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MEMORANDUM

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AZ CORP COMMISSION  
DOCKET CONTROL

2012 MAY 21 PM 3 35

TO: Docket Control

FROM: Steven M. Olea  
Director  
Utilities Division

DATE: May 21, 2012

RE: STAFF REPORT FOR GREAT PRAIRIE OASIS, L.L.C. DBA SUNLAND WATER COMPANY'S APPLICATIONS FOR A RATE INCREASE AND FINANCING (DOCKET NOS. W-04015A-12-0050 AND W-04015A-12-0051)

Attached is the Staff Report for Great Prairie Oasis LLC's applications for a permanent rate increase and authorization for financing. Staff recommends approval of the rate application using Staff's recommended rates and charges and conditional approval of the finance application.

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 25, 2012.

SMO:JAC:red

Originator: John A. Cassidy

Arizona Corporation Commission  
DOCKETED

MAY 21 2012

DOCKETED BY

Service List for: Great Prairie Oasis LLC, dba Sunland Water Co.  
Docket Nos. W-04015A-12-0051 and W-04015A-12-0050

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

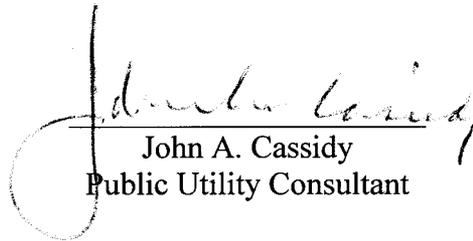
**GREAT PRAIRIE OASIS, LLC  
DBA SUNLAND WATER COMPANY  
DOCKET NOS. W-04015A-12-0051 AND W-04015A-12-0050**

**APPLICATION FOR A  
PERMANENT RATE INCREASE  
AND FINANCING**

**MAY 21, 2012**

## STAFF ACKNOWLEDGMENT

The Staff Report for Great Prairie Oasis, LLC dba Sunland Water Co., Docket Nos. W-04015A-12-0050 and W-04015A-12-0051, are the responsibility of the Staff members listed below. John A. Cassidy is responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, rate design and financial analysis. Del Smith is responsible for the engineering and technical analysis. Richard Martinez is responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



John A. Cassidy  
Public Utility Consultant



Del Smith  
Utilities Engineer



Richard Martinez  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY  
GREAT PRAIRIE OASIS, LLC  
DBA SUNLAND WATER COMPANY  
DOCKET NOS. W-04015A-12-0050 AND W-04015A-12-0051**

Great Prairie Oasis, LLC, dba Sunland Water Company (“Sunland” or “Company”) is a for-profit Arizona Limited Liability Company and a Class E public service corporation serving potable water to approximately 81 customers in a rural subdivision originally named Sunland Estates and now called Brookside Farms. The service territory is located approximately five miles southeast of the City of Casa Grande near the Junction of Interstate 8 and Interstate 10 in Pinal County, Arizona.

On February 14, 2012, the Company filed an application for a permanent rate increase. Concurrent with that filing, on February 14, 2012, Sunland also filed a financing application. A Procedural Order, dated April 23, 2012, consolidated the rate and financing cases.

The Company-proposed rates, as filed, produce total operating revenue of \$41,642, an increase of \$33,521, or 412.8 percent, over test year revenue of \$8,121 to provide a \$299 operating income and a 0.49 percent rate of return on its proposed \$60,595 fair value rate base (“FVRB”) which is its original cost rate base (“OCRB”).

Staff recommends three rate base adjustments and seven operating income adjustments. The rate base adjustments decrease rate base by the net amount of \$457, from \$60,595 to \$60,138. The seven operating income adjustments decrease test year operating expenses by the net amount of \$15,955, from \$41,343 to \$25,388.

Staff recommends permanent rates that produce total operating revenue of \$32,304, an increase of \$24,183, or 297.8 percent, over the Staff-adjusted test year revenue of \$8,121, to provide a \$6,916 operating income and an 11.50 percent rate of return on the \$60,138 Staff-adjusted FVRB and OCRB.

The Company proposes a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all meter sizes with break-over points at 10,000 gallons and 20,000 gallons for all meter sizes. The proposed rates represent increases over present rates to both the monthly minimum charges and the commodity rates for all meter sizes. The Company's proposed rates would increase the typical residential bill, with a median usage of 3,786 gallons, by \$31.68 (463.16 percent), from \$6.84 to \$38.52 (Schedule JAC-5.1).

Staff recommends a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all 5/8 x 3/4-inch and 3/4-inch meters and a two-tier commodity rate for larger meters. Staff recommends break-over points that increase by meter size. Under Staff's recommended rate design for permanent rates the typical residential bill for a 5/8 x 3/4-inch meter customer with a median use of 3,786 gallons would increase by \$16.50 (241.23 percent), from \$6.84 to \$23.34 (Schedule JAC-5.1).

The Company's financing application seeks approval for a \$125,000, 20-year amortizing loan from the Water Infrastructure Finance Authority of Arizona ("WIFA") to finance plant needed to bring its system into compliance with the current EPA and ADEQ arsenic standard. The Company proposes to use the WIFA monies to install approximately 0.5 miles of transmission lines, connecting the Company's two wells and installing a blending system to reduce arsenic concentrations in its water. Staff reviewed Sunland's proposed plant expenditures and finds them to be appropriate and a \$122,050 Staff-adjusted cost as reasonable.

As of December 31, 2011, Sunland's capital structure consisted of 0.0 percent short-term debt, 0.0 percent long-term debt, and 100.0 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a \$122,050, 19.5-year amortizing loan at 4.2 percent per annum ((prime rate, 3.25 percent + 2.00 percent) x subsidy rate, 0.80)), and it is composed of 2.3 percent short-term debt, 63.3 percent long-term debt and 34.4 percent equity.

Staff calculated a pro forma 0.89 debt service coverage ratio ("DSC") using Staff's recommended permanent rates. This pro forma DSC shows that cash flow from operations is insufficient to cover debt service on the proposed loan; thus, in addition to Staff's recommended permanent rates, the Company would need an additional source of funds to meet its obligations. Staff determined that additional surcharge revenues of \$4,889 would be needed to provide the Company \$2,000 of uncommitted cash flow, resulting in a 1.42 DSC. Additional surcharge revenues of \$4,889 combined with Staff's recommended \$24,183 increase in permanent rates represents a 358.0 percent increase over test year revenues of \$8,121. The combined increase \$29,072 (\$24,183 + \$4,889) provides sufficient cash flow to meet all obligations including WIFA's requirement to fund a "Debt Service Reserve Fund" equal to 20 percent of debt service and \$2,000 of uncommitted cash flow. A \$5.03 per 5/8 x 3/4-inch meter equivalent monthly infrastructure surcharge would provide the needed additional funds under Staff's assumed loan terms. The infrastructure surcharge combined with Staff's recommended permanent rates would increase the typical bill for a 5/8 x 3/4-inch meter customer with a median use of 3,786 gallons by \$21.53, or 314.76 percent, from \$6.84 to \$28.37 (Schedule JAC-5.2).

Staff concludes that the Company's proposed capital projects as modified by Staff are appropriate and that the related cost estimates are reasonable.

Staff concludes that issuance of Staff's recommended debt financing for the purposes recommended by Staff is within Sunland's powers, is compatible with the public interest, and is consistent with sound financial practices, subject to the condition that the Company is authorized sufficient revenue in this rate case via permanent rates and an infrastructure surcharge to meet its debt service and the associated loan covenants.

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule JAC-4. In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).

- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Authorizing the depreciation rates shown in Table B of the Engineering report.
- Authorizing the meter and service line charges shown on Table C of the Engineering report.
- Granting the Company authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed \$122,050 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA, subject to the condition that the Company is authorized sufficient revenue in this rate case via permanent rates and an infrastructure surcharge to meet its debt service and the associated loan covenants.
- 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.
- Directing the Company to file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorized 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 Compliance Section, 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 upon providing 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 Arizona Revised Statutes § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.

- Authorizing Sunland to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing Sunland to file with Docket Control, as a compliance item in this docket, by April 30, 2013, a copy of the ADEQ Certificate for Approval of Construction for the blending system.
- Directing Sunland, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
- Directing the Company to coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Commission Annual Reports going forward.
- Directing the Company, in the event the water loss reported in any Annual Report is greater than 10 percent, to prepare a report containing a detailed analysis and a plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted per this recommendation, shall be docketed as a compliance item no later than March 31 of the year following the excessive water loss.
- Directing the Company to file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three Best Management Practices (“BMPs”), in the form of tariffs that substantially conform to the templates created by Staff, for Commission review and consideration. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.
- Authorizing the Company to use a maximum of two BMPs from the “Public Awareness/Public Relations” or “Education and Training” categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

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**ATTACHMENTS**

**ENGINEERING REPORT – RATES AND FINANCING..... ATTACHMENT A**

**CONSUMER SERVICES REPORT ..... ATTACHMENT B**

**FACT SHEET**

**Company Statistics:**

**Current Rates:** Decision No. 40342 (CC&N), dated November 21, 1969.

**Type of Ownership:** Limited Liability Company (LLC).

**Location:** The Company's service area is located near the junction of Interstate 8 and Interstate 10 (approximately 5 miles southeast of Casa Grande) in Pinal County, Arizona.

**Rates:**

Rate Application Docketed: February 14, 2012  
 Current Test Year Ended: December 31, 2011  
 Application Found Sufficient: March 14, 2012

|  | <u>Current Rates</u> | <u>Company Proposed Rates</u> | <u>Staff Recommended Rates</u> |
|--|----------------------|-------------------------------|--------------------------------|
| Monthly Minimum Charge<br>(Based on a 5/8" X 3/4" meter)           | \$4.00               | \$30.00                       | \$14.00                        |
| Gallons in Minimum   | 0                    | 0                             | 0                              |
| <b>Commodity Charge:</b>   |                      |                               |                                |
| Excess of minimum, charge per 1,000 gallons:                       |                      |                               |                                |
| 0 to 10,000 Gallons  | \$ 0.75              | \$ 2.25                       |                                |
| 10,001 to 20,000 Gallons   | \$ 0.75              | \$ 2.75                       |                                |
| Over 20,000 Gallons  | \$ 0.75              | \$ 3.25                       |                                |
| 0 to 3,000 Gallons   |                      |                               | \$ 2.00                        |
| 3,001 to 9,000 Gallons   |                      |                               | \$ 4.25                        |
| Over 9,000 Gallons   |                      |                               | \$ 5.75                        |
| Typical residential bill based<br>On median usage of 3,786 gallons | \$6.84               | \$38.52                       | \$23.34                        |

**FACT SHEET (CONT'D)**

**Customers:**

|  |                |
|--|----------------|
| Number of customers in the prior test year:                | NA             |
| Number of customers in the current test year (12/31/2011): | 81             |
| Current year customers by meter size: 5/8 X 3/4 – inches:  | 81             |
| Seasonal customers:  | 0              |
| Customer notification mailed:                              | March 13, 2012 |
| No. of customer complaints since rate application filed:   | 0              |
| No. of customer opinions since rate application filed:     | 2              |
| Percentage of complaints to customer base:                 | 2.47%          |

## **SUMMARY OF RATE FILING**

The test year results, as adjusted by Staff, for Great Prairie Oasis, LLC dba Sunland Water Company ("Sunland" or "Company") show total operating revenue of \$8,121 and operating expenses of \$25,388 resulting in a \$17,267 operating loss. Due to the operating loss, calculation of a rate of return on the \$60,138 Staff-adjusted original cost rate base ("OCRB") is not meaningful. Since the Company did not file reconstruction cost new information, Staff recommends recognizing a fair value rate base ("FVRB") equal to the OCRB.

