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DATE: MARCH 12, 2012

DOCKET NOS.: W-02031A-10-0168, W-02327A-10-0169, W-01906A-10-0170, W-01906A-10-0171, W-02031A-10-0171, W-02327A-10-0171, W-01906A-10-0183, W-02031A-10-0184 and W-02327A-10-0185

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Opinion and Order on:

**BOB B. WATKINS DBA EAST SLOPE WATER COMPANY, ANTELOPE RUN WATER COMPANY, INDIADA WATER COMPANY, INC.
(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:

MARCH 21, 2012

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:

MARCH 79, 2012 AND MARCH 28, 2012

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.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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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

8 IN THE MATTER OF THE APPLICATION OF
9 INDIADA WATER COMPANY, INC. FOR
10 APPROVAL OF A PERMANENT INCREASE IN
11 ITS WATER RATES.

DOCKET NO. W-02031A-10-0168

12 IN THE MATTER OF THE APPLICATION OF
13 ANTELOPE RUN WATER COMPANY FOR
14 APPROVAL OF A PERMANENT INCREASE IN
15 ITS WATER RATES.

DOCKET NO. W-02327A-10-0169

16 IN THE MATTER OF THE APPLICATION OF
17 BOB B. WATKINS DBA EAST SLOPE WATER
18 COMPANY FOR APPROVAL OF A PERMANENT
19 INCREASE IN ITS WATER RATES.

DOCKET NO. W-01906A-10-0170

20 IN THE MATTER OF THE JOINT APPLICATION
21 OF BOB B. WATKINS DBA EAST SLOPE
22 WATER COMPANY, INDIADA WATER
23 COMPANY, INC. AND ANTELOPE RUN WATER
24 COMPANY FOR APPROVAL OF A TRANSFER
25 OF ASSETS AND CERTIFICATES OF
CONVENIENCE AND NECESSITY.

DOCKET NO. W-01906A-10-0171
DOCKET NO. W-02031A-10-0171
DOCKET NO. W-02327A-10-0171

26 IN THE MATTER OF THE APPLICATION OF
27 BOB B. WATKINS DBA EAST SLOPE WATER
28 COMPANY FOR AUTHORITY TO INCUR LONG-
TERM DEBT.

DOCKET NO. W-01906A-10-0183

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

DOCKET NO. W-02031A-10-0184

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

DOCKET NO. W-02327A-10-0185

DECISION NO. _____

OPINION AND ORDER

26 DATES OF HEARING: September 14, 2011, and October 19, 2011

27 PLACE OF HEARING: Tucson, Arizona

28 ADMINISTRATIVE LAW JUDGE: Belinda A. Martin

1 APPEARANCES:

Mr. Steve Wene, MOYES, SELLERS & HENDRICKS LTD., on behalf of Bob B. Watkins d/b/a East Slope Water Company, Antelope Run Water Company, and Indiada Water Company, Inc.; and

Ms. Robin Mitchell, Mr. Wesley Van Cleve and Mr. Scott Hesla, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

6 BY THE COMMISSION:

7 Bob B. Watkins d/b/a East Slope Water Company ("ESWC"), Antelope Run Water Company
8 ("ARWC") and Indiada Water Company, Inc. ("IWC") (collectively, the "Applicants" or the
9 "Companies"), are certificated Arizona public service corporations that provide water utility service
10 near Sierra Vista in Cochise County, Arizona. The Companies each filed separate applications for rate
11 increases and separate applications for approval to incur debt. The Companies also jointly filed an
12 application to consolidate rates and operations and transfer ARWC's and IWC's assets and
13 Certificates of Convenience and Necessity ("CC&Ns") to ESWC. If consolidation is granted,
14 operations and the requested financing will be consolidated under the aegis of Bob B. Watkins d/b/a
15 East Slope Water Company, and all customers of the consolidated entity would pay uniform rates. In
16 this Decision, the proposed consolidated utility is referred to as "East Slope" or "Company."

17 * * * * *

18 Having considered the entire record herein and being fully advised in the premises, the
19 Commission finds, concludes, and orders that:

20 FINDINGS OF FACT

21 PROCEDURAL HISTORY

22 1. On April 30, 2010, ESWC, ARWC and IWC filed individual rate applications with the
23 Commission, each containing the Direct Testimony of Sonn S. Rowell, the Companies' financial
24 witness. Simultaneously with these rate applications, the Companies filed a joint application for
25 consolidation of rates and operations and approval to transfer ARWC's and IWC's assets and CC&Ns
26 to ESWC.

27 2. On May 7, 2010, ESWC, ARWC and IWC filed individual applications for authority to
28 incur long-term debt to fund needed capital improvements ("Finance Applications").

1 3. On May 28, 2010, the Commission's Utilities Division Staff ("Staff") filed Deficiency
2 Letters in the Companies' rate case and consolidation dockets.

3 4. On June 16, 2010, the Companies filed Affidavits of Publication indicating that they
4 had published notice of the Finance Applications on May 27, 28 and 29, 2010, in the *Sierra Vista*
5 *Herald/Bisbee Daily Review*.

6 5. On August 27, 2010, ARWC and IWC each filed amended rate applications and on
7 August 30, 2010, ESWC also filed an amended rate application. (Each Companies' original rate
8 application and their respective amended rate application are referred to as the "Rate Application.")

9 6. On August 30, 2010, the Applicants filed an amended consolidation application. (The
10 original consolidation application and the amended consolidation application are referred to as the
11 "Consolidation Application.")

12 7. On September 27, 2010, Staff filed its second Deficiency Letters in the Companies'
13 rate case and consolidation dockets.

14 8. On December 29, 2010, the Applicants filed in the rate case and consolidation dockets
15 Motions Regarding Sufficiency of Rate Application ("Sufficiency Motions"). In its Sufficiency
16 Motions, the Companies claimed that Staff refused to find its Rate Applications sufficient because
17 Staff could not yet find the Finance Applications sufficient. The Applicants believed this was
18 improper and requested that Staff be directed to issue Sufficiency Letters for the Rate Applications.

19 9. On January 7, 2011, a Procedural Order was filed setting a procedural conference on
20 the Sufficiency Motions for February 8, 2011.

21 10. On January 14, 2011, Staff filed its Reply to Motion to Compel Sufficiency, stating that
22 without the information Staff needed to find the Finance Applications sufficient, Staff could not
23 determine whether the rates requested by the Companies would be enough to cover the debt service on
24 a loan.

25 11. The procedural conference convened on February 8, 2011. At the conclusion of the
26 procedural conference, the parties were encouraged to continue to work toward a resolution of the
27 issue and the matter was taken under advisement.

28 12. On March 1, 2011, the Applicants filed a Notice of Resolution Regarding Sufficiency

1 and Withdrawal of Motion Regarding Sufficiency of Rate Applications.

2 13. On March 3, 2011, Staff filed Sufficiency Letters for the Rate Applications and
3 Consolidation Application.

4 14. On March 4, 2011, Staff filed Motions to Consolidate the Rate Applications,
5 Consolidation Application and the Finance Applications. Staff asserted that the matters were
6 substantially related and no parties would be prejudiced by consolidation of the Applications. The
7 Companies did not object to consolidation.

8 15. On March 25, 2011, a Procedural Order was issued consolidating all of the dockets,
9 setting the matter for hearing on September 14, 2011, and setting other procedural deadlines.

10 16. On April 1, 2011, Staff filed a Motion to Suspend Time Clock and Request for
11 Procedural Conference and a Procedural Order was filed on April 6, 2011, setting a procedural
12 conference on Staff's Motion for April 21, 2011.

13 17. On April 12, 2011, the Companies filed their Response to Staff's Motion to Suspend
14 Time Clock and Request for Procedural Conference, requesting that Staff's Motion be denied, and on
15 April 20, 2011, Staff responded.

16 18. The procedural conference on Staff's Motion was held on April 21, 2011, and at the
17 conclusion, the matter was taken under advisement. A Procedural Order denying Staff's Motion was
18 filed April 28, 2011.

19 19. On May 2, 2011, the Companies filed their Notice of Mailing and Publication of Public
20 Notice of Hearing, stating that the Companies mailed notice of the hearing to their customers on April
21 11, 2011, and published notice of the hearing on April 14, 2011, in the *Sierra Vista Herald/Bisbee*
22 *Daily Review*. In response to the notice, two ESWC customers filed written comment in opposition to
23 any rate increase. Another ESWC customer voiced opposition to the requested rate increase and the
24 requested financing. Two other ESWC customers were opposed to a rate increase and the requested
25 financing, as well as consolidation of the three companies. These customers believed consolidation
26 would mean that ESWC, as the largest of the three companies, will be subsidizing the rates of the two
27 smaller companies. One ESWC customer wrote in support of the consolidation. No ARWC or IWC
28 customers provided written comment in response to the notices.

1 20. On July 13, 2011, Staff filed the Direct Testimony of Katrin Stukov. Staff also filed a
2 Request for Extension of Time to file the Direct Testimony of Jeffrey Michlik from July 13, 2011, to
3 July 27, 2011, noting the Applicants did not object to the extension. A Procedural Order granting the
4 Motion for Extension was filed July 18, 2011.

5 21. On July 27, 2011, Staff filed the Direct Testimony of Jeffrey M. Michlik.

6 22. On August 10, 2011, the Applicants filed the Rebuttal Testimony of Bonnie O'Connor,
7 James Downing and Sonn Rowell.

8 23. On August 22, 2011, Staff filed the Surrebuttal Testimony of Jeffrey M. Michlik.

9 24. On August 31, 2011, the Companies filed the Rejoinder Testimony of Sonn Rowell.

10 25. On September 12, 2011, the Companies filed Testimony Summaries for its witnesses
11 who would appear at hearing.

12 26. On September 13, 2011, Staff filed Testimony Summaries for its witnesses who would
13 appear at hearing.

14 27. Also on September 13, 2011, the Companies filed an Issues Table indentifying the
15 unresolved issues between the Applicants and Staff.

16 28. The hearing convened as scheduled on September 14, 2011, and the parties appeared
17 through counsel. Prior to the start of the hearing, Staff provided copies of newly updated schedules to
18 Mr. Michlik's Surrebuttal Testimony. After discussion, the parties were advised that the hearing
19 would begin, but the hearing would be stopped and rescheduled if it was determined that the changes
20 to the schedules were so substantive that it would be unfair to the Applicants to proceed.

21 29. Public comment was taken at the beginning of the hearing and three customers
22 provided comment. Two were customers of Antelope Run; neither opposed consolidation of the
23 Companies nor did they object to a reasonable rate increase, but both believed that the Companies'
24 requested increase was too high. The other person was a customer of ESWC who was opposed to any
25 rate increase.

26 30. The Companies presented the testimony of Bonnie O'Connor, the Companies'
27 management witness; Keith Dojaquez, the Companies' operations witness; and James Downing, the
28 Companies' engineering witness regarding the recommended capital improvements. Prior to taking

1 testimony from Sonn Rowell, another discussion was held regarding Staff's updated schedules. It was
2 determined that the changes to the schedules were too substantive to expect Ms. Rowell to testify to
3 Staff's recommendations without first providing the Companies with an adequate opportunity to
4 evaluate Staff's changes. The testimony of Staff's engineering witness, Katrin Stukov, was taken out
5 of order, and the hearing adjourned so Staff could file testimony supporting its updated schedules and
6 to give the Companies an opportunity to respond.

7 31. On September 21, 2011, a Procedural Order was issued setting the second day of
8 hearing for October 19, 2011, and setting deadlines for filing updated testimony and supporting
9 schedules. Because of the delays, the time clock in the matter was suspended.

10 32. On September 30, 2011, Staff filed the Supplemental Surrebuttal Testimony of Jeffrey
11 M. Michlik and the Updated Schedules.

12 33. On October 11, 2011, the Companies filed the Updated Rejoinder Testimony of Bonnie
13 O'Connor and Sonn Rowell.

14 34. The hearing reconvened on October 19, 2011. The Companies presented additional
15 testimony from Ms. O'Connor and also the testimony of Ms. Rowell.

16 35. Staff's witness, Mr. Michlik, was not present, but Staff presented Gordon Fox, a Staff
17 Financial Analyst and Mr. Michlik's supervisor, to testify to Mr. Michlik's pre-filed testimony and
18 schedules. The Companies were given an opportunity to question Mr. Fox to ascertain his suitability
19 to testify to the testimony prepared by Mr. Michlik and they agreed that Mr. Fox would be able to
20 adequately testify to the evidence, testimony and documentation previously filed.

21 36. At the conclusion of the hearing, the matter was taken under advisement.

