, labor, overhead, and all applicable taxes, including income tax if applicable.

**** 2.00% of monthly minimum for 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 water service line.

IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. shall notify its customers of the water rates and charges approved herein, and their effective date, by means of an insert in its next monthly billing. Orange Grove Water Company, Inc. shall file a copy of the notice when sent to its customers with Docket Control as a compliance item in this docket.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all services provided on and after January 1, 2012.

IT IS FURTHER ORDERED that Orange Grove Water Company, Inc., in addition to the collection of its regular rates and charges, shall collect from its customers their proportionate share of any privilege, sale, or use tax as provided in A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. is hereby authorized to incur debt in an amount not to exceed \$30,000, for a term not to exceed 20 years, pursuant to a loan agreement with the Water Infrastructure Finance Authority of Arizona, at an interest rate not to exceed that available from the Water Infrastructure Finance Authority of Arizona, for the purpose of installing an on-site emergency generator and associated improvements with sufficient capacity to run the Company's 300 GPM backup well.

IT IS FURTHER ORDERED that the requirements of Decision No. 71110 relating to installation of new storage capacity are hereby waived, conditioned upon Orange Grove Water Company, Inc. filing documentation with Docket Control within 120 days as a compliance item in this matter, demonstrating that the on-site emergency generator and associated improvements discussed herein have been completed.

1 IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. is hereby authorized to
2 engage in any transaction and to execute any documents necessary to effectuate the WIFA debt
3 authorization granted herein.

4 IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. shall, within 60 days
5 after the date of execution, file with Docket Control, as a compliance item in this docket, copies of all
6 executed financing documents related to the WIFA debt authorization granted herein.

7 IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. shall file with Docket
8 Control as a compliance item in this docket, within 60 days of closing the WIFA loan, an application
9 using actual loan amounts, based on the methodology set forth in Exhibit A, requesting
10 implementation of a WIFA debt surcharge to collect the additional revenue needed to meet its interest
11 and principal payments on the WIFA loan.

12 IT IS FURTHER ORDERED that within 30 days of Orange Grove Water Company, Inc.'s
13 filing of the application requesting implementation of the WIFA debt surcharge, Staff shall calculate
14 the appropriate WIFA debt surcharge, and shall prepare and file a Recommended Order for
15 Commission consideration.

16 IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. shall file with Docket
17 Control, within 30 days of the date of the Decision authorizing implementation of the WIFA debt
18 surcharge, as a compliance item in this docket, a tariff explaining the terms and conditions of the
19 WIFA debt surcharge.

20 IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. shall file with Docket
21 Control, within 30 days of the date of the Decision authorizing implementation of the WIFA debt
22 surcharge, as a compliance item in this docket, documentation evidencing that Orange Grove Water
23 Company, Inc. has opened a separate interest-bearing account in which it shall deposit all WIFA
24 debt surcharge monies collected from customers. The only disbursement of funds from this account
25 shall be to make debt service payments to WIFA.

26 IT IS FURTHER ORDERED that following Commission approval of a WIFA debt surcharge,
27 Orange Grove Water Company, Inc. shall file with Docket Control, by June 30 of each year until the
28 WIFA loan is paid off, as a compliance item in this docket, a report reconciling all WIFA debt

1 IT IS FURTHER ORDERED that that approval of the financing set forth herein 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 Orange Grove Water Company, Inc. shall file with Docket
5 Control within 60 days as a compliance item in this docket, a written plant retirement policy which at
6 a minimum requires documentation that reflects (1) the plant item retired, (2) the cost of the plant
7 item, (3) documentation to support the actual cost of the plant item, (4) whether the cost was actual or
8 estimated, and (5) the year the plant item was retired.

9 IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. shall file with Docket
10 Control, within 90 days as a compliance item in this docket, at least three BMPs in the form of tariffs
11 that substantially conform to the templates created by Staff, available at the Commission's website,
12 for the Commission's review and consideration. A maximum of two of these BMPs may come from
13 the "Public Awareness/Public Relations" or "Education and Training" categories of BMPs.