The Company-proposed rates, as filed, produce total operating revenue of \$41,642, an increase of \$33,521, or 412.8 percent, over test year revenue of \$8,121 to provide a \$299 operating income and a 0.49 percent rate of return on its proposed \$60,595 FVRB and OCRB. The Company's proposed rates would increase the typical residential bill, with a median usage of 3,786 gallons, by \$31.68 (463.16 percent), from \$6.84 to \$38.52, for an increase of 463.16 percent (Schedule JAC-5.1).

Staff recommends permanent rates that produce total operating revenue of \$32,304, an increase of \$24,183, or 297.8 percent, over the Staff-adjusted test year revenue of \$8,121, to provide a \$6,916 operating income and an 11.50 percent rate of return on the \$60,138 Staff-adjusted FVRB and OCRB. Under Staff's recommended rate design for permanent rates, the typical bill for a 5/8 x 3/4-inch meter customer with a median use of 3,786 gallons would increase by \$16.50, or 241.23 percent, from \$6.84 to \$23.34.

## **COMPANY BACKGROUND**

Sunland is a for-profit Arizona Limited Liability Company and Class E public service corporation serving potable water to approximately 81 customers in a rural subdivision originally named Sunland Estates and now called Brookside Farms. The Certificate of Convenience and Necessity ("CC&N") for the water system was granted in Decision No. 40342, dated November 21, 1969. The CC&N was transferred to the current holder Great Prairie Oasis, LLC dba Sunland in Arizona Corporation Commission ("Commission") Decision No. 64174, dated October 30, 2001.<sup>1</sup> In addition to granting the CC&N, Decision No. 40342 also established the current rates.

Sunland filed both its application for a permanent rate increase ("Application") and its financing application on February 14, 2012. A Procedural Order, dated April 23, 2012, consolidated the rate and financing cases. Staff deemed the Company's Application sufficient and notified Sunland by letter on March 14, 2012. The Company mailed a combined rate and financing application Notice to customers on February 14, 2012.

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<sup>1</sup> See Attachment A, Staff's Engineering Report, p. 1, for prior holders of the CC&N).

## **CONSUMER SERVICES**

A review of the Consumer Service records showed that for the period January 1, 2009, through May 3, 2012, no complaints were filed against the Company. To date, there have been two opinions filed in opposition to the Company's filing for an increase in rates.

A review of the Company's billing format indicates that it is in compliance with the Arizona Administrative Code ("A.A.C.") R14-2-409(B)(2). The Company's Cross Connection / Backflow Tariff was approved on March 3, 2012, by Decision No. 73003.

## **COMPLIANCE ISSUES**

A search of the Commission Utilities Division compliance database revealed that Sunland is in full compliance with prior Commission decisions.

The Company is current in filing both its corporate and utility annual reports. The Company is current on its property tax obligations.

The Arizona Department of Environmental Quality ("ADEQ") reported that the Sunland system has monitoring and reporting deficiencies and that ADEQ cannot determine if the system is currently delivering water that meets the water quality standards required by the A.A.C., Title 18, Chapter 4. Details of Staff's review of the system are presented in the Staff Engineering Report – Attachment A.

Sunland's service area is located in the Pinal Active Management Area, and the Arizona Department of Water Resources has determined that the Company is currently compliant with departmental requirements governing water providers and/or community water systems.

## **ENGINEERING ANALYSIS**

The Company is not in compliance with the new arsenic maximum contaminant level as established by the Environmental Protection Agency ("EPA") and ADEQ. As a consequence, the Company is requesting authorization for a \$125,000, 20-year amortizing loan from the Water Infrastructure Finance Authority of Arizona ("WIFA") to fund the installation of approximately one-half mile of transmission line which will connect the Company's secondary well to storage tanks at Sunland's operating well site. ADEQ has approved Sunland's blending plan, which calls for water from both wells to be blended in storage tanks at the operating well site, reducing arsenic concentrations in the combined water to a level that meets the current arsenic standard, thereby addressing the compliance issue noted above.

Staff concludes that the installation of Sunland's proposed blending plan is appropriate, and that the \$122,050 Staff-adjusted cost estimate, as shown in Table E of the Staff Engineering

Report, is reasonable. However, Staff makes no “used and useful” determination regarding improvements to be funded by the financing for rate base or ratemaking purposes.

## **RATE BASE**

Staff’s three rate base adjustments result in a net decrease to the Company’s proposed rate base by \$457 from \$60,595 to \$60,138, as shown in Schedule JAC-2, page 1. Details of Staff’s adjustments are explained below.

Plant Adjustment – In adjustment A, Staff increased the Storage Tanks account by \$1,290 (from \$10,000 to \$11,290) to reflect the actual cost paid for the asset as shown on the invoice provided. Additionally, Staff increased the Pressure Tanks account by \$1,000 (from \$0 to \$1,000) to reverse a retirement made by the Company for plant which was fully depreciated but remains in service. Lastly, Staff reclassified \$14,391 of Repairs and Maintenance expense which in accordance with the National Association of Regulatory Utility Commissioners (“NARUC”) Uniform System of Accounts (“USOA”) should have been capitalized as plant. Specifically, the Transmission and Distribution Mains account was increased by \$11,706 (from \$20,000 to \$31,706), the Services account was increased by \$2,394 (from \$0 to \$2,394) and the Meters and Meters Installation account was increased by \$292 (from \$4,512 to \$4,804), as shown in Schedule JAC-2, page 2.

Accumulated Depreciation – In adjustment B, Staff increased Accumulated Depreciation by \$19,817, from \$31,253 to \$51,070, as shown in Schedule JAC-2, page 3. Staff calculated an accumulated depreciation balance by adding depreciation expense for the years 1979-2011, and subtracting accumulated depreciation for recorded plant retirements.

Working Capital – In adjustment C, Staff included a cash working capital allowance of \$2,678 based on the formula method, as shown in Schedule JAC-2, page 1. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, purchased water and purchased power expenses plus one twenty-fourth of purchased power expenses.

## **OPERATING INCOME**

Staff’s seven operating income adjustments decrease the Company’s proposed total operating expenses by \$15,955, from \$41,343 to \$25,388, as shown in Schedule JAC-3, page 1. Details of Staff’s adjustments are discussed below.

Repairs and Maintenance – Adjustment D decreases this account by \$14,391 to recognize the reclassification to the appropriate plant accounts amounts that were expensed in violation of the NARUC USOA. This adjustment is a complementary entry to a portion of the rate base adjustment to plant (Adjustment A) described above.

Outside Services – Adjustment E increases this account by \$600 to recognize an increase

in the certified operator's monthly fee from of \$50 per month in the test year to \$100 per month currently.

Water Testing – Adjustment F decreases water testing expenses by \$1,045 to reflect Staff's recommended amount of \$2,322.

Regulatory Commission Expense – Rate Case – Adjustment G provides for recovery of the estimated \$900 rate case expense amortized over a three-year period ( $\$900 \div 3 = \$300$ ).

Depreciation – Adjustment H decreased this account by \$1,492, from \$2,837 to \$1,345, to reflect application of Staff's recommended depreciation rates to Staff's recommended depreciable plant amounts, as shown in Schedule JAC-3, page 4.

Taxes Other than Income – Adjustment I removes a \$130 pass-through cost for sales tax improperly accounted for as an operating expense.

Property Tax – Adjustment J increases this account by \$203 to reflect a full-year's expense as evidenced by Sunland's most recent property tax bill.

## **REVENUE REQUIREMENT**

Staff recommends total operating revenue from permanent rates of \$32,304, an increase of \$24,183, or 297.8 percent, over the Staff-adjusted test year revenue of \$8,121. Staff's recommended revenue provides an operating income of \$6,916 and an 11.50 percent rate of return on the \$60,138 Staff-adjusted FVRB and OCRB, as shown in Schedule JAC-1. Staff's recommended permanent revenue is sufficient to cover operating and maintenance expense, but is not sufficient to provide debt service on the Company's proposed loan (see finance discussion below).

## **RATE DESIGN**

Schedule JAC-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The present rate structure includes a monthly minimum charge that increases by meter size and a \$0.75 per 1,000 gallons commodity rate for all gallons and for all meter sizes. No gallons are included in the monthly minimum charge for any meter size.

The Company proposes a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all meter sizes with break-over points at 10,000 gallons and 20,000 gallons for all meter sizes. The proposed rates represent increases over present rates to both the monthly minimum charges and the commodity rates for all meter sizes. As proposed by the Company, the monthly minimum charge for a 5/8 x

3/4-inch meter would increase from \$4.00 to \$30.00 (all test year customers had 5/8 x 3/4-inch meters). The Company's proposed rates would increase the typical residential bill, with a median usage of 3,786 gallons, by \$31.68 (463.16 percent), from \$6.84 to \$38.52, for an increase of 463.16 percent (Schedule JAC-5.1).

Staff recommends a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all 5/8 x 3/4-inch and 3/4-inch meters and a two-tier commodity rate for larger meters. Staff recommends break-over points that increase by meter size. Staff recommends a greater ratio among the monthly minimum charges for the various meter sizes (all test year customers had 5/8 x 3/4-inch meters) and among the commodity tier rates than those proposed by the Company. Under Staff's recommended rate design for permanent rates the typical residential bill for a 5/8 x 3/4-inch meter customer with a median use of 3,786 gallons would increase by \$16.50, or 241.23 percent, from \$6.84 to \$23.34 (Schedule JAC-5.1).

The Company proposes changes to all its service charges and service line and meter installation charges. Staff recommends discontinuation of the Establishment (After-Hours) and Reconnection (Delinquent) After-Hours charges and establishment of a \$25.00 After-Hours Service Charge. The new \$25.00 After-Hours Service Charge would be applicable to all services provided outside of normal business hours at the request of the customer. Staff recommends approval of increases in the service charges and service line and meter installation charges, as shown in Schedule JAC-4, page 2.

## **FINANCIAL ANALYSIS – LOAN AUTHORIZATION REQUEST**

### *Purpose and Description of the Requested Financing*

As discussed above, Sunland is out of compliance with the current minimum arsenic standard established by both the EPA and ADEQ. Accordingly, the Company has applied to WIFA for a \$125,000 loan to fund the cost of the blending plan approved by the EPA as remediation for its excessive arsenic levels. The recommended improvements include the installation of approximately one-half mile of transmission line to connect the Company's secondary well to storage tanks at the Company's operating well site, where water from the two wells will be blended to reduce arsenic concentrations in the combined water. After reviewing the Company's proposed blending plan, Staff found the plan to be appropriate and estimated the cost at \$122,050. Although the Company's financing application assumes that the WIFA loan will bear an interest rate of 3.50 percent, WIFA informed Staff that the Company would receive a typical loan based on the prime rate (currently 3.25 percent) plus 2.00 percent and an 80 percent subsidy rate, or an interest rate of 4.2 percent.<sup>2</sup> The typical WIFA loan is for 20 years with a 19.5-year amortization (interest only for the first six months). As shown in Schedule JAC-6.2, the annual debt service (principal and interest) on a \$122,050, 20-year amortizing loan

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<sup>2</sup>  $(3.25\% + 2.00\%) \times .8 = 4.20\%$ .

at 4.2 percent per annum is \$9,292. WIFA also requires funding of a Reserve Fund or Replacement Fund equal to 20 percent of the debt service, in this instance \$1,858. Thus, the total annual cash requirement for this loan is \$11,150.