22 BACKGROUND

23 The Companies

24 ESWC

25 37. ESWC is a Class 'C' public water utility and an Arizona C-Corporation¹ providing
26 water service to approximately 780 connections in an unincorporated area near Sierra Vista in Cochise
27 County.

28 ¹ ESWC's sole shareholder is Bob B. Watkins.

1 38. In Decision No. 51282 (August 20, 1980), as amended by Decision No. 51936 (March
2 12, 1981),² the Commission approved the sale of assets and transfer of the CC&N held by S.V.E.
3 Water Company to ESWC.³

4 39. ESWC's current permanent rates were approved by the Commission in Decision No.
5 57076 (October 1, 1990).

6 40. In September 2008, ESWC hired Southwestern Utility Management ("SUM") to
7 manage the company and to prepare an emergency rate increase application. The Commission granted
8 the emergency rate request in Decision No. 71322 (October 30, 2009), and ESWC customers are
9 currently paying an interim emergency surcharge of \$7.60 per month. The Decision also ordered
10 ESWC to file an application for a permanent rate increase no later than April 30, 2010, and ESWC
11 filed its Rate Application as directed.

12 41. In addition to the Rate Application, ESWC filed its stand-alone Finance Application
13 requesting Commission authorization to incur long-term debt in the amount of \$1,611,936 in order to
14 construct needed capital improvements.

15 42. According to Staff, ESWC's water system includes four active wells,⁴ two storage
16 tanks, four booster pumps, five pressure tanks and a distribution system. Staff noted that the plant
17 description data sheet provided to the Commission by ESWC in its 2009 Annual Report did not match
18 the plant information provided in the Rate Application. Staff recommended ESWC be required to
19 report accurate plant description data in future annual report and rate case filings.

20 43. Staff also noted that the pressure tank at ESWC Well Site No. 1 was leaking. Staff
21 recommended ESWC be ordered to repair or replace the leaking pressure tank within 30 days of the
22 effective date of a Decision approving ESWC's Rate and Finance Applications.

23 44. Staff concluded ESWC has sufficient production and storage capacity to serve the
24 present customer base and reasonable growth.

25 45. Staff stated that an Arizona Department of Environmental Quality ("ADEQ")

26 _____
27 ² The amendment related to the inclusion of a corrected legal description.

28 ³ The original CC&N was granted to San Pedro Water Company, Inc. in Decision No. 34783 (October 1, 1963). The Commission approved a transfer of the CC&N to S.V.E. Water Company in Decision No. 38670 (September 28, 1966).

⁴ Staff notes that a fifth well has been out of service since April 2011 after the well casing collapsed. (Direct Testimony of Katrin Stukov, Exhibit KS, page 10, footnote 2.)

1 Compliance Status Report dated May 19, 2011, indicated ESWC's water system has no deficiencies
2 and the system is currently delivering water that meets water quality standards required by Arizona
3 Administrative Code, ("A.A.C."), Title 18, Chapter 4, and ESWC's water system is in compliance
4 with ADEQ requirements.

5 46. Staff noted that ESWC is not located in an Arizona Department of Water Resources
6 ("ADWR") Active Management Area ("AMA"). An ADWR Compliance Status Report dated April
7 21, 2011, indicated ESWC is in compliance with ADWR requirements governing water providers
8 and/or community water systems.

9 47. Staff stated ESWC has no outstanding Commission compliance items and ESWC has
10 Commission-approved curtailment and backflow tariffs.

11 ARWC

12 48. ARWC is a Class 'D' public water utility and sole proprietorship⁵ providing water
13 service to 168 connections in an unincorporated area near Sierra Vista in Cochise County.

14 49. In Decision No. 49820 (April 5, 1979) the Commission approved the sale of assets and
15 transfer of a portion of a CC&N held by S.V.E. Water Company to ARWC.

16 50. ARWC's current permanent rates were approved by the Commission in Decision No.
17 56062 (July 13, 1988).

18 51. In September 2008, ARWC hired SUM to manage the company and to prepare an
19 emergency rate increase application. The Commission granted the emergency rate request in Decision
20 No. 71323 (October 30, 2009), and ARWC customers are currently paying an interim emergency
21 surcharge of \$5.58 per month. The Decision also ordered ARWC to file an application for a
22 permanent rate increase no later than April 30, 2010, and ARWC filed its Rate Application as
23 directed.

24 52. In addition to the Rate Application, ARWC filed its stand-alone Finance Application
25 requesting Commission authorization to incur long-term debt in the amount of \$899,510 in order to
26 construct needed capital improvements.

27 53. According to Staff, ARWC's water system includes two active wells, a storage tank,

28 ⁵ ARWC is owned by Bob B. Watkins.

1 two booster pumps, three pressure tanks and a distribution system. Staff noted that the plant
2 description data sheet provided to the Commission by ARWC in its 2009 Annual Report did not match
3 the plant information provided in the Rate Application. Staff recommended that ARWC be required
4 to report accurate plant description data in future annual report and rate case filings.

5 54. Staff also noted that the signage at ARWC Well Site No. 5 was incorrect. Staff
6 recommended that ARWC be ordered to post a correct ADWR Well ID No. sign at ARWC Well Site
7 No. 5 within 30 days of the effective date of a Decision approving ARWC's Rate and Finance
8 Applications.

9 55. Staff concluded ARWC has sufficient production and storage capacity to serve the
10 present customer base and reasonable growth.

11 56. Staff noted that an ADEQ Compliance Status Report dated May 19, 2011, indicated
12 ARWC's water system has no deficiencies and the system is currently delivering water that meets
13 water quality standards required by A.A.C., Title 18, Chapter 4, and ARWC's water system is in
14 compliance with ADEQ requirements.

15 57. Staff noted that ARWC is not located in an AMA. An ADWR Compliance Status
16 Report dated April 21, 2011, indicated ARWC is in compliance with ADWR requirements governing
17 water providers and/or community water systems.

18 58. Staff stated ARWC has no outstanding Commission compliance items and ARWC has
19 Commission-approved curtailment and backflow tariffs.

20 IWC

21 59. IWC is a Class 'E' public water utility and an Arizona S-Corporation⁶ providing water
22 service to approximately 55 connections in an unincorporated area near Sierra Vista in Cochise
23 County.

24 60. In Decision No. 38830 (February 3, 1967), the Commission granted a Certificate of
25 Convenience and Necessity ("CC&N") to IWC.⁷

26 61. IWC's current permanent rates were approved in Decision No. 54500 (May 1, 1985).

27
28 ⁶ IWC's sole shareholder is Bob B. Watkins.

⁷ The Commission granted IWC a CC&N extension in Decision No. 43517 (July 31, 1973).

1 62. In September 2008, IWC hired SUM to manage the company and to prepare an
2 emergency rate increase application. The Commission granted the emergency rate request in Decision
3 No. 71321 (October 30, 2009), and IWC customers are currently paying an interim emergency
4 surcharge of \$7.83 per month. The Decision also ordered IWC to file an application for a permanent
5 rate increase no later than April 30, 2010, and IWC filed its Rate Application as directed.

6 63. In addition to the Rate Application, IWC filed a stand-alone Finance Application
7 requesting Commission authorization to incur long-term debt in the amount of \$251,674 in order to
8 construct needed capital improvements.

9 64. According to Staff, IWC's water system includes three active wells, a storage tank, a
10 booster pump, four pressure tanks and a distribution system. Staff noted that the plant description data
11 sheet provided to the Commission by IWC in its 2009 Annual Report did not match the plant
12 information provided in the Rate Application. Staff recommended IWC be required to report accurate
13 plant description data in future annual report and rate case filings.

14 65. Staff noted that, according to IWC, the company's well production could vary
15 throughout the year from 10 gallons per minute ("GPM") in drought conditions, to 52 GPM during
16 normal operations. Staff observed that IWC's service area is adjacent to ARWC's service area and
17 there is a temporary interconnection between the two. Staff concluded IWC's well production
18 capacity, coupled with water obtained through its interconnection with ARWC, is adequate to serve
19 the present customer base and reasonable growth. However, Staff concluded that IWC's current
20 storage capacity of 12,000 gallons is inadequate to serve IWC's existing customer base.

21 66. Staff stated that an ADEQ Compliance Status Report dated May 19, 2011, indicated
22 IWC's water system has no deficiencies and the system is currently delivering water that meets water
23 quality standards required by A.A.C., Title 18, Chapter 4, and the water system is in compliance with
24 ADEQ requirements.

25 67. Staff noted that IWC is not located in an AMA. An ADWR Compliance Status Report
26 dated April 21, 2011, indicated that IWC is in compliance with ADWR requirements governing water
27 providers and/or community water systems.

28 68. In Decision No. 71321, the Commission ordered IWC to report accurate water usage

1 data.⁸ Staff noted IWC's 2009 Annual Report water usage data was not accurate and, as such, IWC
2 was not in compliance with Decision No. 71321.

3 69. Staff reported IWC has Commission-approved curtailment and backflow tariffs.

4 **Summary of Original Rate and Finance Applications**

5 ESWC

6 70. In its Rate Application, ESWC adopted a December 31, 2009, test year. ESWC
7 proposed test year gross revenues of \$206,686 and operating expenses of \$228,556, for a proposed test
8 year operating loss of \$21,870.⁹

9 71. ESWC proposed a fair value rate base ("FVRB") of \$168,488, which is its original cost
10 rate base ("OCRB"). ESWC proposed rates that would increase operating revenues by \$331,372, or a
11 160.33 percent increase over test year revenues of \$206,686, resulting in total operating revenues of
12 \$538,058, giving ESWC operating income of \$217,583.¹⁰ Staff noted that, although ESWC calculated
13 a revenue requirement based on rate of return on rate base of 12 percent, or \$264,955, ESWC
14 requested revenues based on a 40.44 percent operating margin resulting in a total revenue requirement
15 of \$538,058.¹¹ ESWC believed this revenue was needed to support the debt service on a \$1,611,936
16 loan from the Water Infrastructure Finance Authority ("WIFA") for capital improvements.¹²

17 ARWC

18 72. In its Rate Application, ARWC adopted a December 31, 2009, test year. ARWC
19 proposed test year gross revenues of \$49,257 and operating expenses of \$83,647, for a proposed test
20 year operating loss of \$34,390.¹³

21 73. ARWC proposed a FVRB of \$61,769, which is its OCRB. In its Rate Application,
22 ARWC proposed rates that would increase operating revenues by \$90,065, or a 182.85 percent
23 increase over test year revenues of \$49,257, resulting in total operating revenues of \$139,322, giving
24 ARWC operating income of \$55,675.¹⁴ Staff noted that, although ARWC calculated a revenue

25 _____
26 ⁸ Decision No. 71321, page 17.

⁹ ESWC Amended Rate Application, Direct Testimony of Sonn Rowell, Schedule C-1.

¹⁰ *Id.*, A-1, A-2.

¹¹ Direct Testimony of Jeffrey M. Michlik, page 9.

¹² ESWC Amended Rate Application, Direct Testimony of Sonn Rowell, page 2.

¹³ ARWC Amended Rate Application, Direct Testimony of Sonn Rowell, Schedules A-1, A-2.

¹⁴ *Id.*, Schedule C-1.

1 requirement based on rate of return on rate base of 12 percent, or \$91,059, ARWC requested revenues
 2 based on a 39.96 percent operating margin resulting in a total revenue requirement of \$139,322.¹⁵
 3 ARWC believed this revenue was needed to support the debt service on an \$899,510 WIFA loan for
 4 capital improvements.¹⁶

5 IWC

6 74. In its Rate Application, IWC adopted a December 31, 2009, test year. IWC proposed
 7 test year gross revenues of \$28,140 and operating expenses of \$34,337, for a proposed operating loss
 8 of \$6,197.¹⁷

9 75. IWC proposed a FVRB of \$45,684, which is its OCRB. In its Rate Application, IWC
 10 proposed rates that would increase operating revenues by \$29,922, or a 106.33 percent increase over
 11 test year revenues of \$28,140, resulting in total operating revenues of \$58,062, giving IWC operating
 12 income of \$23,725.¹⁸ Staff noted that, although IWC calculated a revenue requirement based on rate
 13 of return on rate base of 12 percent, or \$39,819, IWC requested revenues based on a 40.86 percent
 14 operating margin resulting in a total revenue requirement of \$58,062.¹⁹ IWC believed this revenue
 15 was needed to support the debt service on a \$251,674 WIFA loan for capital improvements.²⁰

16 **Summary of Original Consolidation Application**

17 76. The Companies request that the Commission allow consolidation of ESWC's, ARWC's
 18 and IWC's rates and operations, and approve the transfer of ARWC's and IWC's assets and CC&Ns
 19 to ESWC. The Companies state consolidation is desirable because the three systems are in close
 20 proximity to one another and they are all owned or closely held by Bob Watkins and his family. The
 21 Companies believe consolidation will allow for more efficient operations and money savings and will
 22 ultimately be in the customers' best interests.²¹

23 77. According to the Consolidation Application, East Slope's proposed FVRB is \$274,479,
 24 which is its OCRB. East Slope's proposed rates would increase operating revenues by \$470,029, or a
 25

26 ¹⁵ Direct Testimony of Jeffery M. Michlik, pages 8-9.