14 IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. shall adopt the
15 depreciation rates recommended by Staff as set forth in Exhibit B.

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1 IT IS FURTHER ORDERED that Orange Grove Water Company, Inc. shall annually file, as
2 part of its Annual Report, an affidavit with the Utilities Division attesting that it is current in paying
3 its property taxes in Arizona.

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 ERNEST G. JOHNSON
18 EXECUTIVE DIRECTOR

19 DISSENT _____

20 DISSENT _____
21
22
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24
25
26
27
28

1 SERVICE LIST FOR: ORANGE GROVE WATER COMPANY, INC.

2 DOCKET NOS.: W-02237A-11-0084 and W-02237A-11-0180

3 Steve Wene
4 MOYES SELLERS & HENDRICKS LTD.
5 1850 N. Central Ave., Ste. 100
6 Phoenix, AZ 85004

7 Kathleen Day, President
8 ORANGE GROVE WATER CO.
9 P.O. Box 889
10 Yuma, AZ 85366

11 Janice Alward, Chief Counsel
12 Legal Division
13 ARIZONA CORPORATION COMMISSION
14 1200 West Washington Street
15 Phoenix, AZ 85007

16 Steven M. Olea, Director
17 Utilities Division
18 ARIZONA CORPORATION COMMISSION
19 1200 West Washington Street
20 Phoenix, AZ 85007

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EXHIBIT A**INSTRUCTIONS TO CALCULATE THE ANNUAL SURCHARGE REVENUE REQUIREMENT ON THE LOAN***Instruction for Step 1*Step 1. Find the Annual Payment on the Loan

Refer to Table A, the Conversion Factor Table (included at the end of this section on page 9). Reading the table from top to bottom, find the interest rate in column A that is equal to the stated annual interest rate of the loan. Reading across the table, find the Annual Payment Conversion Factor in Column B that corresponds with the loan interest rate (in the event that the loan interest rate is different from the interest rates in Table A, use the next higher interest rate that can be found in Table A). Multiply that annual payment conversion factor by the total amount of the loan to calculate the annual debt service on the loan.

Result

Total amount of the loan
 (*) Times annual payment conversion factor
 (=) Equals annual debt service on the loan

*Instruction for Step 2*Step 2. Find the Annual Interest Payment on the Loan

Refer to Table A and find the annual interest payment conversion factor in Column C that corresponds with the stated annual interest rate of the loan. Multiply the annual interest payment conversion factor by the total amount of the loan to calculate the annual interest expense on the loan.

Result

Annual interest payment conversion factor
 (*) Times total amount of the loan
 (=) Equals annual interest expense on the loan (rounded)

*Instruction for Step 3*Step 3. Find the Annual Principal Payment on the Loan

Refer to Table A and find the annual principal payment conversion factor in Column D that corresponds with the stated annual interest rate of the loan. Multiply the annual principal payment conversion factor by the total amount of the loan to calculate the annual principal payment on the loan.

Result

Annual principal payment conversion factor

(*) Times total amount of the loan

(=) Equals annual principal payment on the loan

*Instruction for Step 4*Step 4. Find the Gross Revenue Conversion Factor (GRCF)

Obtain the Company's latest permanent rate case decision and find the GRCF utilized for that case. In the alternative, calculate the GRCF using the formula below. The GRCF is used in step 5.

Result

$$\text{GRCF} = \frac{1}{1 - \text{Effective incremental income tax rate}}$$

*Instruction for Step 5*Step 5. Find the Incremental Income Tax Factor

Subtract one from the GRCF to obtain the incremental income tax factor as shown in the calculation below:

Result

$$\text{Incremental Income Tax Factor} = \text{GRCF} - 1$$

Instruction for Step 6

Step 6. Find the Annual Income Tax Component of the Surcharge Revenue

Multiply the incremental income tax factor found in step 5 by the annual principal payment on the loan determined in step 3 to calculate the income tax component of the annual surcharge revenue.