#### *Debt Service Coverage and Cash Flow Analysis*

Staff calculated a pro forma 0.89 DSC using Staff's recommended permanent rates, as shown in Schedule JAC-6.1. This pro forma DSC shows that cash flow from operations is insufficient to cover debt service on the proposed loan; accordingly, the Company would need a source of funds other than that provided by permanent rates to meet all obligations associated with the proposed loan. Staff prepared the cash flow analysis presented in Schedule JAC-7 and determined that the Company would need additional funds of \$4,889, representing a 60.2 percent increase over test year revenues of \$8,121, to meet all of its obligations including debt service on the proposed loan and the WIFA "Debt Service Reserve Fund" and to provide uncommitted cash flow of \$2,000 for contingencies. As shown in Schedule JAC-6.1, Staff's recommended \$32,304 permanent revenue combined with \$4,889 of infrastructure surcharge revenue provides a 1.42 DSC to exceed WIFA's minimum requirement for a 1.2 DSC.

#### *Loan Surcharge*

A \$5.03 per month 5/8 x 3/4-inch meter equivalent<sup>3</sup> infrastructure surcharge would provide the \$4,889 of additional funds needed under Staff's assumed loan terms. The infrastructure surcharge combined with Staff's recommended permanent rates would increase the typical residential bill for a 5/8 x 3/4-inch meter customer with a median use of 3,786 gallons by \$21.53, or 314.76 percent, from \$6.84 to \$28.37 (Schedule JAC-5.2). Since the first payment on a WIFA loan becomes due six months after execution, a time window is available for the Company to obtain the loan, submit the loan documents to the Commission and obtain authorization to implement a loan surcharge after the terms of the loan become known.

#### *Capital Structure*

As reported in its rate application, Sunland's capital structure as of December 31, 2011, consisted of 0.0 percent short-term debt, 0.0 percent long-term debt, and 100.0 percent equity. However, in the annual reports filed with the Commission, Sunland reports the following year end balances in Account No. 234 "Notes/Accounts Payable to Associated Companies": 2007, \$12,210; 2008, \$27,210; 2009, \$10,000; 2010, \$17,127; and 2011, \$59,627. The continuous outstanding balance indicates long-term advances of funds from the owners. To the extent that borrowings are initially short-term but remain outstanding for more than twelve months, they become long-term obligations that require Commission authorization. Pursuant to ARS § 40-301(A) and (B), a public service corporation may issue notes and other evidence of indebtedness only when authorized by an order of the Commission. As the Company had not previously

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<sup>3</sup> See Schedule JAC-9 for the infrastructure surcharge of other meter sizes.

requested Commission authorization to issue such evidence of indebtedness, Staff reclassified the \$59,627 "Notes/Accounts Payable to Associated Companies" balance at the end of the test year as "Paid in Capital," an equity account. As shown in Schedule JAC-6, Staff calculated a pro forma capital structure reflecting issuance of a \$122,050, 19.5-year amortizing loan at 4.2 percent per annum ((prime rate, 3.25 percent + 2.00 percent) x subsidy rate, 0.80), and it is composed of 2.3 percent short-term debt, 63.3 percent long-term debt and 34.4 percent equity.

### *Encumbrance*

A.A.C. 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.

### **STAFF RECOMMENDATIONS**

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule JAC-4. In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per A.A.C. 14-2-409(D)(5).
- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Authorizing the depreciation rates shown in Table B of the Engineering report.
- Authorizing the meter and service line charges shown on Table C of the Engineering report.
- Granting the Company authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed \$122,050 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA, subject to the condition that the Company is authorized sufficient revenue in this rate case via permanent rates and an infrastructure surcharge to meet its debt service and the associated loan covenants.

- 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.
- Directing the Company to file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorized 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 Compliance Section, 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 upon providing 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 A.A.C. R18-15-104 in connection with the WIFA loan.
- Authorizing Sunland to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing Sunland to file with Docket Control, as a compliance item in this docket by April 30, 2013, a copy of the ADEQ Certificate for Approval of Construction for the blending system.
- Directing Sunland, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.

- Directing the Company to coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Commission Annual Reports going forward.
- Directing the Company, in the event the water loss reported in any Annual Report is greater than 10 percent, to prepare a report containing a detailed analysis and a plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted per this recommendation, shall be docketed as a compliance item no later than March 31 of the year following the excessive water loss.
- Directing the Company to file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three Best Management Practices (“BMPs”), in the form of tariffs that substantially conform to the templates created by Staff, for Commission review and consideration. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.
- Authorizing the Company to use a maximum of two BMPs from the “Public Awareness/Public Relations” or “Education and Training” categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

**SUMMARY OF FILING**

|                                       | -- Present Rates --    |                         | -- Proposed Rates --   |                         |
|---------------------------------------|------------------------|-------------------------|------------------------|-------------------------|
|                                       | Company<br>as<br>Filed | Staff<br>as<br>Adjusted | Company<br>as<br>Filed | Staff<br>as<br>Adjusted |
| Revenues:                             |                        |                         |                        |                         |
| Metered Water Revenue                 | \$8,121                | \$8,121                 | \$41,642               | \$32,304                |
| Unmetered Water Revenue               | 0                      | 0                       | 0                      | 0                       |
| Other Water Revenues                  | 0                      | 0                       | 0                      | 0                       |
| <b>Total Operating Revenue</b>        | <b>\$8,121</b>         | <b>\$8,121</b>          | <b>\$41,642</b>        | <b>\$32,304</b>         |
| Operating Expenses:                   |                        |                         |                        |                         |
| Operation and Maintenance             | \$37,977               | \$23,441                | \$37,977               | \$23,441                |
| Depreciation                          | 2,837                  | 1,345                   | 2,837                  | 1,345                   |
| Property & Other Taxes                | 529                    | 602                     | 529                    | 602                     |
| Income Tax                            | 0                      | 0                       | 0                      | 0                       |
| <b>Total Operating Expense</b>        | <b>\$41,343</b>        | <b>\$25,388</b>         | <b>\$41,343</b>        | <b>\$25,388</b>         |
| <b>Operating Income/(Loss)</b>        | <b>(\$33,222)</b>      | <b>(\$17,267)</b>       | <b>\$299</b>           | <b>\$6,916</b>          |
| Rate Base O.C.L.D.                    | \$60,595               | \$60,138                | \$60,595               | \$60,138                |
| Rate of Return - O.C.L.D.             | N/M                    | N/M                     | 0.49%                  | 11.50%                  |
| Times Interest Earned Ratio (Pre-Tax) | N/M                    | N/M                     | N/M                    | 2.21                    |
| Debt Service Coverage Ratio (Pre-Tax) | N/M                    | N/M                     | N/M                    | 1.42                    |
| Operating Margin                      | N/M                    | N/M                     | 0.72%                  | 21.41%                  |

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
  2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

**RATE BASE**

|                            | ----- Original Cost ----- |                  |   | Staff           |
|----------------------------|---------------------------|------------------|---|-----------------|
|                            | Company                   | Adjustment       |   |                 |
| Plant in Service           | \$92,048                  | \$16,682         | A | \$108,730       |
| Less:                      |                           |                  |   |                 |
| Accum. Depreciation        | 31,253                    | 19,817           | B | 51,070          |
| <b>Net Plant</b>           | <b>\$60,795</b>           | <b>(\$3,135)</b> |   | <b>\$57,660</b> |
| Less:                      |                           |                  |   |                 |
| Plant Advances             | \$0                       | \$0              |   | \$0             |
| Customer Security Deposits | 200                       | 0                |   | 200             |
| <b>Total Advances</b>      | <b>\$200</b>              | <b>\$0</b>       |   | <b>\$200</b>    |
| Contributions Gross        | \$0                       | \$0              |   | \$0             |
| Less:                      |                           |                  |   |                 |
| Amortization of CIAC       | 0                         | 0                |   | 0               |
| <b>Net CIAC</b>            | <b>\$0</b>                | <b>\$0</b>       |   | <b>\$0</b>      |
| <b>Total Deductions</b>    | <b>\$200</b>              | <b>\$0</b>       |   | <b>\$200</b>    |
| Plus:                      |                           |                  |   |                 |
| 1/24 Power                 | \$0                       | \$126            | C | \$126           |
| 1/8 Operation & Maint.     | 0                         | 2,552            | C | 2,552           |
| Inventory                  | 0                         | 0                |   | 0               |
| Prepayments                | 0                         | 0                |   | 0               |
| <b>Total Additions</b>     | <b>\$0</b>                | <b>\$2,678</b>   |   | <b>\$2,678</b>  |
| <b>Rate Base</b>           | <b>\$60,595</b>           | <b>(\$457)</b>   |   | <b>\$60,138</b> |

*Explanation of Adjustment:*

- A See Schedule JAC-2, Page 2.
- B See Schedule JAC-2, Page 3.
- C Sunland did not request a cash working capital allowance. Staff calculated a cash working capital allowance using Staff adjusted operating expenses.

**PLANT ADJUSTMENT**

|                                       | Company<br>Exhibit | Adjustment      |   | Staff<br>Adjusted |
|---------------------------------------|--------------------|-----------------|---|-------------------|
| 301 Organization                      | \$0                | \$0             |   | \$0               |
| 302 Franchises                        | 3,000              | 0               |   | 3,000             |
| 303 Land & Land Rights                | 21,800             | 0               |   | 21,800            |
| 304 Structures & Improvements         | 0                  | 0               |   | 0                 |
| 307 Wells & Springs                   | 27,049             | 0               |   | 27,049            |
| 310 Power Generated Equipment         | 0                  | 0               |   | 0                 |
| 311 Pumping Equipment                 | 5,000              | 0               |   | 5,000             |
| 320.1 Water Treatment Equipment       | 0                  | 0               |   | 0                 |
| 320.2 Solution Chemical Feeders       | 0                  | 0               |   | 0                 |
| 330.1 Storage Tanks                   | 10,000             | 1,290           | a | 11,290            |
| 330.2 Pressure Tanks                  | 0                  | 1,000           | b | 1,000             |
| 331 Transmission & Distribution Mains | 20,000             | 11,706          | c | 31,706            |
| 333 Services                          | 0                  | 2,394           | c | 2,394             |
| 334 Meters & Meter Installations      | 4,512              | 292             | c | 4,804             |
| 335 Hydrants                          | 0                  | 0               |   | 0                 |
| 336 Backflow Prevention Devices       | 0                  | 0               |   | 0                 |
| 339 Other Plant and Misc. Equipment   | 0                  | 0               |   | 0                 |
| 340 Office Furniture & Equipment      | 687                | 0               |   | 687               |
| 341 Transportation Equipment          | 0                  | 0               |   | 0                 |
| 343 Tools Shop & Garage Equipment     | 0                  | 0               |   | 0                 |
| 344 Laboratory Equipment              | 0                  | 0               |   | 0                 |
| 345 Power Operated Equipment          | 0                  | 0               |   | 0                 |
| 346 Communication Equipment           | 0                  | 0               |   | 0                 |
| 347 Miscellaneous Equipment           | 0                  | 0               |   | 0                 |
| 348 Other Tangible Plant              | 0                  | 0               |   | 0                 |
|                                       | 0                  | 0               |   | 0                 |
| <b>TOTALS</b>                         | <b>\$92,048</b>    | <b>\$16,682</b> |   | <b>\$108,730</b>  |

*Explanation of Adjustment:*

- a To conform with cost shown on supporting documentation.
- b To reverse a retirement for plant fully depreciated but remaining in service.
- c To reclassify \$14,391 from Repairs and Maintenance.