¹⁶ ARWC Amended Rate Application, Direct Testimony of Sonn Rowell, page 2.

¹⁷ IWC Amended Rate Application, Direct Testimony of Sonn Rowell, Schedule C-1.

¹⁸ *Id.*, Schedules A-1, A-2.

¹⁹ Direct Testimony of Jeffery M. Michlik, page 9.

²⁰ IWC Amended Rate Application, Direct Testimony of Sonn Rowell, page 2.

²¹ Consolidation Application, pages 1-2.

1 165.45 percent increase over consolidated test year revenues of \$284,083, resulting in total operating
 2 revenues of \$754,112, giving IWC operating income of \$296,981.²² Staff noted that, although East
 3 Slope calculated a revenue requirement based on rate of return on rate base of 12 percent, or \$380,285,
 4 East Slope requested revenues based on a 39.38 percent operating margin resulting in a total revenue
 5 requirement of \$754,112.²³ The Applicants believed this revenue was needed to support the debt
 6 service on a \$2,748,504²⁴ WIFA loan for capital improvements.²⁵

7 Summary of Staff's Recommendations and Companies' Responses

8 78. After reviewing the Rate, Financing and Consolidation Applications, Staff determined
 9 that, based on Staff's overall financial analysis of the Companies, it would be more beneficial to allow
 10 the Applicants to implement a separate surcharge to cover the debt service on the WIFA loan(s)
 11 ("WIFA Surcharge"), rather than collecting the money for the debt service through rates.²⁶

12 79. Based on Staff's analysis, Staff recommended FVRBs and base revenue requirements
 13 for each stand-alone company and for the proposed consolidated company (excluding revenue
 14 generated by the WIFA Surcharge) as follows:

15	16	17	18	19	20	21
Utility	Final Rate Base	Required Operating Income	Rate Of Return	Total Revenue Requirement	Total Increase in Revenue Requirement	% Increase
ESWC ²⁷	\$142,619	\$14,262	10.0%	\$281,285	\$74,599	36.09%
ARWC ²⁸	\$92,296	\$9,230	10.0%	\$91,242	\$41,985	85.24%
IWC ²⁹	\$27,816	\$2,782	10.0%	\$32,741	\$4,601	16.35%
East Slope ³⁰	\$263,029	\$26,303	10.0%	\$396,651	\$112,568	39.63%

22 80. In their Rebuttal Testimony, the Applicants agreed with Staff's approach to use a

23 ²² Amended Consolidation Application, Direct Testimony of Sonn Rowell, Schedules A-1, A-2.

24 ²³ Direct Testimony of Jeffrey M. Michlik, page 9.

25 ²⁴ The combined total for each individual system's capital improvement costs is \$2,763,120. However, because of a
 \$14,616 savings that would be realized by consolidating the adjacent ARWC and IWC systems, the total amount of debt
 sought for approval is \$2,748,504. (Rebuttal Testimony of James Downing, Attachment 1, Pre-Design Report for Capital
 Improvement Project.)

26 ²⁵ Amended Consolidation Application, Direct Testimony of Sonn Rowell, pages 1-2.

27 ²⁶ Direct Testimony of Jeffrey M. Michlik, page 34-35.

28 ²⁷ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated ESWC Schedule JMM-1.

29 ²⁸ *Id.*, Updated ARWC Schedule JMM-1.

30 ²⁹ *Id.*, Updated IWC Schedule JMM-1.

³⁰ *Id.*, Updated Consolidated Company Schedule JMM-1.

1 WIFA Surcharge to provide funds for the debt service on the WIFA loans, rather than through rates,
2 but the Companies disagreed with Staff's recommended base revenue requirements.³¹ Accordingly,
3 the Companies proposed adjusted FVRBs and base revenue requirements for each stand-alone
4 company and for the consolidated company (excluding revenue generated by the WIFA Surcharge) as
5 follows:

<u>Utility</u>	<u>Final Rate Base</u>	<u>Required Operating Income</u>	<u>Operating Margin</u> ³²	<u>Total Revenue Requirement</u>	<u>Total Increase in Revenue Requirement</u>	<u>% Increase</u>
ESWC ³³	\$150,009	\$37,502	12.00%	\$312,412	\$105,726	51.15%
ARWC ³⁴	\$92,716	\$12,770	13.34%	\$95,676	\$46,419	94.24%
IWC ³⁵	\$28,541	\$4,706	13.40%	\$35,110	\$6,970	24.77%
East Slope ³⁶	\$271,564	\$54,313	12.4%	\$437,934	\$153,851	54.16%

12 81. The base rates (without the WIFA Surcharge) proposed by the Applicants and Staff
13 result in increases/[decreases] in the average monthly water bill for a customer on a 5/8" x 3/4" meter
14 for each stand-alone company and for the consolidated company as follows:

	<u>Avg. Gal. Used</u>	<u>Current Avg. Bill</u>	<u>Applicants</u> ³⁷		<u>Staff</u> ³⁸	
			<u>Stand Alone</u>	<u>Consol. Company</u>	<u>Stand Alone</u>	<u>Consol. Company</u>
ESWC	9,137	\$21.20	\$26.90	\$28.50	\$23.62	\$25.28
ARWC	11,839	\$23.34	\$39.19	\$36.55	\$38.27	\$32.58
IWC	8,731	\$42.06	\$44.42	[\$27.72]	\$43.99	[\$24.59]

20 82. The per customer monthly WIFA Surcharges for customers using a 5/8" x 3/4" meter³⁹
21 proposed by the Applicants and Staff are as follows:

23 ³¹ Rebuttal Testimony of Sonn Rowell, page 4.

24 ³² The Applicants believe that the revenue requirement must be determined by operating margin rather than rate of return
25 on FVRB because using rate of return will not generate sufficient cash flow to meet either the Companies' or the
26 consolidated company's needs. Based on the Applicants' calculations, the rates of return for each company are: ESWC—
25 25%; ARWC—13.77%; IWC—16.49%; East Slope—20.0%. (Rejoinder Testimony of Sonn Rowell, pages 4-7,
26 Attachments 1-4, Rejoinder Schedules A-1.)

26 ³³ Rejoinder Testimony of Sonn Rowell, Attachment 1, Rejoinder Schedule A-1.

26 ³⁴ *Id.*, Attachment 2, Rejoinder Schedule A-1.

26 ³⁵ *Id.*, Attachment 3, Rejoinder Schedule A-1.

27 ³⁶ *Id.*, Attachment 4, Rejoinder Schedule A-1.

27 ³⁷ *Id.*, Attachments 1-4, Rejoinder Schedules H-3.

28 ³⁸ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Schedules JMM-23.

28 ³⁹ Customers using a larger meter would incur a higher monthly WIFA Surcharge.

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	<u>Applicants</u> ⁴⁰	<u>Staff</u> ⁴¹
ESWC	\$16.39	\$12.65
ARWC	\$35.69	\$29.75
IWC	\$32.28	\$26.90
East Slope	\$22.63	\$18.70

83. The base rates proposed by Staff and the Applicants coupled with the WIFA Surcharge result in increases in the average monthly water bill for a customer on a 5/8" x 3/4" meter for each stand-alone company and the consolidated company as follows:

	<u>Avg. Gal. Used</u>	<u>Current Avg. Bill</u>	<u>Applicants</u> ⁴²		<u>Staff</u> ⁴³	
			<u>Stand Alone</u>	<u>Consol. Company</u>	<u>Stand Alone</u>	<u>Consol. Company</u>
ESWC	9,137	\$21.20	\$43.29	\$51.13	\$36.27	\$43.98
ARWC	11,839	\$23.34	\$74.88	\$59.18	\$68.02	\$51.28
IWC	8,731	\$42.06	\$76.70	\$50.35	\$70.89	\$43.29

DISCUSSION

The Requested Consolidation

84. The Applicants propose to consolidate the operations of the three utilities, with ESWC becoming the sole surviving public service corporation. The resultant utility would be a Class 'C' public service corporation with approximately 1,050 customers and would provide service under a single set of tariffs. Applicants assert that the water systems are in the same general area around Sierra Vista, and that consolidation will increase operational efficiencies and reduced costs. According to Bonnie O'Connor, who is the president of SUM, one such savings will be a reduction in SUM's management fees. SUM's rates are based on the number of connections; the more connections, the lower SUM's per connection charge.⁴⁴ According to Ms. Rowell, consolidation

⁴⁰ Updated Rejoinder Testimony of Sonn Rowell, Attachments 5-8.

⁴¹ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Schedules JMM-21.

⁴² Rejoinder Testimony of Sonn Rowell, Attachments 1-4, Rejoinder Schedules H-3 and Updated Rejoinder Testimony of Sonn Rowell, Attachments 5-8.

⁴³ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Schedules JMM-24.

⁴⁴ Transcript of Hearing at pages 47-48. ("Tr. at __".)

1 85. The Applicants also note that ARWC and IWC are adjacent to each other and there is
2 currently a temporary interconnection between the two systems.⁴⁶ By consolidating the companies,
3 the capital improvement construction costs will be \$14,606 less than the total costs for each individual
4 system because the construction of a permanent interconnection will allow ARWC and IWC to share
5 certain plant components.⁴⁷

6 86. If the Companies are consolidated, using the Applicants' proposed base rates the
7 average water bill for customers on a 5/8-inch x 3/4-inch meter would change as follows:⁴⁸

	<u>Avg. Gal. Used</u>	<u>Current Avg. Bill</u>	<u>Stand Alone</u>	<u>Incr. Amount</u>	<u>Percent Increase</u>	<u>Consol. Co.</u>	<u>Incr./ [Decr.]</u>	<u>Percent Increase</u>
8 ESWC	9,137	\$21.20	\$26.90	\$5.70	26.9 %	\$28.50	\$7.30	34.4%
9 ARWC	11,839	\$23.34	\$39.19	\$15.85	67.9%	\$36.55	\$13.21	56.6%
10 IWC	8,731	\$42.06	\$44.42	\$2.36	5.6%	\$27.72	[\$14.34]	[34.1%]

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13 87. Under the Applicants' proposed consolidated base rates, ARWC would see a lower rate
14 increase and IWC would see a rate decrease, but ESWC customers would see a \$1.60, or 5.9 percent,
15 higher rate increase than they would on a stand-alone basis. The Applicants believe that although
16 ESWC customers will experience a slightly larger increase, consolidation will benefit ESWC
17 customers in the long-run by allowing future capital expenditures to be spread over a larger customer
18 base and administrative savings resulting from streamlined operations would be reflected in future
19 rates.⁴⁹

20 88. Staff asserts that when and where it is technically and financially feasible, the
21 Commission should consider consolidation. Staff believes that consolidation is in the public interest
22 when it promotes public health and safety; when systems are in close proximity such that they can be
23 interconnected or allow customers to recognize a logical connection; and when it would result in
24 economies of scale, lessen rate case expense and mitigate price shock.⁵⁰

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26 ⁴⁶ Operations witness Keith Dojaquez noted that interconnection with ESWC is not possible because ESWC is located
approximately one mile from ARWC and IWC and Pueblo del Sol Water Company and Bella Vista Water Company
divide ESWC from ARWC and IWC. (Tr. at 64.)

27 ⁴⁷ Tr. at 80.

⁴⁸ Rejoinder Testimony of Sonn Rowell, Attachments 1-4, Rejoinder Schedules H-3.

⁴⁹ Tr. at 170-172.

28 ⁵⁰ Direct Testimony of Jeffrey M. Michlik, pages 5-8.