Result

Incremental income tax conversion factor

(*) Times the annual principal payment on the loan

(=) Equals the annual income tax component of the annual surcharge revenue

Instruction for Step 7

Step 7. Find the Debt Service Component of the Annual Surcharge Revenue

Add the annual interest expense on the loan determined in step 2 to the annual principal payment determined in step 3. The sum is the debt service component of the annual surcharge revenue.

Result

Annual interest payment on the loan (Step 2)

(+) Plus annual principal payment (Step 3)

(=) Equals the debt service component of the annual surcharge revenue

Instruction for Step 8

Step 8. Find the Total Annual Surcharge Revenue Requirement Needed for the Loan.

Add the annual income tax component determined in step 6 to the annual debt service component determined in step 7. The sum equals the annual surcharge revenue requirement for the loan.

Result

Annual income tax component (Step 6)

(+) Plus annual principal & interest payment (Step 7)

(=) Equals the total annual surcharge revenue requirement for the loan.

Step 9. Find the equivalent bills.

Multiply the NARUC meter capacity multiplier by the number of current customers and by the number of months per year. The sum of the products equals the equivalent bills.

Result

| Col A | Col B | Col C | Col D | Col E |
|------------------|---------------------------------|---------------------|--------------------------|-----------------------------------|
| Meter Size | NARUC Meter Capacity Multiplier | Number of Customers | Number of Months In Year | Equivalent Bills Col B x C x D |
| 5/8"x 3/4" Meter | 1 | 0 | 12 | 0 |
| 3/4" Meter | 1.5 | 0 | 12 | 0 |
| 1" Meter | 2.5 | 0 | 12 | 0 |
| 1 1/2" Meter | 5 | 0 | 12 | 0 |
| 2" Meter | 8 | 0 | 12 | 0 |
| 3" Meter | 15 | 0 | 12 | 0 |
| 4" Meter | 25 | 0 | 12 | 0 |
| 6" Meter | 50 | 0 | 12 | 0 |
| | | | Total | 0 |

Instruction for Step 10

Step 10. Find the monthly surcharge for 5/8" x 3/4" customers.

Divide the result obtained in step 1 by the number of equivalent bills calculated in step 9 to obtain the monthly surcharge for 5/8" x 3/4" customers.

Result

Total annual payment on loan (Step 1)
 (÷) Divided by number of equivalent bills (Step 2)
 (=) Total monthly surcharge for 5/8" x 3/4" customers

Instruction for Step 11

Step 11. Find the monthly surcharge for remaining meter size customers.

Multiply the Result obtained in step 10 by the NARUC meter capacity multipliers to obtain the monthly surcharges for all other meter sizes.

Result

| Col A | Col B | Col C | Col D |
|------------------|---------------------------------|----------------------------------|-----------------------------------|
| Meter Size | NARUC Meter Capacity Multiplier | 5/8" x 3/4" Customers' Surcharge | Surcharge by Meter Size Col B x C |
| 5/8"x 3/4" Meter | 1 | \$0.00 | \$0.00 |
| 3/4" Meter | 1.5 | \$0.00 | \$0.00 |
| 1" Meter | 2.5 | \$0.00 | \$0.00 |
| 1½" Meter | 5 | \$0.00 | \$0.00 |
| 2" Meter | 8 | \$0.00 | \$0.00 |
| 3" Meter | 15 | \$0.00 | \$0.00 |
| 4" Meter | 25 | \$0.00 | \$0.00 |
| 6" Meter | 50 | \$0.00 | \$0.00 |

Example - For Illustrative Purposes Only

Loan amount: \$30,000

Term: 20 years

Stated Annual Interest Rate: 5.25%

Step 1. Find the Annual Payment on the Loan

Refer to Table A, the Conversion Factor Table. Reading the table from top to bottom, find the interest rate in Column A that is equal to the stated annual interest rate of the loan. Reading across the table, find the Annual Payment Conversion Factor in Column B that corresponds with the loan interest rate (in the event that the loan interest rate is different from the interest rates in Table A, use the next higher interest rate that can be found in Table A). Multiply that annual payment conversion factor by the total amount of the loan to calculate the annual debt service on the loan.