**ACCUMULATED DEPRECIATION ADJUSTMENT**

|  | <u>Amount</u>                 |
|--|-------------------------------|
| Accumulated Depreciation - Per Company | \$31,253                      |
| Accumulated Depreciation - Per Staff   | <u>51,070</u>                 |
| <b>Total Adjustment</b>                | <b><u><u>\$19,817</u></u></b> |

*Explanation of Adjustment:*

- B - To reflect application of the authorized depreciation rates and removal of depreciation accrued on fully depreciated plant and to recognize retirements.

| <u>Accumulated Depreciation Balances</u> | Per<br>Company              | Per<br>Staff                |
|--|-----------------------------|-----------------------------|
| 304 Structures & Improvements            | -                           | -                           |
| 307 Wells & Springs                      | 9,633                       | 17,251                      |
| 310 Power Generated Equipment            | -                           | -                           |
| 311 Pumping Equipment                    | 2,833                       | 5,000                       |
| 320 Water Treatment Equipment            | -                           | -                           |
| 320.2 Water Treatment Plant              | -                           | -                           |
| 330.1 Solution Chemical Feeders          | -                           | -                           |
| 330.1 Storage Tanks                      | 5,667                       | 5,927                       |
| 330.1 Storage Tanks                      | -                           | -                           |
| 330.2 Pressure Tanks                     | -                           | 1,000                       |
| 331 Transmission & Distribution Mains    | 11,333                      | 20,292                      |
| 333 Services                             | -                           | 60                          |
| 334 Meters & Meter Installations         | 1,738                       | 1,470                       |
| 335 Hydrants                             | -                           | -                           |
| 336 Backflow Prevention Devices          | -                           | -                           |
| 339 Other Plant and Misc. Equipment      | -                           | -                           |
| 340 Office Furniture & Equipment         | 49                          | 69                          |
| 341 Transportation Equipment             | -                           | -                           |
| 343 Tools Shop & Garage Equipment        | -                           | -                           |
| 344 Laboratory Equipment                 | -                           | -                           |
| 345 Power Operated Equipment             | -                           | -                           |
| 346 Communication Equipment              | -                           | -                           |
| 347 Miscellaneous Equipment              | -                           | -                           |
| 348 Other Tangible Plant                 | -                           | -                           |
| Engineering Study                        | -                           | -                           |
| <b>Total Accumulated Depreciation</b>    | <b><u><u>31,253</u></u></b> | <b><u><u>51,070</u></u></b> |

**STATEMENT OF OPERATING INCOME**

|   | Company<br>Exhibit | Staff<br>Adjustments | Staff<br>Adjusted |
|---|--------------------|----------------------|-------------------|
| <b>Revenues:</b>                              |                    |                      |                   |
| 461 Metered Water Revenue                     | \$8,121            | \$0                  | \$8,121           |
| 460 Unmetered Water Revenue                   | 0                  | 0                    | 0                 |
| 474 Other Water Revenues                      | 0                  | 0                    | 0                 |
| <b>Total Operating Revenue</b>                | <b>\$8,121</b>     | <b>\$0</b>           | <b>\$8,121</b>    |
| <b>Operating Expenses:</b>                    |                    |                      |                   |
| 601 Salaries and Wages                        | \$0                | \$0                  | \$0               |
| 610 Purchased Water                           | 0                  | 0                    | 0                 |
| 615 Purchased Power                           | 3,028              | 0                    | 3,028             |
| 618 Chemicals                                 | 0                  | 0                    | 0                 |
| 620 Repairs and Maintenance                   | 16,776             | (14,391) D           | 2,385             |
| 621 Office Supplies & Expense                 | 1,659              | 0                    | 1,659             |
| 630 Outside Services                          | 2,298              | 600 E                | 2,898             |
| 635 Water Testing                             | 3,367              | (1,045) F            | 2,322             |
| 641 Rents                                     | 5,000              | 0                    | 5,000             |
| 650 Transportation Expenses                   | 2,972              | 0                    | 2,972             |
| 657 Insurance - General Liability             | 2,851              | 0                    | 2,851             |
| 659 Insurance - Health and Life               | 0                  | 0                    | 0                 |
| 666 Regulatory Commission Expense - Rate Case | 0                  | 300 G                | 300               |
| 675 Miscellaneous Expense                     | 26                 | 0                    | 26                |
| 403 Depreciation Expense                      | 2,837              | (1,492) H            | 1,345             |
| 408 Taxes Other Than Income                   | 130                | (130) I              | 0                 |
| 408.11 Property Taxes                         | 399                | 203 J                | 602               |
| 409 Income Tax                                | 0                  | 0                    | 0                 |
| <b>Total Operating Expenses</b>               | <b>\$41,343</b>    | <b>(\$15,955)</b>    | <b>\$25,388</b>   |
| <b>OPERATING INCOME/(LOSS)</b>                | <b>(\$33,222)</b>  | <b>\$15,955</b>      | <b>(\$17,267)</b> |
| <b>Other Income/(Expense):</b>                |                    |                      |                   |
| 419 Interest and Dividend Income              | \$0                | \$0                  | \$0               |
| 421 Non-Utility Income                        | 394                | (394) K              | 0                 |
| 427 Interest Expense                          | 0                  | 0                    | 0                 |
| 426 Miscellaneous Non-Utility Expense         | 15                 | 0                    | 15                |
| <b>Total Other Income/(Expense)</b>           | <b>\$379</b>       | <b>(\$394)</b>       | <b>(\$15)</b>     |
| <b>NET INCOME/(LOSS)</b>                      | <b>(\$32,843)</b>  | <b>\$15,561</b>      | <b>(\$17,282)</b> |

**STAFF ADJUSTMENTS**

|     |   |          |            |
|-----|---|----------|------------|
| D - | REPAIRS AND MAINTENANCE - Per Company   | \$16,776 |            |
|     | Per Staff   | 2,385    | (\$14,391) |
|     | To reclassify capital expenditures to Transmission and Distribution Mains, \$11,706; Services, \$2,394 and Meters, \$292. |          |            |
| E - | OUTSIDE SERVICES - Per Company  | \$2,298  |            |
|     | Per Staff   | 2,898    | \$600      |
|     | To annualize the increase in the certified operator fee from \$50 per month to \$100 per month.                           |          |            |
| F - | WATER TESTING - Per Company   | \$3,367  |            |
|     | Per Staff   | 2,322    | (\$1,045)  |
|     | To recognize the average on-going water testing expenses.   |          |            |
| G - | REGULATORY COMMISSION EXPENSE - RATE CASE   |          |            |
|     | - Per Company   | \$0      |            |
|     | Per Staff   | 300      | \$300      |
|     | To recognize estimated rate case expense of \$900 amortized over three years.   |          |            |
| H - | DEPRECIATION - Per Company  | \$2,837  |            |
|     | Per Staff   | 1,345    | (\$1,492)  |
|     | To reflect application of Staff's depreciation rates to Staff's depreciable plant balances by account.                    |          |            |
| I - | TAXES OTHER THAN INCOME - Per Company   | \$130    |            |
|     | Per Staff   | 0        | (\$130)    |
|     | To remove sales tax, a pass through cost.   |          |            |

**STAFF ADJUSTMENTS (Cont.)**

|     |   |       |         |
|-----|---|-------|---------|
| J - | PROPERTY TAX - Per Company                    | \$399 |         |
|     | Per Staff                                     | 602   | \$203   |
|     |   | <hr/> | <hr/>   |
|     | To reflect the most recent property tax bill. |       |         |
| K - | NON-UTILITY INCOME - Per Company              | \$394 |         |
|     | Per Staff                                     | 0     | (\$394) |
|     |   | <hr/> | <hr/>   |
|     | To remove unsupported non-utility income.     |       |         |

OPERATING INCOME ADJUSTMENT D - DEPRECIATION EXPENSE

| LINE NO.                | DESCRIPTION          | [A]<br>COMPANY<br>PROPOSED                      | [B]<br>STAFF<br>ADJUSTMENTS                     | [C]<br>STAFF<br>RECOMMENDED | [D]                           | [E]                             | [F]                          |                                 |
|-------------------------|----------------------|---|---|-----------------------------|-------------------------------|---------------------------------|------------------------------|---------------------------------|
| 1                       | Depreciation Expense | \$ 2,837  | \$ (1,492)                                      | \$ 1,345                    |                               |                                 |                              |                                 |
| <br>                    |                      |   |   |                             |                               |                                 |                              |                                 |
| Line No.                | ACCT NO.             | DESCRIPTION                                     | Company Proposed<br>PLANT IN SERVICE<br>BALANCE | STAFF<br>PLANT<br>BALANCE   | Fully<br>Depreciated<br>Plant | STAFF<br>DEPR. PLANT<br>BALANCE | STAFF<br>RECOMMENDED<br>RATE | STAFF<br>RECOMMENDED<br>EXPENSE |
| <b>Plant in Service</b> |                      |   |   |                             |                               |                                 |                              |                                 |
| 2                       | 301                  | Organization                                    | \$ -  | -                           |                               | \$ -                            | 0.00%                        | \$ -                            |
| 3                       | 302                  | Franchises                                      | 3,000   | 3,000                       |                               | 3,000                           | 0.00%                        | -                               |
| 4                       | 303                  | Land & Land Rights                              | 21,800  | 21,800                      |                               | 21,800                          | 0.00%                        | -                               |
| 5                       | 304                  | Structures & Improvements                       | -   | -                           |                               | -                               | 3.33%                        | -                               |
| 6                       | 307                  | Wells & Springs                                 | 27,049  | 27,049                      | 17,000                        | 10,049                          | 3.33%                        | 335                             |
| 7                       | 310                  | Power Generating Equipment                      | -   | -                           |                               | -                               | 5.00%                        | -                               |
| 8                       | 311                  | Pumping Equipment                               | 5,000   | 5,000                       | 5,000                         | -                               | 12.50%                       | -                               |
| 9                       | 320.1                | Water Treatment Plants                          | -   | -                           |                               | -                               | 3.33%                        | -                               |
| 10                      | 320.2                | Solution Chemical Feeders                       | -   | -                           |                               | -                               | 20.00%                       | -                               |
| 11                      | 330.1                | Storage Tanks                                   | 10,000  | 11,290                      |                               | 11,290                          | 2.22%                        | 251                             |
| 12                      | 330.2                | Pressure Tanks                                  | -   | 1,000                       | 1,000                         | -                               | 5.00%                        | -                               |
| 13                      | 331                  | Transmission & Distribution Mains               | 20,000  | 31,706                      | 20,000                        | 11,706                          | 2.00%                        | 234                             |
| 14                      | 333                  | Services  | -   | 2,394                       |                               | 2,394                           | 3.33%                        | 80                              |
| 15                      | 334                  | Meters & Meter Installations                    | 4,512   | 4,804                       |                               | 4,804                           | 8.33%                        | 400                             |
| 16                      | 335                  | Hydrants  | -   | -                           |                               | -                               | 2.00%                        | -                               |
| 17                      | 336                  | Backflow Prevention Devices                     | -   | -                           |                               | -                               | 6.67%                        | -                               |
| 18                      | 339                  | Other Plant and Misc. Equipment                 | -   | -                           |                               | -                               | 6.67%                        | -                               |
| 19                      | 340                  | Office Furniture & Equipment                    | 687   | 687                         |                               | 687                             | 6.67%                        | 46                              |
| 20                      | 341                  | Transportation Equipment                        | -   | -                           |                               | -                               | 20.00%                       | -                               |
| 21                      | 343                  | Tools Shop & Garage Equipment                   | -   | -                           |                               | -                               | 5.00%                        | -                               |
| 22                      | 344                  | Laboratory Equipment                            | -   | -                           |                               | -                               | 10.00%                       | -                               |
| 23                      | 345                  | Power Operated Equipment                        | -   | -                           |                               | -                               | 5.00%                        | -                               |
| 24                      | 346                  | Communication Equipment                         | -   | -                           |                               | -                               | 10.00%                       | -                               |
| 25                      | 347                  | Miscellaneous Equipment                         | -   | -                           |                               | -                               | 10.00%                       | -                               |
| 26                      | 348                  | Other Tangible Plant                            | -   | -                           |                               | -                               | 0.00%                        | -                               |
| 27                      |                      |   | -   | -                           |                               | -                               |                              | -                               |
| 28                      |                      |   | -   | -                           |                               | -                               |                              | -                               |
| 29                      |                      | Subtotal General                                | \$ 92,048                                       | \$ 108,730                  | \$ 43,000                     | \$ 65,730                       |                              | \$ 1,345                        |
| 30                      |                      | Less: Non-depreciable Account(s)                | 24,800  |                             |                               | 24,800                          |                              |                                 |
| 31                      |                      | Depreciable Plant (L29-L30)                     | \$ 67,248                                       |                             |                               | \$ 40,930                       |                              |                                 |
| 32                      |                      |   |   |                             |                               |                                 |                              |                                 |
| 33                      |                      | Contributions-in-Aid-of-Construction (CIAC)     |   |                             |                               |                                 | \$ -                         |                                 |
| 34                      |                      | Weighted Average Depreciation/Amortization Rate |   |                             |                               |                                 | 3.2864%                      |                                 |
| 35                      |                      | Less: Amortization of CIAC (L32 x L33)          |   |                             |                               |                                 |                              | \$ -                            |
| 36                      |                      | <b>Depreciation Expense - STAFF</b>             |   |                             |                               |                                 |                              | <b>\$ 1,345</b>                 |