1 economies of scale, lessen rate case expense and mitigate price shock.⁵⁰

2 89. Staff supports consolidation of the Companies and notes this will allow the Applicants
3 to take advantage of economies of scale, which is especially critical for small water companies such as
4 these that struggle to remain viable.⁵¹ Staff notes that the systems are owned by Mr. Watkins and his
5 family, and day-to-day operations for the three utilities are handled by SUM. The systems are in the
6 same general area and ARWC and IWC share a temporary interconnection, which will be made
7 permanent as part of the capital improvements.⁵²

8 90. If the Companies are consolidated, using Staff's base rates, the average water bill for
9 customers on a 5/8-inch x 3/4-inch meter would change as follows.⁵³

	<u>Avg. Gal. Used</u>	<u>Current Avg. Bill</u>	<u>Stand Alone</u>	<u>Incr. Amount</u>	<u>Percent Increase</u>	<u>Consol. Co.</u>	<u>Incr./ [Decr.]</u>	<u>Percent Increase</u>
10	ESWC 9,137	\$21.20	\$23.62	\$2.42	11.4 %	\$25.28	\$4.08	19.2%
11	ARWC 11,839	\$23.34	\$38.27	\$14.93	63.9%	\$32.58	\$9.24	39.6%
12	IWC 8,731	\$42.06	\$43.99	\$1.93	4.6%	\$24.59	[\$17.47]	[41.5%]

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15 91. The benefits of consolidation for the two smaller systems, ARWC and IWC, under
16 either the Applicants' or Staff's proposed base rates, are clear. Through consolidation, the costs of the
17 system improvements are spread over a larger customer base, and ARWC customers would experience
18 a lower rate increase and IWC ratepayers would receive a rate decrease. Staff agrees with the
19 Applicants that the potential for long-term benefits derived from consolidation outweighs the initial
20 cost of consolidation for ESWC's customers. Staff believes in this case that consolidation is in the
21 public interest.⁵⁴

22 92. We agree with the parties that the circumstances in this matter support consolidation of
23 operations and rates, and we find that consolidation of the Companies is in the public interest. We
24 approve the consolidation of operations and rates and the transfer of ARWC's and IWC's assets and
25 CC&Ns to ESWC.

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27 ⁵⁰ Direct Testimony of Jeffrey M. Michlik, pages 5-8.

⁵¹ *Id.*, pages 5-6; Tr. at 279.

⁵² Tr. at 279-280.

⁵³ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Schedules JMM-23.

⁵⁴ Tr. at 280, 286.

1 93. Staff recommends that, even though ESWC, ARWC and IWC will be consolidated,
 2 East Slope should "continue reporting the information, including, but not limited to Water Use and
 3 Plant Description Data, separately for each of its individual systems by [ADEQ Public Water System],
 4 in future Annual Reports and rate case filings."⁵⁵

5 94. As noted earlier, Staff found that the Companies had not accurately reported their water
 6 use data and plant description data in previous annual reports. Staff recommends that East Slope be
 7 required to report *accurate* water use data and plant description data in future annual reports and rate
 8 case filings.

9 95. To the extent Staff's recommendations mean that East Slope should accurately track
 10 and account for plant improvements and water use data for each of its water systems separately for use
 11 in annual reports and rate case filings, Staff's recommendations are reasonable, and we concur with
 12 Staff's requests. However, Staff's recommendations should not be interpreted as requiring or
 13 permitting separate rate case filings for individual systems now that the systems will be consolidated.

14 **The Rate Application**

15 96. There are five substantive unresolved issues between the parties: 1) treatment of
 16 Customer Security Deposits in rate base; 2) inclusion of the emergency rate case expense in operating
 17 expenses; 3) whether rate of return or operating margin should be used in determining revenue
 18 requirements; 4) use of depreciation expense in cash flow calculations; and 5) the source of funds for
 19 the WIFA debt service reserve fund.

20 Rate Base Issues

21 97. The Applicants and Staff recommend the following FVRB balances:

22	<u>Utility</u>	<u>Applicants</u> ⁵⁶	<u>Staff</u> ⁵⁷
23	ESWC	\$150,009	\$142,619
24	ARWC	\$92,716	\$92,296
25	IWC	\$28,541	\$27,816
26	East Slope	\$271,564	\$263,029

27 ⁵⁵ Direct Testimony of Katrin Stukov, Exhibit KS, page 49.

28 ⁵⁶ Rejoinder Testimony of Sonn Rowell, Attachments 1-4, Rejoinder Schedules A-1.

⁵⁷ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Schedules JMM-1.

1 98. The Applicants did not request a Reconstruction Cost New Rate Base and, as such,
2 their FVRB is their OCRB.

3 99. The main difference between the Applicants' and Staff's proposed FVRB relates to the
4 treatment of Customer Security Deposit balances. Staff recommends decreasing the rate base by these
5 deposits to reflect that Customer Security Deposits are customer-provided capital. Staff argues that its
6 methodology is one of the methods approved by the National Association of Regulatory Utility
7 Commissioners ("NARUC").⁵⁸ The NARUC Rate Case and Audit Manual provides as follows:

8 Customer deposits are shown as a liability on the utility's balance sheet and
9 represent a source of non-investor supplied capital. Customer deposits are
generally treated one of three ways.

10 The first method does not reduce rate base by the customer deposits
11 balance and classifies any interest accrued or paid on those deposits as a
12 below-the-line (or non-operating) expense. This method allows the utility
13 to earn a return on a rate base that has not been reduced by the amount of
14 customer deposits, and then allows it to use that return to pay the interest
15 that is required to be returned to customers with the return of that deposit.
One consideration in using this method is whether the return allowed on
rate base is higher than the return that the utility is required to pay on its
customer deposits. If so, the utility may be allowed to earn more than is
necessary, and return that difference to shareholders.

16 The second method reduces rate base by the customer deposits balance, and
17 classifies any interest accrued or paid on those deposits as an above-the-
18 line (or operating) expense that is included in the revenue requirement
computation. The interest that the utility must pay is generally deemed to
be a legitimate expense that must be recovered in one form or another.

19 The third method includes the liability for customer deposits in the utility's
20 capital structure at a zero cost, reducing the overall rate of return. If
interest is paid on the customers' deposits, the utility can recover that
interest expense as an above-the-line (or operating) expense.⁵⁹

21 100. Staff has adopted the second method allowed by NARUC and, according to Mr. Fox,
22 Staff has been using this methodology for many years.⁶⁰

23 101. Staff states that during the test year, ESWC received \$7,440 in Customer Security
24 Deposits, ARWC received \$364, and IWC received \$160, for total deposits of \$7,964.⁶¹ Staff
25 recognizes that under its methodology for treating Customer Security Deposits, the associated interest
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27 ⁵⁸ Tr. at 203-204, 245-247.

⁵⁹ Hearing Exhibit S-5.

⁶⁰ Tr. at 246.

⁶¹ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, page 4, Updated Schedules JMM-6.

1 expense on those deposits is an appropriate operating expense. Staff states that the associated adjusted
 2 interest expense in the test year for ESWC was \$446, for ARWC it was \$22, and for IWC it was \$10,
 3 for a total Customer Security Deposit interest expense of \$478.⁶²

4 102. The Applicants argue that Customer Security Deposits should not be deducted from
 5 rate base because they are not like meter deposits or deposits paid by developers for extension of
 6 service, for example. The Applicants assert that Customer Security Deposits are short-term deposits
 7 held by the utility to secure payment for utility service rendered; they do not provide the utility with a
 8 source of capital for its own use. Further, under the A.A.C., Customer Security Deposits are typically
 9 refundable within one year.⁶³

10 103. At hearing, Ms. O'Connor testified that the Companies do not have a separate account
 11 for funds received as Customer Security Deposits. The money is absorbed into the monthly revenues
 12 and is typically used as a source of funds for repairs and maintenance.⁶⁴

13 104. The Commission has adopted Staff's position to deduct Customer Security Deposits
 14 from rate base in prior Commission Decisions.⁶⁵ This position is consistent with NARUC and
 15 recognizes that there are no constraints on the Companies' use of these funds which are provided by
 16 ratepayers, and that the utility should not be permitted to earn a rate of return on any plant that may be
 17 purchased with the non-investor-supplied funds.

18 105. We find in this case that Staff's position is reasonable and the Customer Security
 19 Deposits should be deducted from rate base with a corresponding allowance for the associated interest
 20 as an operating expense.

21 Summary of Rate Base

22 106. Based on the foregoing, we adopt a consolidated rate base of \$263,029 as shown
 23 below:⁶⁶

24	Plant In Service	\$724,367
25	Less: Accumulated Depreciation	<u>\$457,049</u>

26 ⁶² *Id.*, Updated Schedules JMM-17.

27 ⁶³ Tr. at 121-122.

28 ⁶⁴ Tr. at 33-34.

⁶⁵ See for example, Decision No. 72026 (December 10, 2010), and Decision No. 72251 (April 7, 2011).

⁶⁶ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Consolidated Company Schedule JMM-1.

1	Net Plant in Service	<u>\$267,318</u>
2	LESS:	
3	Contributions in Aid of Construction	\$ 242,033
4	Less: Accumulated Amortization	<u>\$232,726</u>
5	Net CIAC	<u>\$9,307</u>
6	Advances in Aid of Construction	\$19,759
7	Customer Security Deposits	\$7,964
8	ADD:	
9	Working Capital Allowance	<u>\$32,741</u>
10	Original Cost Rate Base	<u>\$263,029</u>

11 Income Statement Adjustments

12 107. Staff and the Applicants agree that adjusted test year operating revenues for ESWC
13 were \$206,686; for ARWC \$49,257, and for IWC, \$28,140, for total consolidated adjusted test year
14 operating revenues of \$284,083.

15 108. The Applicants proposed total consolidated test year operating expenses of \$345,549.⁶⁷
16 Staff recommends total consolidated test year operating expenses of \$343,156.⁶⁸ The main difference
17 between the Applicants' and Staff's proposed consolidated operating expenses relates to the treatment
18 of emergency rate case expenses.

19 109. In 2009, the Companies each filed an emergency rate case and the Commission
20 approved an Emergency Interim Surcharge for each company. In their current Rate Applications, the
21 Applicants request that the Commission include the costs of bringing these emergency rate
22 applications as a test year operating expense. The Applicants state the Companies incurred a
23 combined emergency rate case expense of \$4,618.⁶⁹

24 110. The Applicants argue that the Commission should allow for recovery of emergency rate
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26 ⁶⁷ Rejoinder Testimony of Sonn Rowell, Attachments 1-4, Rejoinder Schedules C-1.

⁶⁸ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Consolidated Company Schedule JMM-9.

27 ⁶⁹ The Applicants' individual Rejoinder Schedules C-2 state that ESWC incurred an emergency rate case expense of
28 \$1,775, ARWC incurred \$1,404, and IWC incurred \$1,122, for a total combined emergency rate case expense of \$4,302. It
is not clear how the Applicants arrived at a total combined emergency rate case expense of \$4,618. Based on this, the
Applicants' proposed consolidated rate case expense, including the proposed \$40,000 regular rate case expense should
have been \$44,302, not \$44,618.

1 case expenses, especially in circumstances where the Commission grants emergency rate relief. The
 2 Applicants assert that the emergency rate case expense is no different from a normal rate case expense
 3 and should be treated the same by allowing it as a non-recurring expense amortized over a reasonable
 4 period of time.⁷⁰ In this case, the Applicants proposed a regular rate case expense of \$40,000 for the
 5 consolidated company, and a combined emergency rate case expense for the Companies of \$4,618, for
 6 total proposed rate case expense of \$44,618. The Applicants amortized the total rate case expense
 7 over a three year period for a \$14,873 expense.⁷¹

8 111. Staff recommends removal of the emergency rate case expense from operating
 9 expenses. In its Surrebuttal Testimony, Staff states:

10 The purpose of the test year is to establish a baseline relationship between rate
 11 base and operating income. According to [A.A.C. R14-2-103(A)(3)(i)],
 12 "Adjustments [are then made] to actual test year results and balances to obtain a
 13 normal or more realistic relationship between revenues, expenses and rate base."
 14 Adjustments are made to remove non-recurring or extraordinary expenses in order
 to more accurately reflect the cost of providing utility service during a "normal"
 year. To include the costs of the emergency rate case would require one to assume
 that the Companies will continue to file for emergency rates every year going
 forward.⁷²

15 112. According to Mr. Fox, while it is reasonable to expect that a utility may incur a
 16 permanent rate case expense every three years, it is not reasonable to expect that a company would file
 17 an emergency rate case every three years.⁷³

18 113. Staff also argues that including emergency rate case expense is not appropriate in this
 19 matter because, although the Commission did grant the Companies emergency rate relief, the
 20 emergency was of their own making. Staff witness Gordon Fox testified:

21 Another consideration is that when a company has been out for rates as long as this
 22 company has and let its equity position get to a negative position, doesn't come in
 23 for rates, and then has a circumstance where they feel they need to file an
 emergency rate case, there is a question of proper management of the company in
 terms of why the [emergency]⁷⁴ rate case expense [was] incurred in the first place.
 24 So there's a prudence issue.

25 ⁷⁰ Rejoinder Testimony of Sonn Rowell, pages 3-4; Tr. at 159-161.

