ORIGINAL

0000136184

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: April 27, 2012

RE: **SUPPLEMENTAL** STAFF REPORT FOR EAGLETAIL WATER COMPANY, L.L.C.'s APPLICATIONS FOR A PERMANENT RATE INCREASE (DOCKET NO. W-03936A-11-0418) AND FOR AUTHORITY TO INCURE LONG-TERM INDEBTEDNESS. (DOCKET NOS. W-03936A-12-0073 and W-03936A-11-0418)

On November 22, 2011, the Eagletail Water Company, L.L.C. ("Eagletail") filed an application for a permanent rate increase. Staff filed its Staff Report on February 22, 2012. Subsequently, on March 1, 2012, Eagletail filed an application for approval of a financing. Staff's preliminary review of the Company's financing application indicated that it was unlikely that Eagletail would be able to service the debt under the rates recommended in the Staff Report. Therefore, Staff and Eagletail requested that the two dockets be consolidated so that the financing could be evaluated as part of the rate case. That request was granted by a procedural order issued April 23, 2012.

Consequently, Staff hereby files the attached Supplemental Staff Report that addresses Eagletail's application for authority to incur long-term debt. Staff recommends approval.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before May 7, 2012.

SMO:KN:tdp

Originator: Katalin Nagy

Arizona Corporation Commission
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APR 27 2012
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AZ CORP COMMISSION
DOCKET CONTROL
2012 APR 27 PM 4 24

Service List for: Eagletail Water Co.
Docket Nos.: W-03936A-12-0073 and W-03936A-11-0418

Ms. Susan Haas
Eagletail Water Company, LLC
Post Office Box 157
Tonopah, Arizona 85354

SUPPLEMENTAL STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

EAGLETAIL WATER COMPANY L.L.C.
DOCKET NOS. W-03936A-12-0073 AND W-03936A-11-0418

APPLICATION FOR A
PERMANENT RATE INCREASE

AND

APPLICATION FOR AUTHORITY
TO
INCUR LONG-TERM INDEBTEDNESS

APRIL 27, 2012

STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for Eagletail Water Company L.L.C., Docket Nos. W-03936A-12-0073 and W-03936A-11-0418, is the responsibility of the Staff members listed below. Katalin Nagy is responsible for the financial analysis. Jian Liu is responsible for the engineering review.

KATALIN NAGY
PUBLIC UTILITIES ANALYST I

JIAN LIU
UTILITIES ENGINEER

EXECUTIVE SUMMARY
EAGLETAIL WATER COMPANY L.L.C.
DOCKET NOS. W-03936A-12-0073 AND W-03936A-11-0418

Eagletail Water Company L.L.C., ("Eagletail" or the "Company"), is an Arizona public service corporation, a limited liability company and a class E utility providing potable water service to approximately 57 customers. The Company's service area is located approximately 64 miles west of Phoenix and 15 miles south of Interstate 10 in the Harquahala Valley in the western part of Maricopa County. On November 22, 2011, the Company filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase (Docket No. 03639A-11-0418), and on February 22, 2012, Staff filed its Staff Report. Subsequently, on March 1, 2012, the Company filed a financing application. The Company is requesting authorization to obtain a 20-year amortizing loan in the amount of $65,000 from the Water Infrastructure Financing Authority of Arizona, ("WIFA") to fund the replacement of a well pump. Staff's preliminary review of the Company's financing application indicated that it was unlikely that Eagletail would be able to service the debt under the rates recommended in the Staff Report. Therefore, Staff and Eagletail requested that the two dockets be consolidated so that the financing could be evaluated as part of the rate case. That request was granted by a procedural order issued April 23, 2012.

Staff's recommended revenue of $40,863 in the permanent rate case provides a 1.38 debt service coverage ratio ("DSC") on existing debt and a pro forma 0.83 DSC with recognition of the proposed $65,000, 20-year amortizing loan at 4.5 percent per annum. The latter DSC shows that cash flow from operations is insufficient to cover the proposed loan. Accordingly, the Company needs a source of funds other than permanent rates to meet all obligations including the proposed loan. Staff normally considers that minimum revenue appropriate for a utility with a WIFA loan is that which provides a 1.25 DSC. Staff calculated that the Company needs $5,213 of additional funds to provide a pro forma 1.25 DSC with the proposed WIFA loan. A pro forma cash flow analysis reflecting $5,213 of additional revenue and the proposed loan shows the ability to meet all obligations including WIFA's requirement to fund a "Debt Service Reserve Fund" equal to 20 percent of debt service with $2,101 of uncommitted cash flow. The majority of Eagletail's customers are served by a 3/4-inch meter. Staff calculated that a $7.62 monthly infrastructure surcharge for a 3/4-inch meter equivalency would provide the additional $5,213 of funds required for a 1.25 DSC using the loan terms discussed above. The infrastructure surcharge combined with Staff's recommended increase in permanent rates would increase the typical bill for a 3/4-inch meter customer with a median use of 3,088 gallons by $9.86, or 24.7 percent, from $39.97 to $49.83.