Pro Forma Depreciation Expense Calculation

|  |                   |
|--|-------------------|
| Plant in Service                                 | \$ 108,730        |
| Less: Non-depreciable plant                      | 24,800            |
| Fully depreciated plant                          | 43,000            |
| Depreciable Plant                                | \$ 40,930         |
| Times: Staff weighted average depreciation rate  | 3.2864%           |
| Depreciation expense before amortization of CIAC | 1,345             |
| Less: Amortization of CIAC                       | -                 |
| <b>Test Year Depreciation - Staff</b>            | <b>1,345</b>      |
| Depreciation expense - Company                   | 2,837             |
| <b>Staff recommended adjustment</b>              | <b>\$ (1,492)</b> |

**RATE DESIGN**

| Monthly Usage Charge         | Present                       | -Proposed Rates- |         |
|------------------------------|-------------------------------|------------------|---------|
|                              | Rates                         | Company          | Staff   |
| <u>5/8" x 3/4" Meter</u>     | \$4.00                        | \$30.00          | \$14.00 |
| 3/4" Meter                   | 5.00                          | 30.00            | 21.00   |
| 1" Meter                     | 7.00                          | 40.00            | 35.00   |
| 1½" Meter                    | 12.00                         | 77.00            | 70.00   |
| 2" Meter                     | 18.00                         | 123.00           | 112.00  |
| 3" Meter                     | 0.00                          | 246.00           | 224.00  |
| 4" Meter                     | 0.00                          | 385.00           | 350.00  |
| 6" Meter                     | 0.00                          | 770.00           | 700.00  |
| Gallons Included in Minimum  | 0                             | 0                | 0       |
| <u>Commodity Rate Charge</u> |                               |                  |         |
| <u>5/8" x 3/4" Meter</u>     |                               |                  |         |
| <i>Company</i>               |                               |                  |         |
| Tier 1                       | From 0 to 10,000 gallons      | 0.75             | 2.25    |
| Tier 2                       | From 10,001 to 20,000 gallons | 0.75             | 2.75    |
| Tier 3                       | Over 20,000 gallons           | 0.75             | 3.25    |
| <i>Staff</i>                 |                               |                  |         |
| Tier 1                       | From 0 to 3,000 gallons       |                  | 2.00    |
| Tier 2                       | From 3,001 to 9,000 gallons   |                  | 4.25    |
| Tier 3                       | Over 9,000 gallons            |                  | 5.75    |
| <u>3/4" Meter</u>            |                               |                  |         |
| <i>Company</i>               |                               |                  |         |
| Tier 1                       | From 0 to 10,000 gallons      | 0.75             | 2.25    |
| Tier 2                       | From 10,001 to 20,000 gallons | 0.75             | 2.75    |
| Tier 3                       | Over 20,000 gallons           | 0.75             | 3.25    |
| <i>Staff</i>                 |                               |                  |         |
| Tier 1                       | From 0 to 3,000 gallons       |                  | 2.00    |
| Tier 2                       | From 3,001 to 9,000 gallons   |                  | 4.25    |
| Tier 3                       | Over 9,000 gallons            |                  | 5.75    |
| <u>1" Meter</u>              |                               |                  |         |
| <i>Company</i>               |                               |                  |         |
| Tier 1                       | From 0 to 10,000 gallons      | 0.75             | 2.25    |
| Tier 2                       | From 10,001 to 20,000 gallons | 0.75             | 2.75    |
| Tier 3                       | Over 20,000 gallons           | 0.75             | 3.25    |
| <i>Staff</i>                 |                               |                  |         |
| Tier 1                       | From 0 to 15,000 gallons      |                  | 4.25    |
| Tier 2                       | Over 15,000 gallons           |                  | 5.75    |
| <u>1½" Meter</u>             |                               |                  |         |
| <i>Company</i>               |                               |                  |         |
| Tier 1                       | From 0 to 10,000 gallons      | 0.75             | 2.25    |
| Tier 2                       | From 10,001 to 20,000 gallons | 0.75             | 2.75    |
| Tier 3                       | Over 20,000 gallons           | 0.75             | 3.25    |
| <i>Staff</i>                 |                               |                  |         |
| Tier 1                       | From 0 to 32,000 gallons      |                  | 4.25    |
| Tier 2                       | Over 32,000 gallons           |                  | 5.75    |
| <u>2" Meter</u>              |                               |                  |         |
| <i>Company</i>               |                               |                  |         |
| Tier 1                       | From 0 to 10,000 gallons      | 0.75             | 2.25    |
| Tier 2                       | From 10,001 to 20,000 gallons | 0.75             | 2.75    |
| Tier 3                       | Over 20,000 gallons           | 0.75             | 3.25    |
| <i>Staff</i>                 |                               |                  |         |
| Tier 1                       | From 0 to 55,000 gallons      |                  | 4.25    |
| Tier 2                       | Over 55,000 gallons           |                  | 5.75    |
| <u>3" Meter</u>              |                               |                  |         |
| <i>Company</i>               |                               |                  |         |
| Tier 1                       | From 0 to 10,000 gallons      | 0.75             | 2.25    |
| Tier 2                       | From 10,001 to 20,000 gallons | 0.75             | 2.75    |
| Tier 3                       | Over 20,000 gallons           | 0.75             | 3.25    |
| <i>Staff</i>                 |                               |                  |         |
| Tier 1                       | From 0 to 120,000 gallons     |                  | 4.25    |
| Tier 2                       | Over 120,000 gallons          |                  | 5.75    |
| <u>4" Meter</u>              |                               |                  |         |
| <i>Company</i>               |                               |                  |         |
| Tier 1                       | From 0 to 10,000 gallons      | 0.75             | 2.25    |
| Tier 2                       | From 10,001 to 20,000 gallons | 0.75             | 2.75    |
| Tier 3                       | Over 20,000 gallons           | 0.75             | 3.25    |
| <i>Staff</i>                 |                               |                  |         |
| Tier 1                       | From 0 to 190,000 gallons     |                  | 4.25    |
| Tier 2                       | Over 190,000 gallons          |                  | 5.75    |

**RATE DESIGN**

*6" Meter*

*Company*

|        |                               |      |      |
|--------|-------------------------------|------|------|
| Tier 1 | From 0 to 10,000 gallons      | 0.75 | 2.25 |
| Tier 2 | From 10,001 to 20,000 gallons | 0.75 | 2.75 |
| Tier 3 | Over 20,000 gallons           | 0.75 | 3.25 |

*Staff*

|        |                           |      |
|--------|---------------------------|------|
| Tier 1 | From 0 to 400,000 gallons | 4.25 |
| Tier 2 | Over 400,000 gallons      | 5.75 |

Service Line and Meter Installation Charges

|                   |          |          | Service<br>Line | Meter<br>Installation | Total     |
|-------------------|----------|----------|-----------------|-----------------------|-----------|
| 5/8" x 3/4" Meter | \$100.00 | \$350.00 | \$ 260.00       | \$ 90.00              | \$ 350.00 |
| 3/4" Meter        | 120.00   | 350.00   | 222.00          | 128.00                | 350.00    |
| 1" Meter          | 160.00   | 400.00   | 244.00          | 156.00                | 400.00    |
| 1½" Meter         | 300.00   | 500.00   | 256.00          | 244.00                | 500.00    |
| 2" Meter          | 400.00   | 750.00   | 332.00          | 418.00                | 750.00    |
| 3" Meter          | 0.00     | 1,000.00 | -               | -                     | Cost      |
| 4" Meter          | 0.00     | 1,500.00 | -               | -                     | Cost      |
| 6" Meter          | 0.00     | 2,000.00 | -               | -                     | Cost      |

Service Charges

|                                       |         |         |         |
|---------------------------------------|---------|---------|---------|
| Establishment                         | \$0.00  | \$30.00 | \$30.00 |
| Establishment (After Hours)           | 0.00    | 0.00    | NT      |
| Reconnection (Delinquent)             | 5.00    | 40.00   | 30.00   |
| Reconnection (Delinquent) After Hours | 40.00   | 40.00   | NT      |
| Meter Test (If Correct)               | 0.00    | 25.00   | 25.00   |
| Deposit                               | 25.00 * |         | *       |
| Deposit Interest                      | 0.00% * |         | *       |
| Re-Establishment (Within 12 Months)   | 25.00   | **      | **      |
| NSF Check                             | 0.00    | 25.00   | 20.00   |
| Deferred Payment (per Month)          | 0.00%   | 1.50%   | 1.50%   |
| Meter Re-Read (If Correct)            | 2.50    | 15.00   | 15.00   |
| Late Fee (per Month)                  | 0.00    | 1.5%    | 1.5%    |
| After Hours Service Charge            | 0.00    | 25.00   | 25.00   |

NT = No Tariff

Monthly Service Charge for Fire Sprinkler

|                 |        |        |      |
|-----------------|--------|--------|------|
| 4" or Smaller   | \$0.00 | \$0.00 | **** |
| 6"              | 0.00   | 0.00   | **** |
| 8"              | 0.00   | 0.00   | **** |
| 10"             | 0.00   | 0.00   | **** |
| Larger than 10" | 0.00   | 0.00   | **** |

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

\*\*\* 1.5% on the unpaid balance per month

\*\*\*\* 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**TYPICAL BILL ANALYSIS (without surcharge)**

General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 81

| <u>Company Proposed</u> | <u>Gallons</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|-------------------------|----------------|----------------------|-----------------------|------------------------|-------------------------|
| Average Usage           | 5,616          | \$8.21               | \$42.64               | \$34.43                | 419.37%                 |
| Median Usage            | 3,786          | \$6.84               | \$38.52               | \$31.68                | 463.16%                 |
| <u>Staff Recommend</u>  |                |                      |                       |                        |                         |
| Average Usage           | 5,616          | \$8.21               | \$31.12               | \$22.91                | 279.05%                 |
| Median Usage            | 3,786          | \$6.84               | \$23.34               | \$16.50                | 241.23%                 |