26 ⁷¹ Rebuttal Testimony of Sonn Rowell, Consolidated Company Rebuttal Schedule C-2, note J.

27 ⁷² Surrebuttal Testimony of Jeffrey M. Michlik, page 4.

28 ⁷³ Tr. at 205-207.

⁷⁴ Tr. at 205. At hearing, Ms. O'Connor testified that one reason Mr. Watkins had not filed for rate increases earlier is that in ESWC's 1990 rate case, the Commission imposed a rate decrease. During the hearing on ESWC's emergency rate application, Mr. Watkins used the same argument. We noted in ESWC's emergency rate case Decision No. 71322, and we note again here, that in Decision No. 57076 approving permanent rates for ESWC, contrary to Mr. Watkins assertion, the Commission granted ESWC a rate increase. (Decision No. 71322, page 9, footnote 16.)

1 114. In this situation, Mr. Fox stated that it is not reasonable to require the ratepayers to pay
2 the emergency rate case expense and it should be recovered from the owners or shareholders.⁷⁵

3 115. For these reasons, Staff recommended a total adjusted amortized rate case expense for
4 East Slope of \$13,439.⁷⁶

5 116. We concur with Staff's reasoning and find Staff's removal of the emergency rate case
6 expense from test year operating expenses is reasonable and we adopt Staff's recommended adjusted
7 consolidated test year operating expenses for East Slope of \$343,156.

8 Income Statement Summary

9 117. Based on the foregoing, we adopt Staff's adjusted consolidated test year operating
10 revenues of \$284,083 and its adjusted consolidated test year operating expenses of \$343,156, resulting
11 in an adjusted consolidated test year operating loss of \$59,073.

12 Revenue Requirement

13 118. Staff notes that the Applicants did not prepare a cost of capital analysis,
14 "[c]onsequently, in an effort to efficiently utilize its resources, Staff is not providing a comprehensive
15 cost of capital analysis."⁷⁷ Instead, Staff recommended a capital structure composed of 100 percent
16 equity, resulting in a return on equity equal to the over all rate of return. After reviewing the approved
17 cost of equity for several similarly situated water utilities, Staff determined that a cost of equity and
18 rate of return of 10.0 percent was reasonable.⁷⁸

19 119. Based on a 10.0 percent rate of return, Staff concluded that the total revenue
20 requirement for East Slope is \$396,651, necessitating a revenue increase of \$112,568, or 39.63
21 percent.⁷⁹

22 120. The Applicants argue that calculating revenue requirement using a rate of return is not
23 appropriate in this case because of the dire financial straits of the Companies. Instead, the Applicants

24 ⁷⁵ Tr. at 236-239.

25 ⁷⁶ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Consolidated Company Schedules JMM-9, JMM-
26 10. As noted in footnote 69, above, the actual amount of the Applicants' combined emergency rate case expense was
27 \$4,302, not \$4,618. Staff recommended removal of \$4,301, but deducted that amount from the Applicants' proposed rate
28 case expense of \$44,618, not \$44,302. This results in a total consolidated Staff recommended rate case expense of
\$40,317, rather than \$40,000. Since the amount results in a minimal operating expense of \$106 per year for three years,
we will not adjust Staff's recommended amortized emergency rate case expense of \$13,439.

⁷⁷ Direct Testimony of Jeffrey M. Michlik, page 22.

⁷⁸ *Id.*, pages 22-23.

⁷⁹ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Consolidated Company Schedule JMM-1.

1 propose a revenue requirement based on application of an appropriate operating margin.⁸⁰ The
 2 Commission has used this method when evaluating adequate revenue for small, financially-stressed
 3 water companies when a return on rate base would not provide a company with sufficient revenue to
 4 meet its needs. The Applicants assert that this is the situation in this matter, noting that Staff's
 5 recommended 10.0 percent rate of return results in an operating margin of only 6.63 percent for East
 6 Slope.⁸¹

7 121. The Applicants also point out that although Staff recommends a WIFA Surcharge to
 8 support the debt service on the \$2.75 million loan, Staff did not include sufficient funds in the WIFA
 9 Surcharge to cover the additional amounts necessary to support WIFA's required debt service reserve
 10 fund ("DSRF") requirements. Under WIFA's DRSF requirement, East Slope's annual DSRF payment
 11 would be \$38,852 for the first five years of the loan, which Staff believes should be paid by East Slope
 12 from its cash flows. The Applicants argue that this requirement would make the already precarious
 13 financial situation worse.⁸²

14 122. In addition, the Applicants object to Staff's inclusion of depreciation expense in
 15 calculating East Slope's available cash flow to cover the DSRF. The Applicants argue that
 16 depreciation expense should be available for the Company to use for contingencies at the Company's
 17 discretion. The Applicants assert it is inappropriate for Staff to direct how the depreciation expense
 18 should be used, stating, "What is most troubling is that Staff's position is actually a financial
 19 disincentive for the Company to take on the WIFA loan to improve the systems and presumes to
 20 require the Companies to commit substantial amounts of its depreciation cash flow, (i.e., return of
 21 investment) to repay the WIFA loan."⁸³ The Applicants conclude that there must be sufficient
 22 revenues to cover all operating expenses without having to earmark the Company's depreciation
 23 expense for the WIFA DSRF.⁸⁴

24 123. Accordingly, the Applicants propose a total revenue requirement of \$437,934,
 25 necessitating an increase in revenues of \$153,851, or 54.16 percent, resulting in an operating margin

26 _____
 27 ⁸⁰ Updated Rejoinder Testimony of Sonn Rowell, pages 2-5.

⁸¹ *Id.*; Tr. at 119-121.

⁸² *Id.*, pages 4-5.

⁸³ *Id.*, page 5. (Emphasis original.)

⁸⁴ *Id.*

1 for East Slope of 12.4 percent. This equates to a rate of return on rate base of 20.00 percent.⁸⁵

2 124. Staff agrees that in instances of small utilities with little or no rate base, using a rate of
3 return on rate base methodology may not provide sufficient operating income to meet expenses and
4 provide a reasonable cushion for contingencies. In these circumstances, Staff will recommend
5 additional revenues in order to protect customers' health and safety and promote financial viability.
6 However, Staff believes that in this case its recommended revenue based on a 10.0 percent rate of
7 return provides East Slope with adequate cash flow for contingencies.⁸⁶

8 125. Staff acknowledges its recommended WIFA Surcharge covers principal, interest and
9 taxes on the WIFA loan, but not the DSRF.⁸⁷ Staff explains that a DSRF is "essentially a savings
10 account that accumulates to the benefit of the utility owners. However, cash is needed for funding the
11 WIFA [DSRF]. Accordingly, in circumstances in which the rate base/rate of return method does not
12 provide adequate cash flow to cover the WIFA [DSRF], a provision for additional collections from
13 ratepayers is appropriate."⁸⁸ Staff asserts that its revenue requirement based on a 10.0 percent rate of
14 return provides East Slope with sufficient funds to cover its expenses and leaves the Company with
15 enough funds to not only cover contingencies, but also the annual DSRF payment.⁸⁹

16 126. Staff points out customers are already being asked to pay a significant amount to cover
17 the debt service and adding in the DSRF payment would make the WIFA Surcharge more onerous.⁹⁰
18 Further, East Slope currently has a negative equity of \$6,811⁹¹ and is taking on a loan that is
19 approximately ten times its rate base, yet shareholders/owners are not contributing any equity to fund
20 the capital improvements. Instead, the Companies insist ratepayers should shoulder the entire
21 financial burden of the WIFA loan. Staff witness Mr. Fox stated that this is not equitable and
22 therefore Staff believes it is reasonable to include depreciation expense in cash flow calculations and
23

24 ⁸⁵ Rejoinder Testimony of Sonn S. Rowell, Attachment 4, Consolidated Company Rejoinder Schedule A-1.

25 ⁸⁶ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, page 6.

26 ⁸⁷ Staff explains that the DSRF "is established by WIFA to secure payment of loan repayments. When the fund becomes
27 equal to or greater than the balance due on the loan, WIFA applies the fund to pay in full the remaining amount due and
28 WIFA refunds to the Company any monies remaining in the fund after payment in full. (Supplemental Surrebuttal
29 Testimony of Jeffrey M. Michlik, page 7, footnote 3.)

30 ⁸⁸ *Id.*, page 7. In Decision No. 72638 (October 14, 2011), the Commission noted that Staff recommended inclusion of the
31 DSRF in the WIFA Surcharge in that case because Staff determined that there were not sufficient revenues generated by
32 rate of return on rate base to pay the DSRF. See also Tr. at 267-268.

33 ⁸⁹ *Id.*, page 8.

34 ⁹⁰ Tr. at 199.

35 ⁹¹ Rejoinder Testimony of Sonn Rowell, Attachment 4, Consolidated Company Rejoinder Schedules D-1, E-1.

1 to require the Company to pay the DSRF from cash flow.⁹²

2 127. The following chart demonstrates Staff's calculations regarding the sufficiency of its
3 recommended revenue and cash flow for East Slope:⁹³

4 Cash Inflows:

5 Revenue—Base Rates \$396,651

6 Revenue—WIFA Surcharge \$254,201

7 TOTAL REVENUE \$650,852

8 Cash Outflows:

9 Total Operating Expenses \$430,287

10 OPERATING INCOME \$220,565

11 Plus: Depreciation Expense \$37,455

12 Less: AIAC refunded over 10 years \$1,924

13 Less: WIFA Loan Payment—Interest \$99,421

14 Less: WIFA Loan Payment—Principle \$94,841

15 CASH FLOW BEFORE WIFA DRSF \$61,835

16 WIFA DSRF:

17 20% of Principle and Interest \$38,852

18 **CASH FLOW AFTER WIFA DRSF \$22,982**

19 128. Staff concludes that the remaining \$22,982 provides East Slope with adequate funds to
20 cover any contingencies that may arise.⁹⁴

21 129. We note also that A.R.S § 40-222 confirms that the Commission may require a public
22 service corporation to set aside depreciation funds and use those funds, and the income from those
23 funds, for purposes the Commission prescribes.⁹⁵ Accordingly, we reject the Applicants' argument
24 that the Commission should not direct how the depreciation expense should be used.

25 130. We agree with Staff's arguments that East Slope's revenue requirement should be
26

27 ⁹² Tr. at 197-199.

⁹³ From Hearing Exhibit S-6; Tr. at 194-197.

⁹⁴ Tr. at 197, 244.

⁹⁵ See also Decision No. 72429 (June 24, 2011).

1 based on rate of return on rate base and Staff's calculations supporting the sufficiency of its
 2 recommended revenues. We find that Staff's proposed 10.0 percent rate of return on rate base is
 3 reasonable, entitling East Slope to a gross revenue increase of \$112,568, or 39.63 percent.

4	FVRB	\$263,029
5	Adjusted Operating Income	\$(59,073)
6	Required Rate of Return	10.00%
7	Required Operating Income	\$26,303
8	Operating Income Deficiency	\$85,376
9	Gross Rev. Conv. Factor	1.3185
10	Gross Revenue Increase	\$112,568
11	Adjusted Test Year Revenue	\$284,083
12	Approved Annual Revenue	\$396,651
13	Percentage Revenue Increase	39.63%

14 Rate Design

15 131. The Companies' current rates and charges are as follows:

16	<u>MONTHLY USAGE CHARGE:</u>	<u>ESWC</u>	<u>ARWC</u>	<u>IWC</u>
17	<u>All Classes</u>			
17	5/8" x 3/4" Meter	\$9.00	\$11.50	\$15.00
18	3/4" Meter	9.00	17.25	15.00
18	1" Meter	15.00	28.75	15.00
19	1-1/2" Meter	25.00	57.50	15.00
19	2" Meter	50.00	92.00	15.00
20	3" Meter	N/A	172.50	15.00
20	4" Meter	N/A	287.50	15.00
21	6" Meter	N/A	575.00	15.00
22	<u>Gallons Included in Usage Charge:</u>	2,000	0	1,000
23	<u>EMERGENCY INTERIM SURCHARGE:</u>	\$7.60	\$7.83	\$5.58
24	<u>COMMODITY CHARGE:</u>			
24	<u>Per 1,000 Gallons</u>			
25	<u>All Classes</u>			
26	0 gallons to 1,000 gallons	N/A	\$1.00	N/A
26	1,001 gallons to 2,000 gallons	N/A	1.00	\$3.50
27	Over 2,000 gallons	\$1.71	1.00	3.50

28

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

	<u>ESWC</u>	<u>ARWC</u>	<u>IWC</u>
3 <u>Service Size:</u>			
4 5/8" x 3/4" Meter	\$275.00	\$175.00	\$100.00
4 3/4" Meter	300.00	220.00	120.00
5 1" Meter	325.00	250.00	200.00
5 1-1/2" Meter	475.00	275.00	300.00
6 2" Meter	650.00	500.00	500.00
6 3" Meter	N/A	700.00	N/A
7 4" Meter	N/A	1,300	N/A
7 6" Meter	N/A	2,800	N/A

	<u>ESWC</u>	<u>ARWC</u>	<u>IWC</u>
8 <u>SERVICE CHARGES:</u>			
9 Establishment	\$15.00	\$20.00	\$20.00
9 Establishment (After Hours)	20.00	30.00	50.00
10 Reconnection	N/A	N/A	10.00
10 Reconnection (Delinquent)	\$15.00	\$10.00	N/A
11 Reconnection (After Hours)	N/A	N/A	\$40.00
11 Meter Test (If Correct)	\$20.00	\$20.00	20.00
12 Meter Reread (If Correct)	10.00	10.00	10.00
12 NSF Check Charge	15.00	15.00	10.00
13 Deposit	*	*	N/A
13 Deposit Interest (Per Annum)	*	6.00%	N/A
14 Deferred Payment (Per Month)	15.00%	N/A	N/A
15 Re-establishment (within 12 months)	**	**	\$50.00

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

16 ** Per Commission Rule A.A.C. R14-2-403(D) – Months off the system times the monthly minimum.