Result

| | |
|-------------------|--|
| 0.0809 | Annual payment conversion factor |
| <u>x \$30,000</u> | (*) Times total amount of the loan |
| \$ 2,427 | (=) Equals annual debt service on the loan (rounded) |

Step 2. Find the Annual Interest Payment on the Loan

Refer to Table A and find the annual interest payment conversion factor in Column C that corresponds with the stated annual interest rate of the loan. Multiply the annual interest payment conversion factor by the total amount of the loan to calculate the annual interest expense on the loan.

Result

| | |
|------------|--|
| 0.0518 | Annual interest payment conversion factor |
| x \$30,000 | (* Times total amount of the loan |
| \$ 1,554 | (=) Equals annual interest expense on the loan (rounded) |

Step 3. Find the Annual Principal Payment on the Loan

Refer to Table A and find the annual principal payment conversion factor in Column D that corresponds with the stated annual interest rate of the loan. Multiply the annual principal payment conversion factor by the total amount of the loan to calculate the annual principal payment on the loan.

Result

| | |
|------------|---|
| 0.0291 | Annual principal payment conversion factor |
| x \$30,000 | (* Times total amount of the loan |
| \$ 873 | (=) Equals annual principal payment on the loan |

Step 4. Find the Gross Revenue Conversion Factor (GRCF)

The GRCF of 1.28318 can be found on Revised Schedule CSB-3, page 8, line 6. In the alternative, the GRCF can be calculated using the formula below. The GRCF calculated is used in step 5.

$$\text{GRCF} = \frac{1}{1 - \text{Effective incremental income tax rate}}$$

$$\text{GRCF} = \frac{1}{1 - 0.220688^2} = \frac{1}{0.779312} = 1.28318$$

² In this example, the "effective incremental income tax rate" is equal to the "combined federal and state income tax rate" shown on Schedule CSB-3, page 8, line 4.

Step 5. Find the Incremental Income Tax Factor

The incremental income tax factor is calculated below:

$$\begin{aligned} \text{Incremental Income Tax Factor} &= \text{GRCF} - 1 \\ &= 1.28318 - 1 \\ &= 0.28318 \end{aligned}$$

Step 6. Find the Annual Income Tax Component of the Surcharge Revenue

Multiply the incremental income tax factor by the annual principal payment on the loan determined in step 3 to calculate the income tax component of the annual surcharge revenue.

Result

| | |
|----------|--|
| 0.28318 | Incremental income tax conversion factor |
| x \$ 873 | (*) Times the annual principal payment on the loan |
| \$247.22 | (=) Equals the annual inc. tax component of the annual surcharge revenue |

Step 7. Find the Debt Service Component of the Annual Surcharge Revenue

Add the annual interest expense on the loan determined in step 2 to the annual principal payment determined in step 3. The sum is the debt service component of the annual surcharge revenue.

Result

| | |
|----------|---|
| \$ 1,554 | Annual interest payment on the loan (Step 2) |
| + 873 | (+) Plus annual principal payment (Step 3) |
| \$ 2,427 | (=) Equals the debt service component of the annual surcharge revenue |

Step 8. Find the Total Annual Surcharge Revenue Requirement Needed for the Loan.

Add the annual income tax component determined in step 6 to the annual debt service component determined in step 7. The sum equals the annual surcharge revenue requirement for the loan.

Result

| | |
|--------------|---|
| \$ 247.22 | Annual income tax component (Step 6) |
| + \$2,427.00 | (+) Plus annual principal & interest payment (Step 7) |
| \$2,674.22 | (=) Equals the total annual surcharge revenue requirement for the loan. |

Step 9. Find the equivalent bills.

Multiply the NARUC meter capacity multiplier by the number of current customers and by the number of months per year. The sum of the products equals the equivalent bills.