Present & Proposed Rates (Without Taxes)  
General Service 5/8 X 3/4 - Inch Meter

| <u>Gallons Consumption</u> | <u>Present Rates</u> | <u>Company Proposed Rates</u> | <u>% Increase</u> | <u>Staff Proposed Rates</u> | <u>% Increase</u> |
|----------------------------|----------------------|-------------------------------|-------------------|-----------------------------|-------------------|
| 0                          | \$4.00               | \$30.00                       | 650.00%           | \$14.00                     | 250.00%           |
| 1,000                      | 4.75                 | 32.25                         | 578.95%           | 16.00                       | 236.84%           |
| 2,000                      | 5.50                 | 34.50                         | 527.27%           | 18.00                       | 227.27%           |
| 3,000                      | 6.25                 | 36.75                         | 488.00%           | 20.00                       | 220.00%           |
| 4,000                      | 7.00                 | 39.00                         | 457.14%           | 24.25                       | 246.43%           |
| 5,000                      | 7.75                 | 41.25                         | 432.26%           | 28.50                       | 267.74%           |
| 6,000                      | 8.50                 | 43.50                         | 411.76%           | 32.75                       | 285.29%           |
| 7,000                      | 9.25                 | 45.75                         | 394.59%           | 37.00                       | 300.00%           |
| 8,000                      | 10.00                | 48.00                         | 380.00%           | 41.25                       | 312.50%           |
| 9,000                      | 10.75                | 50.25                         | 367.44%           | 45.50                       | 323.26%           |
| 10,000                     | 11.50                | 52.50                         | 356.52%           | 51.25                       | 345.65%           |
| 15,000                     | 15.25                | 66.25                         | 334.43%           | 80.00                       | 424.59%           |
| 20,000                     | 19.00                | 80.00                         | 321.05%           | 108.75                      | 472.37%           |
| 25,000                     | 22.75                | 96.25                         | 323.08%           | 137.50                      | 504.40%           |
| 50,000                     | 41.50                | 177.50                        | 327.71%           | 281.25                      | 577.71%           |
| 75,000                     | 60.25                | 258.75                        | 329.46%           | 425.00                      | 605.39%           |
| 100,000                    | 79.00                | 340.00                        | 330.38%           | 568.75                      | 619.94%           |
| 125,000                    | 97.75                | 421.25                        | 330.95%           | 712.50                      | 628.90%           |
| 150,000                    | 116.50               | 502.50                        | 331.33%           | 856.25                      | 634.98%           |
| 175,000                    | 135.25               | 583.75                        | 331.61%           | 1,000.00                    | 639.37%           |
| 200,000                    | 154.00               | 665.00                        | 331.82%           | 1,143.75                    | 642.69%           |

**TYPICAL BILL ANALYSIS (with surcharge)**

General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 81

| <u>Company Proposed</u> | <u>Gallons</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|-------------------------|----------------|----------------------|-----------------------|------------------------|-------------------------|
| Average Usage           | 5,616          | \$8.21               | \$42.64               | \$34.43                | 419.37%                 |
| Median Usage            | 3,786          | \$6.84               | \$38.52               | \$31.68                | 463.16%                 |
| <u>Staff Recommend</u>  |                |                      |                       |                        |                         |
| Average Usage           | 5,616          | \$8.21               | \$36.15               | \$27.94                | 340.31%                 |
| Median Usage            | 3,786          | \$6.84               | \$28.37               | \$21.53                | 314.76%                 |

Present & Proposed Rates (Without Taxes)  
General Service 5/8 X 3/4 - Inch Meter

| <u>Gallons Consumption</u> | <u>Present Rates</u> | <u>Company Proposed Rates</u> | <u>% Increase</u> | <u>Staff Proposed Rates</u> | <u>% Increase</u> |
|----------------------------|----------------------|-------------------------------|-------------------|-----------------------------|-------------------|
| 0                          | \$4.00               | \$30.00                       | 650.00%           | \$ 19.03                    | 375.74%           |
| 1,000                      | 4.75                 | 32.25                         | 578.95%           | 21.03                       | 342.72%           |
| 2,000                      | 5.50                 | 34.50                         | 527.27%           | 23.03                       | 318.72%           |
| 3,000                      | 6.25                 | 36.75                         | 488.00%           | 25.03                       | 300.47%           |
| 4,000                      | 7.00                 | 39.00                         | 457.14%           | 29.28                       | 318.28%           |
| 5,000                      | 7.75                 | 41.25                         | 432.26%           | 33.53                       | 332.64%           |
| 6,000                      | 8.50                 | 43.50                         | 411.76%           | 37.78                       | 344.46%           |
| 7,000                      | 9.25                 | 45.75                         | 394.59%           | 42.03                       | 354.37%           |
| 8,000                      | 10.00                | 48.00                         | 380.00%           | 46.28                       | 362.79%           |
| 9,000                      | 10.75                | 50.25                         | 367.44%           | 50.53                       | 370.04%           |
| 10,000                     | 11.50                | 52.50                         | 356.52%           | 56.28                       | 389.39%           |
| 15,000                     | 15.25                | 66.25                         | 334.43%           | 85.03                       | 457.57%           |
| 20,000                     | 19.00                | 80.00                         | 321.05%           | 113.78                      | 498.84%           |
| 25,000                     | 22.75                | 96.25                         | 323.08%           | 142.53                      | 526.50%           |
| 50,000                     | 41.50                | 177.50                        | 327.71%           | 286.28                      | 589.83%           |
| 75,000                     | 60.25                | 258.75                        | 329.46%           | 430.03                      | 613.74%           |
| 100,000                    | 79.00                | 340.00                        | 330.38%           | 573.78                      | 626.30%           |
| 125,000                    | 97.75                | 421.25                        | 330.95%           | 717.53                      | 634.05%           |
| 150,000                    | 116.50               | 502.50                        | 331.33%           | 861.28                      | 639.30%           |
| 175,000                    | 135.25               | 583.75                        | 331.61%           | 1,005.03                    | 643.09%           |
| 200,000                    | 154.00               | 665.00                        | 331.82%           | 1,148.78                    | 645.96%           |

**WIFA LOAN FINANCIAL ANALYSIS**

Test Year Income Statement, Capital Structure and Pro Forma Based on Audit  
Including Immediate Effects of the Proposed Debt

**INCOME STATEMENT**

|   | <i>Pro Forma<br/>Permanent Rates</i> | <i>Pro Forma<br/>With Surcharge</i> |
|---|--------------------------------------|-------------------------------------|
| Operating Revenue:                        | <b>\$32,304</b>                      | <b>\$32,304</b>                     |
| Operating Expenses:                       |                                      |                                     |
| Purchased Water/Pumping Power             | \$3,028                              | \$3,028                             |
| Admin. & General                          | 12,734                               | 12,734                              |
| Maintenance & Testing                     | 7,679                                | 7,679                               |
| Depreciation (d)                          | 1,345                                | 1,345                               |
| Property Taxes                            | 602                                  | 602                                 |
| Other taxes                               | 0                                    | 0                                   |
| Total Operating Expense                   | <u><b>\$25,388</b></u>               | <u><b>\$25,388</b></u>              |
| Pre-Tax Operating Income                  | <b>\$6,916</b>                       | <b>\$6,916</b>                      |
| Loan Surcharge                            | \$0                                  | <b>\$4,889</b>                      |
| Interest Expense (b)                      | <u>5,045</u>                         | <u>5,045</u>                        |
| Pre-Tax Net Income (a)                    | <u><b>\$1,871</b></u>                | <u><b>\$6,759</b></u>               |
| Principal Repayment (c)                   | 4,247                                | 4,247                               |
| Reserve/Replacement Deposit (e)           | 1,858                                | 1,858                               |
| <b>TIER (Times Interest Earned Ratio)</b> |                                      |                                     |
| (a) ÷ (b)                                 | 1.37                                 | 2.21                                |
| <b>DSC (Debt Service Coverage)</b>        |                                      |                                     |
| [(a) + (d)] ÷ [(b) + (c)]                 | <b>0.89</b>                          | <b>1.42</b>                         |

**CAPITAL STRUCTURE**

|                 |           |        |           |        |
|-----------------|-----------|--------|-----------|--------|
| Short-term Debt | \$4,247   | 2.3%   | \$4,247   | 2.3%   |
| Long-term Debt  | \$117,803 | 63.3%  | \$117,803 | 63.3%  |
| Common Equity   | \$64,031  | 34.4%  | \$64,031  | 34.4%  |
| Total Capital   | \$186,081 | 100.0% | \$186,081 | 100.0% |

**TERMS OF PROPOSED WIFA LOAN**

**Terms and Conditions**

|   |              |
|---|--------------|
| Loan Amount                                 | \$122,050    |
| Term (No. of Years)                         | 20           |
| Combined Interest & Fee Rate                |              |
| Interest Rate Index                         | 5.25%        |
| Subsidy Rate Index                          | 80.00%       |
| Combined Interest & Fee Rate                | <u>4.20%</u> |
| Coverage Requirement                        | 20.00%       |
| Debt Service Reserve Requirement            | \$9,291.65   |
| Number of Years Debt Service Reserve Funded | 5            |

**Monthly Fixed payment to WIFA**

*Years 1 through 5*

|                                      |                 |
|--------------------------------------|-----------------|
| Monthly Fixed Payments to WIFA       | \$774.30        |
| Monthly Debt Service Reserve Deposit | \$154.86        |
| Monthly Replacement Fund Deposit     | \$0.00          |
| Total Monthly Fixed Payment          | <u>\$929.16</u> |

*Years 6 through 20*

|                                      |                  |
|--------------------------------------|------------------|
| Monthly Fixed Payments to WIFA       | \$774.30         |
| Monthly Debt Service Reserve Deposit | 0.00             |
| Monthly Replacement Fund Deposit     | <u>\$ 154.86</u> |
| Total Monthly Fixed Payment          | <u>\$929.16</u>  |

**Annual Fiscal Impact**

| Year | Annual Debt Service | Reserve Fund Deposit | Replacement Fund Deposit | Total Annual Fiscal Impact |
|------|---------------------|----------------------|--------------------------|----------------------------|
| 1    | \$9,291.65          | \$1,858.33           | \$0.00                   | \$11,149.98                |
| 2    | 9,291.65            | 1,858.33             | 0.00                     | 11,149.98                  |
| 3    | 9,291.65            | 1,858.33             | 0.00                     | 11,149.98                  |
| 4    | 9,291.65            | 1,858.33             | 0.00                     | 11,149.98                  |
| 5    | 9,291.65            | 1,858.33             | 0.00                     | 11,149.98                  |
| 6    | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 7    | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 8    | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 9    | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 10   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 11   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 12   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 13   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 14   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 15   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 16   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 17   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 18   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 19   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 20   | 9,291.65            | 0.00                 | 1,858.33                 | 11,149.98                  |
| 21   | 0.00                | 0.00                 | 0.00                     | 0.00                       |
| 22   | 0.00                | 0.00                 | 0.00                     | 0.00                       |
| 23   | 0.00                | 0.00                 | 0.00                     | 0.00                       |
| 24   | 0.00                | 0.00                 | 0.00                     | 0.00                       |
| 25   | 0.00                | 0.00                 | 0.00                     | 0.00                       |
| 26   | 0.00                | 0.00                 | 0.00                     | 0.00                       |
| 27   | 0.00                | 0.00                 | 0.00                     | 0.00                       |
| 28   | 0.00                | 0.00                 | 0.00                     | 0.00                       |
| 29   | 0.00                | 0.00                 | 0.00                     | 0.00                       |
| 30   | 0.00                | 0.00                 | 0.00                     | 0.00                       |
|      | <u>\$185,832.99</u> | <u>\$9,291.65</u>    | <u>\$27,874.95</u>       | <u>\$222,999.59</u>        |