Staff concludes that the Company's proposed use of debt financing to fund well rehabilitation is appropriate and that the related $65,000 cost estimate is reasonable.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is compatible with the public interest, will not impair its ability to provide services and is consistent with sound financial practices.

Staff recommends:

- Granting authorization to incur an 18- to 20-year amortizing loan in an amount not to exceed $65,000 at an interest rate not to exceed that which is available from WIFA for the purpose well rehabilitation.

- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding at twenty-four months from the date of a decision in this matter.

- Granting the Company authorization to charge an infrastructure surcharge to become effective at a date and in a manner as subsequently authorized by the Commission.

- Directing the Company to file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorization herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

- Directing the Company to provide to the Utilities Division, a copy of any WIFA loan documents executed pursuant to the authorizations granted herein, within 30 days of the execution of the loan, and also file a letter in Docket Control verifying that such documents have been provided to the Utilities Division.

- Directing the Company to file in this Docket, upon filing of the loan closing notice and the provision of the loan documents to Staff, an application requesting to implement an associated surcharge.

- Directing Staff to calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration within 30 days of the filing of a surcharge implementation request by the Company and to calculate the surcharge based on the actual loan debt service (interest and principal) payments and using the current customer count at the time of the loan closing.

- Authorizing the Company to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and R18-15-104 in connection with the WIFA loan.

- Authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

- Authorizing the Company to make monthly adjustments to its rates and charges via a Water Hauling Surcharge to recover the costs incurred for bulk water purchases and transportation ("Water Hauling Costs") in the event that it experiences extreme water shortages requiring the hauling of water from other sources.

- Establishing the method for calculating the Water Hauling Surcharge rate per 1,000 gallons as: the total Water Hauling Costs incurred in a given month divided by the total amount of water sold (in thousands) in that month, and the method for billing each customer as: apply the surcharge rate to the actual gallons (in thousands) sold to each customer in that month to arrive at that customer's surcharge amount, which will appear as a separate line item on that customer's bill the following month.

- Adopting the Staff recommendations in the Staff Report filed February 22, 2012.

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INTRODUCTION

On November 22, 2011, Eagletail Water Company L.L.C., ("Eagletail" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting a permanent rate increase. The Company's rate application was found sufficient on January 5, 2012. On February 22, 2012, Utilities Division Staff ("Staff") filed its Staff Report. Subsequently, on March 1, 2012, Eagletail filed a request for authorization to incur long-term indebtedness.

Staff's preliminary review of the Company's financing application indicated that it was unlikely that Eagletail would be able to service the debt under the rates recommended in the Staff Report. Therefore, Staff and Eagletail requested that the two dockets be consolidated so that the financing could be evaluated as part of the rate case. That request was granted by a procedural order issued April 23, 2012. This Supplemental Staff Report addresses Eagletail's requested financing.

PUBLIC NOTICE

On October 28, 2011, the Company filed an affidavit of publication verifying public notice of its permanent rate increase application. The Company is working with Staff's Consumer Services Division to issue a public notice to its customers notifying them about the financing application. Once customers have been notified the Company will provide Staff a copy of the public notice.

BACKGROUND

Eagletail is an Arizona public service corporation, a limited liability company and a class E utility providing potable water service to approximately 57 residential customers. The Company's service territory, approximately 8 square miles in area, is located approximately 64 miles west of Phoenix and 15 miles south of Interstate 10 in the Harquahala Valley in the western part of Maricopa County.

The Company's current rates became effective August 1, 2005, per Commission Decision No. 67982.

COMPLIANCE

A check of the compliance database indicates that there are currently no delinquencies for the Company.

PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING

The Company requests authorization to obtain a long-term loan from the Water Infrastructure Financing Authority of Arizona ("WIFA"). The Company's application notes that its well pump is failing and the estimated cost for repair is $65,000.[1] The Company asserts that the flow rate from the well is dropping daily from its normal rate of 400 gallons per minute, and it has dropped to 200 gallons per minute. The Company has reported to Staff since filing its application that the pump's performance has continued to decline and most recently reported the pumping rate at 75 gallons per minute.

ENGINEERING ANALYSIS

The Staff Engineering Memorandum is attached. Staff reviewed the Company's proposed pump rehabilitation project and concludes that the project is appropriate and that its $65,000 cost estimate is reasonable. Staff makes no "used and useful" determination pertaining to the proposed capital improvements nor does it make any conclusions for rate base or ratemaking purposes.

FINANCIAL ANALYSIS

Debt Service Coverage

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

Staff's DSC analysis is presented in Schedule KN-1. Column [A] of the schedule reflects the Company's historical financial information for the year ended December 31, 2010, modified to recognize Staff's recommended revenue of $40,863 in the permanent rate case. Column [B] presents pro forma financial information that modifies Column [A] to reflect issuance of a $65,000, 20-year amortizing loan at 4.5 percent per annum. Column [C] presents pro forma financial information that modifies Column [B] by increasing revenue and operating income by $5,213, the amount required to provide a 1.25 DSC. Staff normally considers a 1.25 DSC as the minimum appropriate for a WIFA loan.

Cash Flow

Staff's cash flow analysis is presented in Schedule KN-2. Column [A] of the schedule reflects the Company's historical financial information for the year ended December 31, 2010, modified to recognize Staff's recommended revenue of $40,863 in the permanent rate case. The uncommitted cash flow for the Column [A] scenario is $2,809.[2] Column [B] presents pro forma financial information that modifies Column [A] to reflect issuance of a $65,000, 20-year

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[1] The application does not specify the loan terms; however, most WIFA loans are 20-year amortizing. WIFA provided Staff an estimated interest rate of 4.5 percent per annum.

[2] Schedule DRE-3.1 of the Staff Report for the rate case shows this as $4,660 due to use of incorrect interest and principal on the existing loan.

amortizing loan at 4.5 percent per annum and the $5,213 of additional revenue required to provide a 1.25 DSC as previously discussed. The pro forma cash flow analysis for Column [B] shows that, with $5,213 of additional revenue, the Company would have the ability to meet all obligations including WIFA's requirement to fund a "Debt Service Reserve Fund" equal to 20 percent of debt service with $2,101 of uncommitted cash flow. Staff concludes that the resulting cash flow is sufficient.

Capital Structure

As of December 31, 2010, Eagletail's capital structure consisted of $5,150 of short-term debt, $50,167 of long-term debt, and negative $27,848 equity (Schedule KN-1, Column [A], lines 19-25). Staff calculated a pro forma capital structure for the scenario described above for Column [B], which represents issuance of the proposed loan, and it is composed of $7,202 of short-term debt, $113,116 of long-term debt and negative $27,848 of equity (Schedule KN-1, Column [B], lines 19-25).[3]

Infrastructure Surcharge

An infrastructure surcharge is the mechanism typically used to facilitate a water utility's ability to pay debt service on debt incurred for necessary capital improvements when the cash flow generated by base rates is insufficient. Schedule KN-3 presents a calculation of the estimated monthly surcharge for each meter size necessary to provide $5,213 of additional annual revenue based on the number of customers in the permanent rate case. The monthly surcharges are $5.08 for 5/8 x 3/4-inch meters (8 customers); $7.62 for 3/4-inch meters (45 customers) and $12.70 for 1-inch meters (4 customers). The infrastructure surcharge coupled with Staff's recommended increase in permanent rates would increase the typical monthly bill for a 3/4-inch meter customer with median use of 3,088 gallons by $9.86, or 24.7 percent, from $39.97 to $49.83 and with average use of $5,721 gallons by $14.07, or 27.5 percent, from $51.17 to $65.24, as shown in Schedule KN-4.

Encumbrance

Arizona Administrative Code Rule R18-15-104 requires WIFA borrowers to pledge their revenue sources to repay the financial assistance. Arizona Revised Statutes ("A.R.S.") § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service; thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

[3] Due to the negative equity positions, nominal amounts provide better information than percentages.

Proposed Water Hauling Surcharge Tariff

In recognition of the failed well pump on the Company's single water source Staff concludes that authorization of a tariff for recovery of water purchases from an outside source and related transportation costs is appropriate.