17 132. Once the Commission-approved permanent rates go into effect, the Companies'
 18 Emergency Interim Surcharges will terminate.⁹⁶

19 133. Based on their revenue requirements, the parties proposed the following base rates and
 20 charges for the consolidated East Slope:

	<u>Company Proposed</u>	<u>Staff Recommended</u>
21 <u>MONTHLY USAGE CHARGE:</u>		
22 <u>Meter Size (All Classes)</u>		
23 5/8" x 3/4" Meter	\$13.45	\$12.00
23 3/4" Meter	20.18	18.00
24 1" Meter	33.63	30.00
24 1-1/2" Meter	67.25	60.00
25 2" Meter	107.60	96.00
25 3" Meter	215.20	192.00
26 4" Meter	336.25	300.00
26 6" Meter	672.50	600.00

27
 28 ⁹⁶ Tr. at 272.

1	<u>COMMODITY CHARGE:</u>		
2	<u>Per 1,000 Gallons</u>		
3	<u>5/8" x 3/4" Meter (Residential)</u>		
4	0 gallons to 3,000 gallons	\$1.07	N/A
5	3,001 gallons to 10,000 gallons	1.93	N/A
6	Over 10,000 gallons	3.47	N/A
7	0 gallons to 3,000 gallons	N/A	\$0.95
8	3,001 to 10,000 gallons	N/A	1.70
9	Over 10,000 gallons	N/A	3.17
10	<u>3/4" Meter (Residential)</u>		
11	0 gallons to 3,000 gallons	\$1.07	N/A
12	3,001 gallons to 10,000 gallons	1.93	N/A
13	Over 10,000 gallons	3.47	N/A
14	0 gallons to 3,000 gallons	N/A	\$0.95
15	3,001 to 10,000 gallons	N/A	1.70
16	Over 10,000 gallons	N/A	3.17
17	<u>5/8" x 3/4" Meter (Commercial/Irrigation)</u>		
18	0 gallons to 3,000 gallons	\$1.07	N/A
19	3,001 gallons to 10,000 gallons	1.93	N/A
20	Over 10,000 gallons	3.47	N/A
21	0 gallons to 10,000 gallons	N/A	\$1.70
22	Over 10,000 gallons	N/A	3.17
23	<u>3/4" Meter (Commercial/Irrigation)</u>		
24	0 gallons to 3,000 gallons	\$1.07	N/A
25	3,001 gallons to 10,000 gallons	1.93	N/A
26	Over 10,000 gallons	3.47	N/A
27	0 gallons to 10,000 gallons	N/A	\$1.70
28	Over 10,000 gallons	N/A	3.17
29	<u>1" Meter (All Classes)</u>		
30	0 gallons to 25,000 gallons	\$1.93	N/A
31	Over 25,000 gallons	3.47	N/A
32	0 gallons to 15,000 gallons	N/A	\$1.70
33	Over 15,000 gallons	N/A	3.17
34	<u>1-1/2" Meter (All Classes)</u>		
35	0 gallons to 50,000 gallons	\$1.93	N/A
36	Over 25,000 gallons	3.47	N/A
37	0 gallons to 50,000 gallons	N/A	\$1.70
38	Over 34,000 gallons	N/A	3.17
39	<u>2" Meter (All Classes)</u>		
40	0 gallons to 80,000 gallons	\$1.93	N/A
41	Over 80,000 gallons	3.47	N/A

1	0 gallons to 55,000 gallons	N/A	\$1.70
2	Over 55,000 gallons	N/A	3.17
3	<u>3" Meter (All Classes)</u>		
3	0 gallons to 140,000 gallons	\$1.93	N/A
4	Over 140,000 gallons	3.47	N/A
5	0 gallons to 115,000 gallons	N/A	\$1.70
5	Over 115,000 gallons	N/A	3.17
6	<u>4" Meter (All Classes)</u>		
7	0 gallons to 200,000 gallons	\$1.93	N/A
7	Over 200,000 gallons	3.47	N/A
8	0 gallons to 185,000 gallons	N/A	\$1.70
9	Over 185,000 gallons	N/A	3.17
10	<u>6" Meter(All Classes)</u>		
10	0 gallons to 400,000 gallons	\$1.93	N/A
11	Over 400,000 gallons	3.47	N/A
12	0 gallons to 380,000 gallons	N/A	\$1.70
12	Over 380,000 gallons	N/A	3.17

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

	<u>Proposed</u>			<u>Recommended</u>		
<u>Service Size</u>	<u>Proposed Service Line Charge</u>	<u>Meter Installation Charge</u>	<u>Total Proposed Charges</u>	<u>Recommended Service Line Charge</u>	<u>Meter Installation Charge</u>	<u>Total Recommended Charges</u>
5/8" Meter	\$ 430.00	\$ 130.00	\$ 560.00	\$ 430.00	\$ 130.00	\$ 560.00
3/4 " Meter	430.00	230.00	660.00	430.00	230.00	660.00
1" Meter	480.00	290.00	770.00	480.00	290.00	770.00
1-1/2" Meter	535.00	500.00	1,035.00	535.00	500.00	1,035.00
2" Meter Turbine	815.00	1,020.00	1,835.00	815.00	1,020.00	1,835.00
2" Meter Compound	815.00	1,865.00	2,680.00	815.00	1,865.00	2,680.00
3" Meter	1,030.00	1,645.00	2,675.00	1,030.00	1,645.00	2,675.00
3" Meter Compound	1,150.00	2,545.00	3,695.00	1,150.00	2,545.00	3,696.00
4" Meter Turbine	1,460.00	2,620.00	4,080.00	1,460.00	2,620.00	4,080.00
4" Meter Compound	1,640.00	3,595.00	5,235.00	1,640.00	3,595.00	5,235.00
6" Meter Turbine	2,180.00	4,975.00	7,155.00	2,180.00	4,975.00	7,155.00
6" Meter Compound	2,300.00	6,870.00	9,170.00	2,300.00	6,870.00	9,170.00

SERVICE CHARGES:

	<u>Company Proposed</u>	<u>Staff Recommended</u>
Establishment	\$35.00	\$35.00
Reconnection (Delinquent)	35.00	35.00
After Hours Service Charge	35.00	35.00
Meter Test (If Correct)	25.00	25.00
Meter Reread (If Correct)	20.00	20.00
NSF Check Charge	25.00	25.00
Deposit	*	*
Deposit Interest (Per Annum)	*	*
Deferred Payment (Per Month)	**	**
Late Charge (Per Month)	**	**
Re-establishment (within 12 months)	***	***
Monthly Service Charge for Fire Sprinkler	****	*****

- 1 * Per Commission Rule A.A.C. R14-2-403(B)
 2 ** Per Commission Rule A.A.C. R14-2-403(B) _ 1.50% of unpaid monthly balance.
 3 *** Per Commission Rule A.A.C. R14-2-403(D) – Months off the system times the monthly minimum.
 4 **** 1% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The
 5 service charge for fire sprinklers in only applicable for service lines separate and distinct from the primary
 6 water service line.
 7 ***** 2% of monthly minimum for a comparable sized meter connection, but no less than \$10.00 per month. The
 8 service charge for fire sprinklers in only applicable for service lines separate and distinct from the primary
 9 water service line.

10 134. Both the Applicants and Staff proposed an inverted three-tier base rate design for
 11 residential customers and for commercial and irrigation customers using smaller meters. Rates for
 12 commercial and irrigation customers on larger meters are based on a two-tier rate design. There were
 13 no objections to the Applicants' proposed Service Line and Meter Installation Charges and no
 14 disagreement on the Service Charge amounts. Based on the revenue requirement authorized herein,
 15 we believe that Staff's recommended base rates and charges are just and reasonable and we adopt
 16 them.

17 135. Under these authorized base rates for the consolidated company, an ESWC residential
 18 customer on a 5/8-inch x 3/4-inch meter using an average 9,137 gallons would see a monthly increase
 19 of \$4.08, or 19.23 percent, from \$21.20 to \$25.28. An ESWC residential customer on a 5/8-inch x
 20 3/4-inch meter using a median 5,330 gallons would see a monthly increase of \$4.12, or 28.02 percent,
 21 from \$14.69 to \$18.81.

22 136. An ARWC residential customer on a 5/8-inch x 3/4-inch meter using an average 11,839
 23 gallons would see a monthly increase of \$9.24, or 39.59 percent, from \$23.34 to \$32.58. An ARWC
 24 residential customer on a 5/8-inch x 3/4-inch meter using a median 6,900 gallons would see a monthly
 25 increase of \$3.08, or 16.74 percent, from \$18.40 to \$21.48.

26 137. An IWC residential customer on a 5/8-inch x 3/4-inch meter using an average 8,731
 27 gallons would see a monthly decrease of \$17.47, or -41.53 percent, from \$42.06 to \$24.59. An IWC
 28 residential customer on a 5/8-inch x 3/4-inch meter using a median 5,260 gallons would see a monthly
 decrease of \$18.69, or -11.22 percent, from \$29.91 to \$18.69.

138. The approved rates are without the inclusion of the WIFA Surcharge, which, as will be
 discussed below, will result in a substantial increase to monthly customer bills.

...

1 **The Finance Application**

2 **Financing Terms**

3 139. The Applicants requested Commission approval for the consolidated company to obtain
4 a \$2,748,504 loan from WIFA for a term of 20 years at an approximate 3.675 percent interest rate in
5 order to finance the capital improvement projects outlined in the attached Exhibit B.

6 **Planned Improvements**

7 140. The Companies' operations witness, Keith Dojaquez, testified that the water systems
8 are old and in poor condition. Mr. Dojaquez stated that there are leaks and issues with the wells on
9 almost a daily basis.⁹⁷ The financing will aid the Companies in addressing most of the larger system
10 issues.⁹⁸ The planned improvement projects include \$1,611,936 in improvements to ESWC's water
11 system and a combined cost of \$1,136,568 for improvements to ARWC's and IWC's systems.
12 According to James Downing,⁹⁹ the Companies' engineering witness, one of the projects is the
13 construction of a permanent interconnection between ARWC and IWC. This results in a savings of
14 \$14,606 over total costs for each individual system because the construction of the permanent
15 interconnection will allow ARWC and IWC to share certain plant components such as storage
16 tanks.¹⁰⁰ Other recommended projects include well rehabilitation, new storage, installation of new
17 pressure pumps and additions to the distribution system.¹⁰¹

18 141. At hearing, Mr. Downing testified he would anticipate that once the WIFA loan is
19 approved, which he believes can take an average of 120 days, and the construction bid is awarded,
20 construction of the proposed improvements should take approximately 18 months.¹⁰²

21 142. Staff reviewed the proposed improvement projects outlined in the attached Exhibit B
22 and determined the projects are appropriate and the cost estimates projected by the Applicants are
23 reasonable. Staff made no used and useful determination of the proposed plant and no particular
24 future treatment should be inferred for rate-making purposes.

25 ⁹⁷ Tr. at 57-58.

26 ⁹⁸ Tr. at 64.

27 ⁹⁹ Mr. Downing is an engineer with the Harcuvar Co. hired by the Companies to prepare the Pre-Design Report for Capital
Improvement Project that outlines the proposed improvement projects. (Tr. at 67-68; Rebuttal Testimony of James
Downing, Attachment 1.)