**CASH FLOW ANALYSIS**

| Line No.  | Staff Recommended<br>W/O Proposed Loan | Pro Forma<br>With Proposed Loan<br>and Surcharge |
|---|--|--|
| <b>Cash Inflows</b>                                     |  |  |
| 1 461 Metered Water Revenue                             | \$32,304                               | \$32,304   |
| 2 460 Unmetered Water Revenue                           | \$0                                    | 0  |
| 3 474 Other Water Revenues                              | \$0                                    | 0  |
| 4 Revenue - Surcharge for 1.42 DSC (\$2,000 Cash Flow)  | 0                                      | 4,889  |
| 5 Total Revenue   | <u>\$32,304</u>                        | <u>\$37,193</u>                                  |
| <b>Cash Outflows</b>                                    |  |  |
| 6 601 Salaries and Wages                                | \$0                                    | \$0  |
| 7 610 Purchased Water                                   | 0                                      | 0  |
| 8 615 Purchased Power                                   | 3,028                                  | 3,028  |
| 9 618 Chemicals   | 0                                      | 0  |
| 10 620 Repairs and Maintenance                          | 2,385                                  | 2,385  |
| 11 621 Office Supplies & Expense                        | 1,659                                  | 1,659  |
| 12 630 Outside Services                                 | 2,898                                  | 2,898  |
| 13 635 Water Testing                                    | 2,322                                  | 2,322  |
| 14 641 Rents  | 5,000                                  | 5,000  |
| 15 650 Transportation Expenses                          | 2,972                                  | 2,972  |
| 16 657 Insurance - General Liability                    | 2,851                                  | 2,851  |
| 17 659 Insurance - Health and Life                      | 0                                      | 0  |
| 18 666 Regulatory Commission Expense - Rate Case        | 300                                    | 300  |
| 19 675 Miscellaneous Expense                            | 26                                     | 26   |
| 20 403 Depreciation Expense                             | 1,345                                  | 1,345  |
| 21 408 Taxes Other Than Income                          | 0                                      | 0  |
| 22 408.11 Property Taxes                                | 602                                    | 602  |
| 23 409 Income Tax                                       | 0                                      | 0  |
| 24 Total Expenses                                       | <u>\$25,388</u>                        | <u>\$25,388</u>                                  |
| 25 <b>Operating Income</b>                              | \$6,916                                | \$11,804   |
| 26 Plus: Depreciation Expense                           | 1,345                                  | 1,345  |
| 27 Less: Loan Payment Interest                          | 0                                      | 5,045  |
| 28 Less: Loan Payment Principal                         | 0                                      | 4,247  |
| 29 AIAC Refunds   | 0                                      | 0  |
| 30 <b>Cash Flow from Operations before WIFA Reserve</b> | <u>\$8,261</u>                         | <u>\$3,858</u>                                   |
| 31 WIFA Reserve (20% of Principal and Interest)         | 0                                      | 1,858  |
| 32 <b>Cash Flow from Operations after WIFA Reserve</b>  | <u><u>\$8,261</u></u>                  | <u><u>\$2,000</u></u>                            |

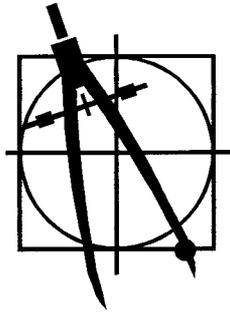
**CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT**

**Infrastructure Surcharge Based on AWWA Meter Multiplier**

|   |                    |                  |
|---|--------------------|------------------|
| <b>Additional Revenue Required for a 1.42 DSC (\$2,000 Cash Flow)</b> |                    | <b>\$4,889</b>   |
| <b>Total Equivalent Annual Bills</b>                                  |                    | <b>972</b>       |
| <b>5/8" x 3/4" Meter Surcharge Amount</b>                             | \$4,889 / x 1.0 =  | <b>\$ 5.03</b>   |
| <b>3/4" Meter Surcharge Amount</b>                                    | \$4,889 / x 1.5 =  | <b>\$ 7.54</b>   |
| <b>1" Meter Surcharge Amount</b>                                      | \$4,889 / x 2.5 =  | <b>\$ 12.57</b>  |
| <b>1 1/2" Meter Surcharge Amount</b>                                  | \$4,889 / x 5.0 =  | <b>\$ 25.15</b>  |
| <b>2" Meter Surcharge Amount</b>                                      | \$4,889 / x 8.0 =  | <b>\$ 40.24</b>  |
| <b>3." Meter Surcharge Amount</b>                                     | \$4,889 / x 16.0 = | <b>\$ 80.47</b>  |
| <b>4" Meter Surcharge Amount</b>                                      | \$4,889 / x 25.0 = | <b>\$ 125.74</b> |
| <b>6" Meter Surcharge Amount</b>                                      | \$4,889 / x 50.0 = | <b>\$ 251.47</b> |

| Meter Size        | Number of Customers <sup>1</sup> | Meter Multiplier | Equivalent Customers | Equivalent No. of Bills | Monthly Surcharge | Yearly Surcharge | Total Amount    |
|-------------------|----------------------------------|------------------|----------------------|-------------------------|-------------------|------------------|-----------------|
| 5/8" x 3/4" Meter | 81                               | 1                | 81                   | 972                     | \$ 5.03           | \$ 60.35         | \$ 4,888.61     |
| 3/4" Meter        | -                                | 1.5              | -                    | -                       | 7.54              | \$ 90.53         | \$ -            |
| 1" Meter          | -                                | 2.5              | -                    | -                       | 12.57             | \$ 150.88        | \$ -            |
| 1 1/2" Meter      | -                                | 5                | -                    | -                       | 25.15             | \$ 301.77        | \$ -            |
| 2" Meter          | -                                | 8                | -                    | -                       | 40.24             | \$ 482.83        | \$ -            |
| 3" Meter          | -                                | 16               | -                    | -                       | 80.47             | \$ 965.65        | \$ -            |
| 4" Meter          | -                                | 25               | -                    | -                       | 125.74            | \$ 1,508.83      | \$ -            |
| 6" Meter          | -                                | 50               | -                    | -                       | 251.47            | \$ 3,017.66      | \$ -            |
| <b>TOTAL</b>      | <b>81</b>                        |                  | <b>81</b>            | <b>972</b>              |                   |                  | <b>\$ 4,889</b> |

<sup>1</sup> As of Test Year.



**ENGINEERING REPORT FOR  
Great Prairie Oasis LLC dba  
Sunland Water Company**

**Docket Nos.  
W-04015A-12-0051 (Rates)  
W-04015A-12-0050 (Financing)**

**By Del Smith**

**April 12, 2012**

**CONCLUSIONS**

1. Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Staff (“Utilities Staff” or “Staff”) concludes that Great Prairie Oasis LLC dba Sunland Water Company (“Sunland” or “Company”) water system currently has adequate production capacity to serve the present customer base and growth. With the addition of the Secondary Well later this year the system will have adequate storage capacity.
2. According to the Arizona Department of Environmental Quality (“ADEQ”) Compliance Status Report, dated March 14, 2012, the Sunland system has major monitoring and reporting deficiencies and ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.
3. The Sunland service area is located within the Pinal Active Management Area (“AMA”). Arizona Department of Water Resources (“ADWR”) has determined that Sunland is currently compliant with departmental requirements governing water providers and/or community water systems.
4. A check of the Utilities Division Compliance Section database indicates that there are currently no delinquent compliance items for Sunland.
5. Sunland has an approved Curtailment Tariff on file with the Commission. This tariff became effective February 29, 2012. Sunland has an approved Backflow Prevention Tariff on file with the Commission. This tariff became effective February 29, 2012.
6. Staff concludes that Sunland’s proposal to install a blending system to reduce arsenic concentrations in its water is appropriate and the cost estimates as adjusted by Staff and listed in Table E are reasonable.

## RECOMMENDATIONS

1. Staff recommends that the Company coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Commission Annual Reports going forward. Staff further recommends in the event the water loss reported in any Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted per this recommendation, shall be docketed as a compliance item no later than March 31 of the year following the excessive water loss.
2. Staff recommends an annual water testing expense of \$2,322 and an annual certified operator fee of \$1,200 be used for purposes of this application.
3. Staff recommends that the Company use the depreciation rates in Table B on a going forward basis.
4. Staff recommends that meter sizes 3-inches and larger be priced on an individual case basis. Staff further recommends that the charges listed under "Staff's Recommendation" in Table C be adopted.
5. Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three Best Management Practices ("BMPs") in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.
6. Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.
7. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by April 30, 2013, a copy of the ADEQ Approval of Construction for the blending system.

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## **A. INTRODUCTION AND LOCATION OF COMPANY**

On February 14, 2012, Great Prairie Oasis LLC dba Sunland Water Company (“Sunland” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) to increase its rates (Docket No.W-04015A-12-0051). The current rates were approved in 1969 in conjunction with the initial granting of the Certificate of Convenience and Necessity (CC&N). Concurrent with filing its rate application the Company also filed with the Commission a financing application requesting authority to incur long term debt in the amount of \$125,000 to fund the installation of a blending system to reduce arsenic concentrations in its water (Docket No.W-04015A-12-0050). The ACC Utilities Division Staff (“Utilities Staff” or “Staff”) engineering review and analysis of these applications is presented in this report.

Sunland is a Class E water utility company, during the test year which ended December 31, 2011 the Company had 87 metered connections.<sup>1</sup> The Company’s water lines were installed to serve a subdivision originally named Sunland Estates now called Brookside Farms. The area served is located approximately five miles southeast of the City of Casa Grande near the Junction of Interstate 8 and Interstate 10 in Pinal County, Arizona. Figure 1 shows the location of the Company within Pinal County and Figure 2 shows the CC&N covering approximately four and one-half square miles. The CC&N was originally granted to Selective Resources Corp. dba Greater Arizona Ranches in Commission Decision No. 40342, dated November 21, 1969. The CC&N was subsequently transferred to Greater Arizona Ranches dba Sunland Water Company in Commission Decision No. 56344, dated February 16, 1989. The CC&N was then transferred to Steego Corporation dba Greater Arizona Ranches in Commission Decision No. 61277, dated December 14, 1998. Finally, the CC&N was transferred to the current holder Great Prairie Oasis, LLC dba Sunland in Commission Decision No. 64174, dated October 30, 2001.

## **B. DESCRIPTION OF THE WATER SYSTEM**

The Sunland water system was visited on March 23, 2012, by Del Smith, of Utilities Staff, in the accompaniment of Ms. Beth Wand. Ms. Wand is Sunland’s Director of Operations. Also present at the inspection was Bill Miller the Company’s on-site Operations Manager. Mr. Bobby Gordon who did not attend the inspection is the Company’s Certified Operator.<sup>2</sup> The yard at the Operating Well Site was reasonably well maintained and free of old plant no longer in use. The in-service plant (i.e., well, tanks and visible pipe) appeared to be in proper working order. Staff did not observe any leaks at the well site or in the distribution area. Staff observed that the Secondary Well is not in-service and construction on the transmission line to interconnect this well with the blending system at the Operating Well site has not started.

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<sup>1</sup> Per plant data submitted with the Application.