STAFF RECOMMENDATIONS

Staff recommends:

- Granting authorization to incur an 18- to 20-year amortizing loan in an amount not to exceed $65,000 at an interest rate not to exceed that which is available from WIFA for the purpose of well rehabilitation.

- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding at twenty-four months from the date of a decision in this matter.

- Granting the Company authorization to charge an infrastructure surcharge to become effective at a date and in a manner as subsequently authorized by the Commission.

- Directing the Company to file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorization herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

- Directing Staff to calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration within 30 days of the filing of a surcharge implementation request by the Company and to calculate the surcharge based on the actual loan debt service (interest and principal) payments and using the current customer count at the time of the loan closing.

- Directing the Company to file in this Docket, upon filing of the loan closing notice and the provision of the loan documents to Staff, an application requesting to implement an associated surcharge.

- Directing Staff to calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration within 60 days of the filing of a surcharge implementation request by the Company and to calculate the surcharge based on the actual loan debt service (interest and principal) payments and using the current customer count at the time of the loan closing.

- Authorizing the Company to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and R18-15-104 in connection with the WIFA loan.

- Authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

- Authorizing the Company to make monthly adjustments to its rates and charges via a Water Hauling Surcharge to recover the costs incurred for bulk water purchases and transportation ("Water Hauling Costs") in the event that it experiences extreme water shortages requiring the hauling of water from other sources.

- Establishing the method for calculating the Water Hauling Surcharge rate per 1,000 gallons as: the total Water Hauling Costs incurred in a given month divided by the total amount of water sold (in thousands) in that month, and the method for billing each customer as: apply the surcharge rate to the actual gallons (in thousands) sold to each customer in that month to arrive at that customer's surcharge amount, which will appear as a separate line item on that customer's bill the following month.

- Adopting the Staff recommendations in the Staff Report filed February 22, 2012.

Eagletail Water Co., LLC
Docket Nos. W-03936A-11-0418 and W-03936A-12-0073
Application For Financing

Schedule KN-1

FINANCIAL ANALYSIS

Selected Financial Information

Line			[A][1] 12/31/2010			[B][2] Staff Recommended @ 4.5%			[C][3] For 1.25 DSC @ 4.5%	
1	Operating Income	$	7,431		$	7,431		$	12,644	
2	Depreciation & Amort.		2,794			2,794			2,794	
3	Income Tax Expense		0			0			0	
5	Interest Expense		2,266			5,149			4,514	
6	Repayment of Principal		5,150			7,202			7,836	
9	**TIER**									
10	[1+3] ÷ [5]		3.28			1.44			2.80	
11	**DSC**									
12	[1+2+3] ÷ [5+6]		1.38			0.83			1.25	
17	**Capital Structure**									
19	Short-term Debt	$	5,150	18.7%	$	7,202	7.8%	$	7,202	7.8%
21	Long-term Debt		50,167	182.6%		113,116	122.3%		113,116	122.3%
23	Common Equity		(27,848)	-101.4%		(27,848)	-30.1%		(27,848)	-30.1%
25	Total Capital	$	27,470	100.0%	$	92,470	100.0%	$	92,470	100.0%
28	**Capital Structure (inclusive of AIAC and Net CIAC)**									
30	Short-term Debt	$	5,150	18.7%		7,202	7.8%	$	7,202	7.8%
32	Long-term Debt		50,167	182.6%		113,116	122.3%		113,116	122.3%
34	Common Equity		(27,848)	-101.4%		(27,848)	-30.1%		(27,848)	-30.1%
36	Advances in Aid of Construction ("AIAC")		0	0.0%		0	0.0%		0	0.0%
38	Contributions in Aid of Construction ("CIAC") [4]		0	0.0%		0	0.0%		0	0.0%
40	Total Capital (Inclusive of AIAC and CIAC)	$	27,470	100.0%	$	92,470	100.0%	$	92,470	100.0%
43	**AIAC and CIAC Funding Ratio** [5]		0.0%			0.0%				0.0%
44	(36+38)/(40)									

47 [1] Column [A] is based on financial information for the year ended December 31, 2010.
48 [2] Column [B] is Column [A] modified to reflect a $65,000 20-year amortizing loan at 4.5 percent.
49 [3] Column [C] is Column [B] modified to reflect the additional revenue/operating income ($5,213) required for a 1.25 DSC.
50 [4] Net CIAC balance (i.e. less: accumulated amortization of contributions).
51 [5] Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, *for private and investor owned utilities.*

