ORIGINAL

39E

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: May 1, 2012

RE: **NOTICE OF FILING** – PICACHO WATER IMPROVEMENT CORPORATION'S APPLICATION FOR AN EMERGENCY RATE INCREASE (DOCKET NO. W-01774A-12-0089)

Errata - Correction to the Filed Staff Report

On April 27, 2012, Staff filed its Staff Report in the above-captioned matter. Subsequently, Staff identified a mathematical error in its calculation of the cash flow deficiency, which resulted in an incorrect calculation of Staff's recommended surcharge amounts.

Staff hereby provides revised pages 7 and 8, which correct the errors referenced above and reflect the revised bill impact of Staff's recalculated surcharge.

Reply - Staff's Reply to the Company's Response

The Procedural Order issued on March 23, 2012, directed that Staff file, by May 4, 2012, any reply to the Company's response to the filed Staff Report. Staff hereby provides notice that it will not be filing a written reply.

SMO:JMM:red

Originator: Jeffrey M. Michlik

Service List for: Picacho Water Improvement Corporation
Docket No. W-01774A-12-0089

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Attachment E is ADOT's current position expressed in three different documents by Pete Mayne, Dallas Hammitt, summarizing an ADOT review of our claims, and confirmed by Pete Mayne. PWIC feels that $15,000 year for the period of construction is very conservative.

1. Service on $25,000 loan ($4,308):

We apologize for providing an incorrect figure. The correct figure is $3708/year. Attachment F is the loan document from Key Bank. In 2011, Key Bank would not renew this PWIC loan without a guarantor and President Hank Holmes, became the stockholder guarantor for the PWIC Loan. At that time mitigation compensation from ADOT had been promised and seemed eminent, part of which would be used to pay off the loan. That now has changed. The monthly payment, interest and principal is $309.00 month x 12 = $3,708.00 year. The loan exists because PWIC has had to divert revenue to respond to ADOT's impact rather than to this loan.

STAFF'S RECOMMENDED EMERGENCY INTERIM RATES AND REVENUE CALCULATION

Since Staff deems the Company insolvent due to insufficient generation of cash flow to meet on-going obligations, the purpose of any authorized emergency rates would be to satisfy the cash flow deficiency until rates can be established in a general rate case. Based on the Company's 2010 reported operating results and analysis of the Company's emergency rate application, Staff has calculated a $45,888 annualized cash flow deficit, as follows:

Per Annual Report:	
Operating Income/(Loss)	$ (4,385)
Depreciation Expense	1,497
Interest Expense	(3,388)
Principal Repayment	(1,000)
Advance Refunds	0
Cash Flow Per Annual Report	$ (7,276)
Staff Adjustments:	
Cash Flow based on Annual Report (from above)	$ (7,276)
Interest Expense	$ 3,388
Principal Repayment	1,000
Adjusted 2010 Cash Flow	(2,888)
Pro forma Lost Revenue	(24,000)
Allowance for incremental I-10 realignment costs	(15,000)
Allowance for Contingencies	(4,000)
Total Annualized Cash Flow Deficiency	$(45,888)

As shown in the calculation, Staff removed the debt principal and interest payments because the Company has not obtained Commission authorization for these loans; accordingly, they are invalid. Due to the Company's insolvency, Staff concludes that evaluation of any request for approval of the Company's loans should be conducted within the context of the Company's general rate case that will follow this emergency rate case. Staff's cash flow deficiency calculation reflects the Company's estimate for lost revenue and incremental Interstate-10 realignment costs, as Staff concludes that these estimates are reasonable. The $4,000 allowance for contingencies recognizes the inability to accurately estimate the incremental costs of the Interstate-10 realignment, as well as potential deviation in other expenses from that experienced in 2010. Staff concludes that the Company's emergency request for Engineering costs related to the Interstate-10 construction and costs to temporarily patch the storage tank should not be included in the emergency rates. Payment of the Engineering costs has not been shown to be urgent, and Staff does not support patching the storage tank until a more comprehensive evaluation of the water system post ADOT construction has been performed.

Staff has examined the Company's current tariff schedule which was approved in Decision No. 55612 and notes that the current monthly charge for a 5/8 x 3/4-inch metered customer is $14.00 and for a 2-inch metered customer is $21.00. Staff also notes that the commodity charge is $1.50 per 1,000 gallons, and no charge for the first 2,000 gallons.

Staff recommends the following emergency interim rate surcharges to provide the cash flow deficiency. The emergency interim rate surcharge should appear as a separate line item on the customer's bill, in addition to the monthly minimum amount and commodity charge. Staff recommends the following surcharge per customer:

5/8 x 3/4-inch metered customer	$53.12
2-inch metered customer	$106.24

The surcharge amounts were derived as follows:

Meter Size	Monthly Surcharge	Number of Customer	x 12	Yearly Revenue Amount
5/8 x 3/4-inch	$53.12	68	12	$43,346
2-inch	$106.24	2	12	$ 2,550
				$45,896

Staff has prepared a typical bill analysis based on usage of 5,000 gallons per month. Staff did not have billing determinants for calculating the actual average and median usage. Moreover, the existing billing determinants may not be representative of the remaining customers, i.e., usage of the remaining customers may vary from those of the lost customers. A 5/8 x 3/4-inch metered customer using 5,000 gallons would experience a $53.12 increase, or a 287.14 percent increase, in his/her monthly bill, from $18.50 to $71.62, under Staff's recommended interim rates.