28 ¹⁰⁰ Tr. at 80.

¹⁰¹ Tr. at 69.

¹⁰² Tr. at 81-83.

1 Financial Analysis and WIFA Surcharge

2 143. Staff examined the effects of the proposed financing on East Slope's times interest
3 earned ratio ("TIER")¹⁰³ and debt service coverage ("DSC").¹⁰⁴ Based on Staff's recommended
4 revenue requirement and assuming East Slope fully draws on the \$2,748,504 loan amortized over 20
5 years at 3.675 percent interest, East Slope's *pro forma* TIER is .33 and *pro forma* DSC is .36. As such,
6 East Slope would not have adequate cash flows to meet all expense obligations and the proposed debt.
7 Staff concludes that the debt service on any loan approved by the Commission should be funded
8 through the imposition of a WIFA Surcharge.

9 144. In order to support debt service on the WIFA loan, Staff concluded that East Slope
10 needed to collect \$194,262 plus an additional \$59,938 for the incremental income and property taxes
11 on the surcharge, for a total yearly surcharge amount of \$254,200. Staff calculated an approximate
12 WIFA Surcharge amount of \$18.70 for customers on at 5/8-inch x 3/4-inch meter. The WIFA
13 Surcharge amount increases as the meter size increases.¹⁰⁵

14 145. The Applicants agree with Staff's use of a WIFA Surcharge, but argue that any
15 surcharge should be sufficient to support not only principal, interest and taxes, but also the DSRF,
16 which the Companies determined would require a total yearly surcharge amount of \$309,762. Using
17 Staff's formula, the Applicants calculated an approximate WIFA Surcharge amount of \$22.63 for
18 customers on a 5/8-inch x 3/4-inch meter. As with Staff's WIFA Surcharge, the Applicants' WIFA
19 Surcharge amount increases as the meter size increases.¹⁰⁶

20 146. Based on the earlier DSRF discussion, we find that Staff's reasons for recommending
21 that the DSRF should be funded through cash flows, rather than through the WIFA Surcharge, are
22 reasonable and therefore we reject the Applicants' request to include the DSRF in the WIFA
23 Surcharge calculations.

24
25 ¹⁰³ TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER
26 greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the
27 long term but does not necessarily mean that debt obligations cannot be met in the short-term.

28 ¹⁰⁴ DSC represents the number of times internally generated cash will cover required principal and interest payments on
debt. A DSC of less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that
another source of funds is necessary to preclude default on the debt obligation.

¹⁰⁵ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Consolidated Company Schedules, Schedule
JMM-21.

¹⁰⁶ Updated Rejoinder Testimony of Sonn Rowell, Attachment 8, Rejoinder Schedule SSR-8.

1 147. Given the circumstances of this case, we believe Staff's use of a WIFA Surcharge to
2 support WIFA debt service payments and the income taxes resulting from the Surcharge is reasonable.

3 148. Applying Staff's approximate WIFA Surcharge to the approved base rates, an ESWC
4 residential customer on a 5/8-inch x 3/4-inch meter using an average 9,137 gallons would see a
5 monthly increase of \$22.79, or 107.47 percent, from \$21.20 to \$43.98. An ESWC residential
6 customer on a 5/8-inch x 3/4-inch meter using a median 5,330 gallons would see a monthly increase of
7 \$22.83, or 155.34 percent, from \$14.69 to \$37.52.

8 149. An ARWC residential customer on a 5/8-inch x 3/4-inch meter using an average 11,839
9 gallons would see a monthly increase of \$27.95, or 119.76 percent, from \$23.34 to \$51.28. An
10 ARWC residential customer on a 5/8-inch x 3/4-inch meter using a median 6,900 gallons would see a
11 monthly increase of \$21.79, or 118.42 percent, from \$18.40 to \$40.19.

12 150. An IWC residential customer on a 5/8-inch x 3/4-inch meter using an average 8,731
13 gallons would see a monthly increase of \$1.24, or 2.96 percent, from \$42.06 to \$43.29. An IWC
14 residential customer on a 5/8-inch x 3/4-inch meter using a median 5,260 gallons would see a monthly
15 increase of \$7.49, or 25.05 percent, from \$29.91 to \$37.40.

16 151. Staff recommends that East Slope be required to notify its customers of the authorized
17 rates and charges, and their effective date, as well as information explaining the WIFA Surcharge, the
18 approximate date that the WIFA Surcharge is expected to go into effect, and Staff's estimated WIFA
19 Surcharge amount, by means of an insert in the next regularly scheduled billing.

20 152. Staff concludes that issuance of a long-term amortizing loan of 20 years for a loan
21 amount of \$2,748,504 is appropriate, is within East Slope's corporate powers, is compatible with the
22 public interest, would not impair its ability to provide services and would be consistent with sound
23 financial practices.

24 153. Accordingly, Staff recommends Commission authorization for East Slope to obtain a
25 20-year amortizing loan, in an amount not to exceed \$2,748,504 to finance the improvement projects
26 outlined in the attached Exhibit B, and at an interest rate not to exceed that which is available from
27 WIFA.

28 154. Staff recommends that the authorization to incur debt terminate two years from the

1 effective date of this Decision. Mr. Downing testified that he estimates that construction of the
2 projects could take approximately 18 months once construction actually begins, and that it would not
3 begin until after WIFA loan closing and the construction bid awarded. Given the length of this
4 approximate timeframe, we believe it is reasonable to modify Staff's recommendation from two years
5 from this Decision's effective date to not later than December 31, 2014, for the termination of the debt
6 authorization.

7 155. Staff recommends that the Commission authorize East Slope to engage in any
8 transaction and to execute any documents necessary to effectuate the granted authorization.

9 156. Staff recommends that East Slope file as a compliance item in this docket copies of any
10 executed loan documents between East Slope and WIFA within 30 days of execution.

11 157. Within 30 days of the loan documents' filing, Staff shall calculate the actual WIFA
12 Surcharge based on the final loan terms and shall prepare and file a recommended order for
13 Commission consideration.

14 158. Staff recommends that upon Commission approval of the WIFA Surcharge, East Slope
15 shall open a separate interest-bearing account into which all WIFA Surcharge monies collected from
16 customers will be deposited.

17 159. Staff recommends that, except as otherwise directed by the Commission, the only
18 disbursement of funds from this account will be to 1) make debt service payments (principal and
19 interest/fees) to WIFA, and 2) make income tax payments on a pro rata annualized basis not to exceed
20 \$55,854 for East Slope. The excess of collections and interest earnings over actual debt service
21 (principal and interest/fees) shall be refunded as determined by the Commission in future rate
22 proceedings. For purposes of determining the amount, if any, of excess collections, interest expense
23 shall be calculated on an accrual basis as opposed to the amount of cash rendered as payment.

24 160. Staff recommends that East Slope file by January 30th of each year, as a compliance
25 item in this docket, a report reconciling all WIFA Surcharge monies billed and collected, along with
26 copies of the prior year's monthly bank statements for the WIFA Surcharge account.

27 **Additional Recommendations**

28 161. Staff recommends that East Slope use depreciation rates by individual NARUC plant

1 category as delineated in the attached Exhibit A.

2 162. Staff recommends that East Slope be directed to repair or replace the leaking pressure
3 tank at ESWC's Well Site No. 1, within 30 days of the effective date of this Decision.

4 163. Staff recommends that East Slope be directed to post correct ADWR Well ID No.
5 signage at ARWC's Well Site No. 5, within 30 days of the effective date of this Decision.

6 164. Staff recommends that East Slope be required to file with Docket Control, as a
7 compliance item in this docket, within 18 months of the effective date of this Decision, copies of the
8 ADWR Approvals of Construction ("AOCs") for each of the proposed improvement projects, as
9 delineated in the attached Exhibit B. Based on Mr. Downing's testimony regarding the construction
10 timeframe, we believe it is reasonable to allow East Slope until December 31, 2014, to file copies of
11 the AOCs.

12 165. Staff recommends that East Slope be required to file with Docket Control, as a
13 compliance item in this docket, within 90 days of the effective date of this Decision, at least three Best
14 Management Practices ("BMPs"), in the form of a tariff, that substantially conform to the forms
15 available at the Commission's website, for the Commission's review and consideration. A maximum
16 of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training"
17 categories of the BMPs as outlined by the ADWR in its Modified Non-Per Capita Conservation
18 Program and relevant ADWR documents.

19 166. We find that Staff's recommendations, as modified, are reasonable and shall be
20 adopted.

21 167. We believe it is reasonable to require East Slope to file a rate application no later than
22 June 30, 2017, based on a December 31, 2014, test year. East Slope may file the rate application
23 earlier than June 30, 2017, but not before the proposed improvement projects have been completed
24 and placed into service.

25 168. At hearing, Ms. O'Connor acknowledged that upon Commission approval of the
26 transfer of ARWC's and IWC's CC&Ns to East Slope, the Company would have to apply to Cochise
27
28

1 County to transfer ARWC's and IWC's Franchise Agreements to East Slope.¹⁰⁷ We believe it is
 2 reasonable to require East Slope to file with Docket Control, as a compliance item in this docket,
 3 within one year of the effective date of this Decision, a copy of the Cochise County Franchise
 4 Agreement demonstrating the transfer of ARWC's and IWC's Franchise Agreements to East Slope.

5 169. Because an allowance for the property tax expense is included in East Slope's rates and
 6 will be collected from its customers, the Commission seeks assurances from East Slope that any taxes
 7 collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the
 8 Commission's attention that a number of water companies have been unwilling or unable to fulfill
 9 their obligation to pay the taxes that were collected from its ratepayers, some for as many as twenty
 10 years. It is reasonable, therefore, that as a preventive measure East Slope shall annually file, as part of
 11 its annual report, an affidavit with the Commission's Utilities Division attesting that the company is
 12 current in paying its property taxes in Arizona.

13 CONCLUSIONS OF LAW

14 1. ESWC, ARWC and IWC are public service corporations within the meaning of Article
 15 XV of the Arizona Constitution and A.R.S. §§ 40-202, 40-250, 40-251, 40-285, 40-321, 40-331, 40-
 16 361 and 40-367.

17 2. The Commission has jurisdiction over ESWC, ARWC and IWC and the subject matter
 18 contained in the Rate Applications, Finance Applications and Consolidation Application.

19 3. Notice of the Rate Applications, Finance Applications and Consolidation Application
 20 was given in accordance with Arizona law.

21 4. Consolidation of operations and rates for ESWC, ARWC and IWC is in the public
 22 interest.

23 5. East Slope is a fit and proper entity to own and operate the utility assets of ARWC and
 24 IWC.

25 6. The rates, charges and conditions established herein are just and reasonable and in the
 26 public interest.

27
 28 ¹⁰⁷ Tr. at 43-44, 106-108; Updated Rejoinder Testimony of Bonnie O'Connor, page 1.

COMMODITY CHARGE:**Per 1,000 Gallons**

1		
2	<u>5/8" x 3/4" Meter (Residential)</u>	
3	0 gallons to 3,000 gallons	\$0.95
	3,001 to 10,000 gallons	1.70
4	Over 10,000 gallons	3.17
5	<u>3/4" Meter (Residential)</u>	
6	0 gallons to 3,000 gallons	\$0.95
	3,001 to 10,000 gallons	1.70
7	Over 10,000 gallons	3.17
8	<u>5/8" x 3/4" Meter (Commercial/Irrigation)</u>	
9	First 10,000 gallons	\$1.70
	Over 10,000 gallons	3.17
10	<u>3/4" Meter (Commercial/Irrigation)</u>	
11	0 gallons to 10,000 gallons	\$1.70
12	Over 10,000 gallons	3.17
13	<u>1" Meter (All Classes)</u>	
	0 gallons to 15,000 gallons	\$1.70
14	Over 15,000 gallons	3.17
15	<u>1 1/2" Meter (All Classes)</u>	
	0 gallons to 34,000 gallons	\$1.70
16	Over 34,000 gallons	3.17
17	<u>2" Meter (All Classes)</u>	
18	0 gallons to 55,000 gallons	\$1.70
	Over 55,000 gallons	3.17
19	<u>3" Meter (All Classes)</u>	
20	0 gallons to 115,000 gallons	\$1.70
21	Over 115,000 gallons	3.17
22	<u>4" Meter (All Classes)</u>	
	0 gallons to 185,000 gallons	\$1.70
23	Over 185,000 gallons	3.17
24	<u>6" Meter (All Classes)</u>	
25	0 gallons to 380,000 gallons	\$1.70
	Over 380,000 gallons	3.17
26		
27	...	
28	...	