Eagletail Water Co.
Docket Nos. W-03936A-11-0418 and W-03936A-12-0073
Test Year ended December 31, 2010

Schedule KN-2

CASH FLOW ANALYSIS

Line No.		[A] Staff Recommended W/O Proposed Loan	[B] Pro Forma With Proposed Loan and Surcharge
1	**Cash Inflows**		
2	Revene - Base Rates	$ 40,863	$ 40,863
3	Revenue - Surcharge for 1.25 DSC.		$ 5,213
4	Total Revenue	$ 40,863	$ 46,076
	Cash Outflows		
5	Salaries and Wages	$ 6,860	$ 6,860
6	Salaries and Wages - Officers and Stockholders	$ -	$ -
7	Employee Pensions and Benefits	$ -	$ -
8	Purchased Power	$ 7,536	$ 7,536
9	Chemicals	$ 322	$ 322
10	Repairs and Maintenance	$ 2,340	$ 2,340
11	Office Supplies and Expenses	$ 310	$ 310
12	Outside Services	$ 6,633	$ 6,633
13	Water Testing	$ 702	$ 702
14	Outside Services - Other	$ -	$ -
15	Rental of Building/Real Property	$ -	$ -
16	Transportation Expenses	$ 446	$ 446
17	Insurance	$ 1,565	$ 1,565
18	Rate Case Expense	$ 333	$ 333
19	Bad Debt Expense	$ -	$ -
20	Miscellaneous Expense	$ 2,240	$ 2,240
21	Depreciation Expense	$ 2,794	$ 2,794
22	Amortization of CIAC	$ -	$ -
23	Taxes Other than Income	$ -	$ -
24	Property Taxes	$ 1,351	$ 1,351
25	Income Taxes	$ -	$ -
26	Deferred Income Taxes	$ -	$ -
27	Total Expenses	$ 33,432	$ 33,432
28	**Operating Income**	$ 7,431	$ 12,644
29	Plus Depreciation Expense	$ 2,794	$ 2,794
30	Less: Loan Payment Interest	$ 2,266	$ 5,149
31	Less: Loan Payment Principle	$ 5,150	$ 7,202
32	**Cash Flow from Operations before WIFA Reserve**	$ 2,809	$ 3,088
33	Provision for AIAC refund	$ -	$ -
34	WIFA Reserve (20% of Principal and Interest)[1]	$ -	$ 987
35	**Cash Flow from Operations after WIFA Reserve**	**$ 2,809**	**$ 2,101**

[1] Applies only to proposed loan.

Eagletail Water Co.
Docket Nos. W-03936A-11-0418 and W-03936A-12-0073
Test Year ended December 31, 2010

Schedule KN-3

CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT

Infrastructure Surcharge Based on AWWA Meter Multiplier

Additional Revenue Required for a 1.25 DSC		**$**	**5,213**
Total Equivalent Annual Bills			**1,026**
5/8"x 3/4" Meter Surcharge Amount	($4,756 / 1,026)	**$**	**5.08**
3/4" Meter Surcharge Amount	($4,756 / 1,026) * 1.5	**$**	**7.62**
1" Meter Surcharge Amount	($4,756 / 1,026) * 2.5	**$**	**12.70**
1 1/2" Meter Surcharge Amount	($4,756 / 1,026) * 5	**$**	**25.41**
2" Meter Surcharge Amount	($4,756 / 1,026) * 8	**$**	**40.65**
3." Meter Surcharge Amount	($4,756 / 1,026) * 16	**$**	**81.30**
4" Meter Surcharge Amount	($4,756 / 1,026) * 25	**$**	**127.03**
6" Meter Surcharge Amount	($4,756 / 1,026) * 50	**$**	**254.06**

Meter Size	Number of Customers [1]	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	8	1	8	96	$ 5.08	$ 60.97	$ 487.80
3/4" Meter	45	1.5	68	810	7.62	$ 91.46	$ 4,116
1" Meter	4	2.5	10	120	12.70	$ 152.44	$ 610
1 1/2" Meter	-	5	-	-	25.41	$ 304.87	$ -
2" Meter	-	8	-	-	40.65	$ 487.80	$ -
3" Meter	-	16	-	-	81.30	$ 975.59	$ -
4" Meter	-	25	-	-	127.03	$ 1,524.37	$ -
6" Meter	-	50	-	-	254.06	$ 3,048.73	$ -
TOTAL	57		86	1,026			$ 5,213

[1] As of Test Year.