Result

| Col A | Col B | Col C | Col D | Col E |
|-------------------|---------------------------------|---------------------|--------------------------|---------------------------------|
| Meter Size | NARUC Meter Capacity Multiplier | Number of Customers | Number of Months in Year | Equivalents Bills Col B x C x D |
| 5/8" x 3/4" Meter | 1 | 303 | 12 | 3,636 |
| 3/4" Meter | 1.5 | 0 | 12 | 0 |
| 1" Meter | 2.5 | 0 | 12 | 0 |
| 1½" Meter | 5 | 0 | 12 | 0 |
| 2" Meter | 8 | 0 | 12 | 0 |
| 3" Meter | 15 | 0 | 12 | 0 |
| 4" Meter | 25 | 0 | 12 | 0 |
| 6" Meter | 50 | 0 | 12 | 0 |
| | | | Total | 3,636 |

Step 10. Find the monthly surcharge for 5/8" x 3/4" customers.

Divide the result obtained in step 8 by the number of equivalent bills calculated in step 9 to obtain the monthly surcharge for 5/8" x 3/4" customers.

Result

| | |
|------------|--|
| \$2,674.22 | Total annual surcharge revenue requirement for the loan (Step 8) |
| ÷ 3,636 | Number of equivalent bills (Step 9) |
| \$ 0.74 | (=) Equals the total annual surcharge rev. requirement for the loan (rounded). |

Step 11. Find the monthly surcharge for the remaining meter size customers.

Multiply the result obtained in step 10 by the NARUC meter capacity multipliers to obtain the monthly surcharge for all other meter sizes.

| Col A | Col B | Col C | Col D |
|-------------------|---------------------------------|-----------------------------------|--------------------------------------|
| Meter Size | NARUC Meter Capacity Multiplier | 5/8" x 3/4" Customer Surcharge | Surcharge by Meter Size Col B X C |
| 5/8" x 3/4" Meter | 1 | 0.74 | \$ 0.74 |
| 3/4" Meter | 1.5 | 0.74 | \$ 1.10 |
| 1" Meter | 2.5 | 0.74 | \$ 1.84 |
| 1½" Meter | 5 | 0.74 | \$ 3.68 |
| 2" Meter | 8 | 0.74 | \$ 5.88 |
| 3" Meter | 15 | 0.74 | \$ 11.03 |
| 4" Meter | 25 | 0.74 | \$ 18.39 |
| 6" Meter | 50 | 0.74 | \$ 36.77 |

TABLE A
Conversion Factor Table (Based on a 20-year Loan)

| Column A | Column B | Column C | Column D |
|-----------------|----------------------------------|---|--|
| Annual Interest | Annual Payment Conversion Factor | Annual Interest Payment Conversion Factor | Annual Principal Payment Conversion Factor |
| 3.50% | 0.0696 | 0.0344 | 0.0352 |
| 3.75% | 0.0711 | 0.0369 | 0.0342 |
| 4.00% | 0.0727 | 0.0394 | 0.0333 |
| 4.25% | 0.0743 | 0.0419 | 0.0324 |
| 4.50% | 0.0759 | 0.0444 | 0.0316 |
| 4.75% | 0.0775 | 0.0468 | 0.0307 |
| 5.00% | 0.0792 | 0.0493 | 0.0299 |
| 5.25% | 0.0809 | 0.0518 | 0.0291 |
| 5.50% | 0.0825 | 0.0543 | 0.0283 |
| 5.75% | 0.0843 | 0.0568 | 0.0275 |
| 6.00% | 0.0860 | 0.0593 | 0.0267 |
| 6.25% | 0.0877 | 0.0618 | 0.0259 |
| 6.50% | 0.0895 | 0.0643 | 0.0252 |
| 6.75% | 0.0912 | 0.0668 | 0.0245 |
| 7.00% | 0.0930 | 0.0692 | 0.0238 |
| 7.25% | 0.0948 | 0.0717 | 0.0231 |
| 7.50% | 0.0967 | 0.0742 | 0.0224 |
| 7.75% | 0.0985 | 0.0767 | 0.0218 |
| 8.00% | 0.1004 | 0.0792 | 0.0211 |

EXHIBIT B**Table B. Depreciation Rate Table for Water Companies**

| NARUC Acct. 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 |
| | | | |