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

<u>Service Size</u>	<u>Service Line Charge</u>	<u>Meter Installation Charge</u>	<u>Total Charges</u>
5/8" Meter	\$ 430.00	\$ 130.00	\$ 560.00
3/4 " Meter	430.00	230.00	660.00
1" Meter	480.00	290.00	770.00
1-1/2" Meter	535.00	500.00	1,035.00
2" Meter Turbine	815.00	1,020.00	1,835.00
2" Meter Compound	815.00	1,865.00	2,680.00
3" Meter	1,030.00	1,645.00	2,675.00
3" Meter Compound	1,150.00	2,545.00	3,696.00
4" Meter Turbine	1,460.00	2,620.00	4,080.00
4" Meter Compound	1,640.00	3,595.00	5,235.00
6" Meter Turbine	2,180.00	4,975.00	7,155.00
6" Meter Compound	2,300.00	6,870.00	9,170.00

11 **SERVICE CHARGES:**

Establishment	\$35.00
Reconnection (Delinquent)	35.00
Meter Test (If Correct)	25.00
Meter Reread (If Correct)	20.00
After Hours Service Charge	35.00
NSF Check Charge	25.00
Deposit	*
Deposit Interest (Per Annum)	*
Deferred Payment (Per Month)	**
Late Charge (Per Month)	**
Re-establishment (within 12 months)	***
Monthly Service Charge for Fire Sprinkler	****

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

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

19 *** Per Commission Rule A.A.C. R14-2-403(D) – Months off the system times the monthly minimum.

19 **** 2% 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 water service line.

21 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective
 22 for all service rendered on and after April 1, 2012, except that the WIFA Surcharge shall become
 23 effective for all service rendered the first day of the month following Commission approval of the
 24 WIFA Surcharge.

25 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall
 26 notify its customers of the revised schedules of rates and charges authorized herein and their effective
 27 date, as well as information explaining the WIFA Surcharge, the approximate date that the WIFA
 28 Surcharge is expected to go into effect and Staff's estimated WIFA Surcharge amount, by means of

1 either an insert in its next regularly scheduled billing or by a separate mailing, in a form acceptable to
2 Staff.

3 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company is hereby
4 authorized to obtain a 20-year amortizing loan in an amount not to exceed \$2,748,504 to finance the
5 proposed improvement projects, and at an interest rate not to exceed that which is available from
6 WIFA.

7 IT IS FURTHER ORDERED that such financing authority shall be expressly contingent upon
8 Bob B. Watkins d/b/a East Slope Water Company's use of the proceeds for the purposes stated and
9 approved herein.

10 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company is
11 authorized to engage in any transactions and to execute any documents necessary to effectuate the
12 authorizations granted herein.

13 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall file
14 with Docket Control, as a compliance item in this docket, within 30 day of execution, copies of the
15 executed loan documents between Bob B. Watkins d/b/a East Slope Water Company and WIFA.

16 IT IS FURTHER ORDERED that within 30 days of executed loan documents' filing, Staff
17 shall calculate the WIFA Surcharge and prepare and file a recommended order for Commission
18 consideration.

19 IT IS FURTHER ORDERED that upon Commission approval of the WIFA Surcharge, Bob
20 B. Watkins d/b/a East Slope Water Company shall open an interest-bearing account into which all
21 WIFA Surcharge funds collected from customers will be deposited.

22 IT IS FURTHER ORDERED that the only disbursement of funds from this account will be to
23 (1) make debt service payments (principal and interest/fees) to WIFA, and (2) make income tax
24 payments on a pro rata annualized basis not to exceed \$55,854. The excess of collections and interest
25 earnings over actual debt service (principal and interest/fees) shall be refunded as determined by the
26 Commission in future rate proceedings. For purposes of determining the amount, if any, of excess
27 collections, interest expense shall be calculated on an accrual basis as opposed to the amount of cash
28 rendered as payment.

1 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall file
2 with Docket Control by January 30th of each year, as a compliance item in this docket, a report
3 reconciling all WIFA Surcharge monies billed and collected, along with copies of the prior year's
4 monthly bank statements for the WIFA Surcharge account.

5 IT IS FURTHER ORDERED that the granted authorization to incur debt shall terminate on
6 December 31, 2014.

7 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall use
8 the NARUC Depreciation Rates as delineated in the Depreciation Table attached as Exhibit A, on a
9 going forward basis.

10 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall file
11 a rate application no later than June 30, 2017, using a December 31, 2016, test year. The Company
12 may file the rate application earlier than June 30, 2017, but not before the proposed improvement
13 projects have been completed and placed into service.

14 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
15 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
16 proceeds derived thereby for purposes of establishing just and reasonable rates.

17 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall file
18 annual reports separately for each of the individual Public Water Systems, as defined by ADEQ,
19 including but not limited to, accurate water use data and plant description data, in future annual
20 reports and rate case filings.

21 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall file
22 with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this
23 Decision, at least three BMPs in the form of a tariff that substantially conforms to the forms available
24 at the Commission's website, for the Commission's review and consideration. A maximum of two
25 BMPs may come from the "Public Awareness/Public Relations" or "Education and Training"
26 categories of the BMPs as outlined by the ADWR in its Modified Non-Per Capita Conservation
27 Program and relevant ADWR documents.

28 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall,

1 within 30 days of the effective date of this Decision, repair or replace the leaking pressure tank at
2 ESWC Well Site No. 1.

3 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall,
4 within 30 days of the effective date of this Decision, post correct ADWR Well ID No. signage at the
5 ARWC Well Site No. 5.

6 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall file
7 with Docket Control, as a compliance item in this docket, no later than December 31, 2014, copies of
8 the Approvals of Construction for each of the proposed improvement projects outlined in the attached
9 Exhibit B.

10 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall file
11 with Docket Control, as a compliance item in this docket, within one year of the effective date of this
12 Decision, a copy of the Cochise County Franchise Agreement demonstrating the transfer of Antelope
13 Run Water Company's and Indiada Water Company's Franchise Agreements to Bob B. Watkins
14 d/b/a East Slope Water Company.

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1 IT IS FURTHER ORDERED that Bob B. Watkins d/b/a East Slope Water Company shall file
2 as part of its annual report an affidavit attesting that it is current on payment of its property taxes in
3 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 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
12 Executive Director of the Arizona Corporation Commission,
13 have hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this _____ day of _____ 2012.

16 _____
17 ERNEST G. JOHNSON
18 EXECUTIVE DIRECTOR

19 DISSENT _____

20 DISSENT _____
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SERVICE LIST FOR:

BOB B. WATKINS DBA EAST SLOPE WATER COMPANY, ANTELOPE RUN WATER COMPANY, INDIADA WATER COMPANY, INC.

DOCKET NOS.:

W-02031A-10-0168, W-02327A-10-0169, W-01906A-10-0170, W-01906A-10-0171, W-02031A-10-0171, W-02327A-10-0171, W-01906A-10-0183, W-02031A-10-0184, W-02327A-10-0185

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Phoenix, AZ 85004

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ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Steven M. Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

EXHIBIT A

TABLE A
DEPRECIATION RATE TABLE FOR WATER COMPANIES

NARUC Account 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
348	Other Tangible Plant	----	----

EXHIBIT B

TABLE C
PROPOSED CAPITAL IMPROVEMENT PROJECTS AND COSTS
3 WATER SYSTEMS

Site	Item Description	Quantity	Unit Cost	Cost Installed
East Slope System				
ES Well no.1	Install new storage tank	1-50,000 gal	\$2/gal	\$100,000
	Replace well pump	1-10hp	\$1,000/hp	\$10,000
	Install VFD Pump	2x15hp	\$700/hp	\$21,000
	Eliminate pressure tank	1-3,000 gal	\$1/gal	\$3,000
	Fencing			\$2,000
	Security lighting			\$1,000
	Generator	1-40hp	\$200/hp	\$8,000
	Utility relocation			\$10,000
				Total site cost
ES Well no.2	Replace collapse well	8 inch, 800 ft casing	\$50/ft	\$40,000
	New well pump	1-10hp	\$1,000/hp	\$10,000
	Refurbish existing storage tank	1-50,000 gal	\$0.5/gal	\$25,000
	Install VFD Pump	2x35hp	\$200/hp	\$7,000
	Eliminate pressure tank	1-5,000 gal	\$1/gal	\$5,000
	Fencing			\$2,000
	Security lighting			\$1,000
	Generator	1-45hp	\$200/hp	\$9,000
	Utility relocation			\$10,000
			Total site cost	\$109,000
ES Well no.3	Replace well pump	1-5hp	\$1,000/hp	\$5,000
	Install VFD Pump	2x30hp	\$200/hp	\$6,000
	Eliminate pressure tank	1-5,000 gal	\$1/gal	\$5,000
	Fencing			\$2,000
	Security lighting			\$1,000
	Generator	1-35hp	\$200/hp	\$7,000
			Total site cost	\$26,000
ES Well no.4	Install VFD Pump	1-75hp	\$200/hp	\$15,000
	Eliminate pressure tank	1-5,000 gal	\$1/gal	\$5,000
	Fencing			\$2,000
	Security lighting			\$1,000
	Generator	1-75hp	\$200/hp	\$15,000
	Utility relocation			\$10,000
			Total site cost	\$48,000
			Sub-Total	\$338,000
	Water main addition and replacements	20,500 lf	\$40/ft	\$820,000
			Sub-Total	\$1,158,000
	Administrative and legal fees	2%		\$23,160
	Engineering fees	8%		\$92,640
	Survey, geotechnical, etc	2%		\$23,160
	Inspections and approvals	4%		\$46,320
			Sub-Total	\$1,343,280

Contingencies		20%		\$268,656
			Total	\$1,611,936
Antelope Run and Indiada Systems Combined				
Indiada Well no.2	Replace well pump	1-0.5hp		\$2,500
	Refurbish existing storage tank	1-12,000 gal	\$0.5/gal	\$6,000
	Install VFD Pump	2x5hp	\$700/hp	\$7,000
	Eliminate pressure tank	1-1,000 gal	\$1/gal	\$1,000
	Fencing			\$2,000
	Security lighting			\$1,000
	Generator	1-10.5hp	\$200/hp	\$2,100
	Utility relocation			\$10,000
			Total site cost	\$31,600
Indiada Well no.3	Replace well pump	1-3hp	\$1,000/hp	\$3,000
	Install new storage tank	1-20,000 gal	\$2/gal	\$40,000
	Install VFD Pump	2x5hp	\$700/hp	\$7,000
	Eliminate pressure tank	1-1,000 gal	\$1/gal	\$1,000
	Fencing			\$2,000
	Security lighting			\$1,000
	Generator	1-13hp	\$200/hp	\$2,600
	Utility relocation			\$10,000
			Total site cost	\$66,000
Indiada Well no.4	Replace well pump	1-3hp	\$1,000/hp	\$3,000
	Install new storage tank	1-20,000 gal	\$2/gal	\$40,000
	Install VFD Pump	2x5hp	\$700/hp	\$7,000
	Eliminate pressure tank	1-1,000 gal	\$1/gal	\$1,000
	Fencing			\$2,000
	Security lighting			\$1,000
	Generator	1-13hp	\$200/hp	\$2,600
	Utility relocation			\$10,000
			Total site cost	\$66,000
AR Well no.1	Refurbish existing storage tank	1-15,000 gal	\$0.5/gal	\$7,500
	Install VFD Pump	2x10hp	\$700/hp	\$14,000
	Eliminate pressure tank	1-1,000 gal	\$1/gal	\$1,000
	Fencing			\$2,000
	Security lighting			\$1,000
	Generator	1-20hp	\$200/hp	\$4,000
				Total site cost
AR Well no.'s 3 & 5	Replace collapsed well no.3	8 inch, 800 ft casing	\$50/ft	\$40,000
	Install new well pumps	2-3hp	\$1,000/hp	\$6,000
	Install new storage tank	1-80,000 gal	\$2/gal	\$160,000
	Install VFD Pump	2x15hp	\$700/hp	\$21,000
	Eliminate pressure tank	1-5,000 gal	\$1/gal	\$5,000
	Fencing			\$2,000

	Security lighting			\$1,000
	Generator	1-36hp	\$200/hp	\$7,200
			Total site cost	\$242,200
	Water main additions and replacements	9,500 lf	\$40/lf	\$380,000
			Sub-Total	\$816,000
	Administrative and legal fees	2%		\$16,330
	Engineering fees	8%		\$65,320
	Survey, geotechnical, etc	2%		\$16,330
	Inspections and approvals	4%		\$32,660
			Sub-Total	\$947,140
	Contingencies	20%		\$189,428
			Total	\$1,136,568
			Total for all 3 systems	\$2,748,504