Eagletail Water Co. LLC
Docket Nos. W-03936A-11-0418 and W-03936A-12-0073 — Schedule KN-4
Test Year Ended: December 31, 2010

TYPICAL BILL ANALYSIS (with surcharge)
General Service 3/4 - Inch Meter

Average Number of Customers: 43

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,721	$51.17	$66.76	$15.59	30.5%
Median Usage	3,088	$39.97	$49.96	$9.99	25.0%
Staff Recommend					
Average Usage	5,721	$51.17	$65.24	$14.07	27.5%
Median Usage	3,088	$39.97	$49.83	$9.86	24.7%

Present & Proposed Rates (Without Taxes)
General Service 3/4 - Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$30.00	$35.00	16.7%	$37.62	25.4%
1,000	33.20	39.80	19.9%	$41.52	25.1%
2,000	36.40	44.60	22.5%	$45.42	24.8%
3,000	39.60	49.40	24.7%	$49.32	24.5%
4,000	43.85	55.78	27.2%	$55.17	25.8%
5,000	48.10	62.16	29.2%	$61.02	26.9%
6,000	52.35	68.54	30.9%	$66.87	27.7%
7,000	56.60	74.92	32.4%	$72.72	28.5%
8,000	60.85	81.30	33.6%	$78.57	29.1%
9,000	65.10	87.68	34.7%	$84.42	29.7%
10,000	69.35	94.06	35.6%	$90.27	30.2%
15,000	90.60	125.96	39.0%	$119.52	31.9%
20,000	111.85	157.86	41.1%	$155.02	38.6%
25,000	133.10	189.76	42.6%	$190.52	43.1%
50,000	254.35	371.76	46.2%	$368.02	44.7%
75,000	375.60	553.76	47.4%	$545.52	45.2%
100,000	496.85	735.76	48.1%	$723.02	45.5%
125,000	618.10	917.76	48.5%	$900.52	45.7%
150,000	739.35	1,099.76	48.7%	$1,078.02	45.8%
175,000	860.60	1,281.76	48.9%	$1,255.52	45.9%
200,000	981.85	1,463.76	49.1%	$1,433.02	46.0%

ATTACHMENT A

MEMORANDUM

DATE: April 27, 2012

TO: Katalin Nagy
Public Utilities Analyst I

FROM: Jian W. Liu
Utilities Engineer

RE: Eagletail Water Company
Application for Financing Approval
Docket Nos. W-03936A-12-0073, et al

Introduction and Background

On March 1, 2012, Eagletail Water Company L.L.C. ("Eagletail" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting authorization to incur a long term loan and grant from the Water Infrastructure Finance Authority of Arizona (the "Financing Application"). Proceeds from the loan would be used for rehabilitation of the Company's well. The Company estimates that it will cost $65,000 just to replace its well pump.

Eagletail is located about 64 miles west of downtown Phoenix and 15 miles south of the I-10 Salome Road Exit in the Harquahalla Valley. The Certificated area covers approximately 8 square mile.

The water system serves approximately 56 customers. The system consists of one well; one pressure tank, one storage tank, two booster pumps, chlorination equipment, and distribution system.

According to the Company well production is dropping daily and it has dropped from its normal flow rate of 400 gallons per minute ("GPM") to 200 GPM output. As of April 20, 2012 the well is no longer producing any water due to pump failure.

Cost Estimates to be Financed

Eagletail received a proposal from a local pump company to replace the well pump. The proposed cost totals $59,806.

Based on its review of the Financing Application and information provided by the Company, Staff concludes that the proposed well rehabilitation project is appropriate and the cost is reasonable given the circumstances. However, no "used and useful" determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

Water Quality Compliance

Arizona Department of Environmental Quality ("ADEQ") or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), regulates the Eagletail water system under ADEQ Public Water System I.D. #07-032. Based on a Compliance Status Report, dated January 18, 2012, the system has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

ACC Compliance Status

A check of the Commission's Utilities Division Compliance Section database showed that there were no delinquent compliance items for Eagletail as of January 19, 2012.

Arizona Department of Water Resources ("ADWR") Compliance Status

Eagletail's service area is not located within any Active Management Area ("AMA"). Arizona Department of Water Resources ("ADWR") has determined that Eagletail is currently in compliance with departmental requirements governing water providers and/or community water systems.