<sup>2</sup> Mr. Gordon is a Certified Grade 2 Water Distribution System Operator (expiration date July 31, 2013) and is a Certified Grade 2 Water Treatment Plant Operator (expiration date July 31, 2013), Arizona Department of Environmental Quality Operator Identification No.OP030320.

The Company owns two wells (Operating Well; Arizona Department of Water Resources (“ADWR”) Registration No. 55-606215 and Secondary Well; Registration No. 55-606220).<sup>3</sup> Operating Well has a pump yield of 150 gallons per minute (“GPM”). The Operating Well feeds water to two 10,000 gallon storage tanks.<sup>4</sup> The Secondary Well is expected to produce 350 GPM. Once it is brought on line it will be connected to the system with the completion of a new transmission line (see the financing section of this report for further discussion). Water pressure in the water system is increased prior to being delivered to customers through a booster system consisting of booster pumps and a 5,000 gallon pressure tank. The distribution system consists of 10,562 feet of 6-inch main lines.<sup>5</sup> Water level in the storage tanks is automatically controlled. A water system schematic is shown as Figure 3 and Table A includes a detailed plant facility listing.

**Table A. Plant Facilities Summary<sup>6</sup>**

**Well Data**

|                       | Well In-Service         | Well Not In-Service     |
|-----------------------|-------------------------|-------------------------|
|                       | Operating Well (Note 1) | Secondary Well (Note 1) |
| ADWR Registration No. | 55-606215               | 55-606220               |
| Casing Diameter       | 20 inch                 | 20 inch                 |
| Casing Depth          | 1120 feet               | 1120 feet               |
| Pump Horsepower (HP)  | 20 HP                   | 40 HP                   |
| Pump Yield            | 150 GPM                 | 350 GPM                 |
| Meter Size            | 3 inch                  | N/A (Note 2)            |
| Year Drilled          | 1942                    | 1947                    |

Notes:

- 1) ADWR well registration records list Great Prairie Oasis LLC as the well owner.
- 2) A meter will be added with the construction of the new transmission line and connection of Secondary Well to the water system.

<sup>3</sup> The Sunland water system relies solely on groundwater as its source of water.

<sup>4</sup> The water system has total storage capacity of 20,000 gallons.

<sup>5</sup> Per plant data submitted with the Application.

<sup>6</sup> The information listed was based on one, or a combination of, the following sources: 1) Company’s Application, 2) Commission Annual Reports, 3) Arizona Department of Water Resources Records, 4) Information contained in the Company’s Response to a Staff Data Request and, 5) Information collected during Staff’s site visit. <sup>6</sup> The Sunland water system relies solely on groundwater as its source of water.

<sup>6</sup> The water system has total storage capacity of 20,000 gallons.

<sup>6</sup> Per plant data submitted with the Application.

<sup>6</sup> The information listed was based on one, or a combination of, the following sources: 1) Company’s Application, 2) Commission Annual Reports, 3) Arizona Department of Water Resources Records, 4) Information contained in the Company’s Response to a Staff Data Request and, 5) Information collected during Staff’s site visit.

**Booster System, Treatment, Security & Water Storage**

| Structure or Equipment | Location            | Quantity – Capacity, Size |
|------------------------|---------------------|---------------------------|
| Pressure Tank          | Operating Well Site | 1 – 5,000 Gallon          |
| Booster Pumps          | Operating Well Site | 2 – 7.5 HP                |
| Security Fencing       | Well Site Enclosed  | 6 - Foot Chain Link       |
| Storage Tanks          | Operating Well Site | 2 – 10,000 Gallon         |

Notes:

- 1) Treatment equipment - none chemicals are added manually.

**Distribution Mains**

| Diameter | Material | Length      |
|----------|----------|-------------|
| 6 inch   | PVC      | 10,562 feet |

**Meters**

| Size           | Quantity |
|----------------|----------|
| 5/8 x 3/4 inch | 87       |

**Fire Hydrants**

| Size/Description | Quantity |
|------------------|----------|
| Standard         | N/A      |

# PINAL COUNTY

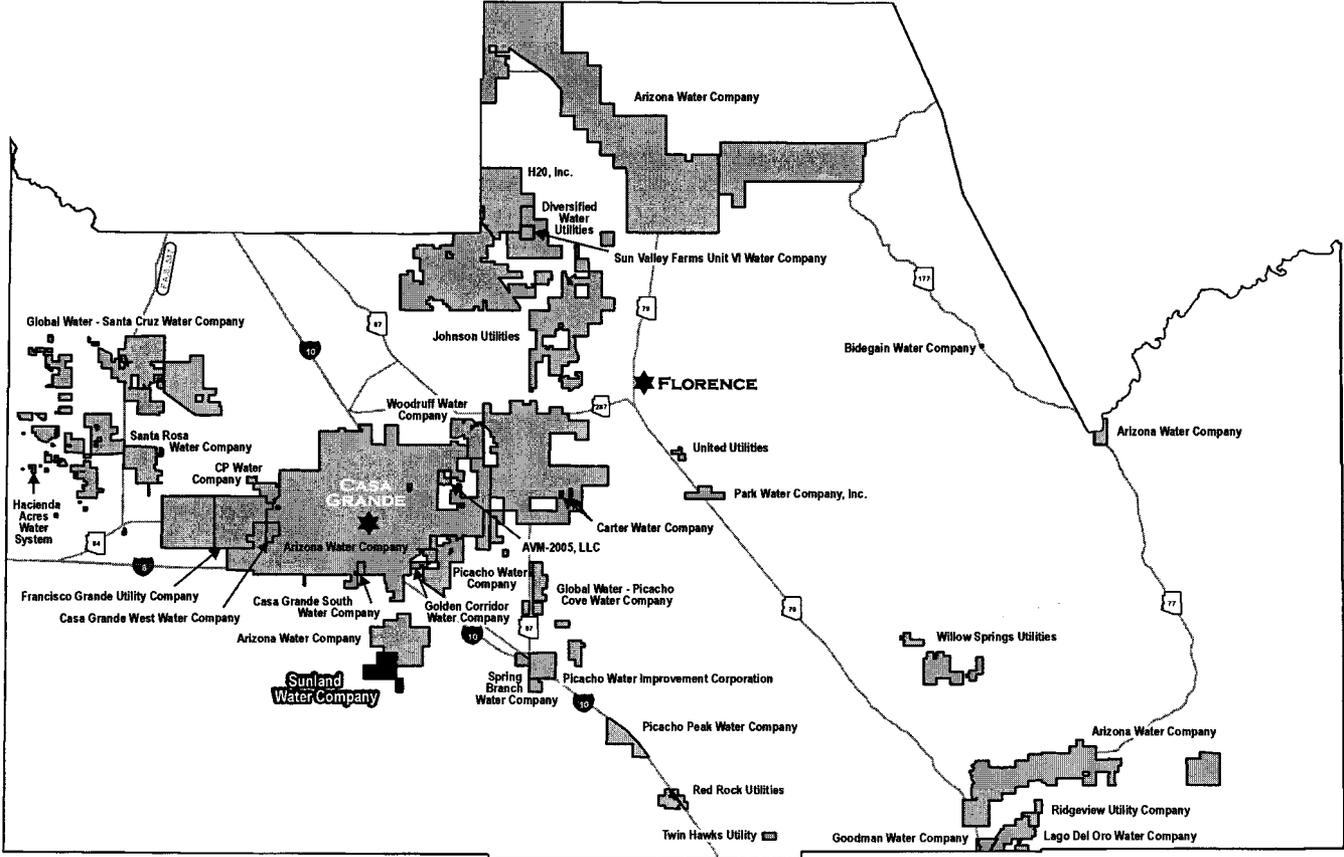


Figure 1. County Map

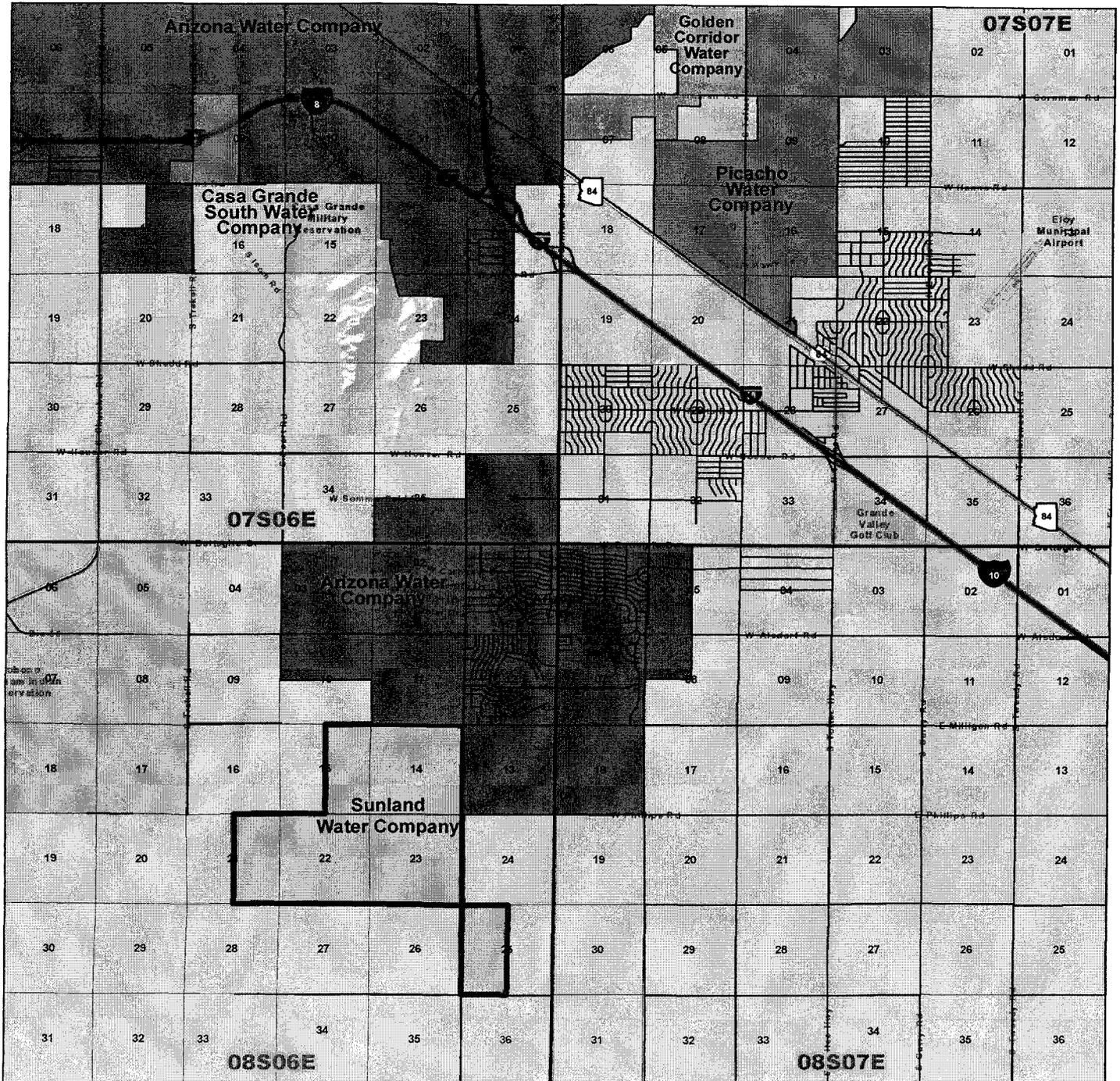


Figure 2. Certificated Area

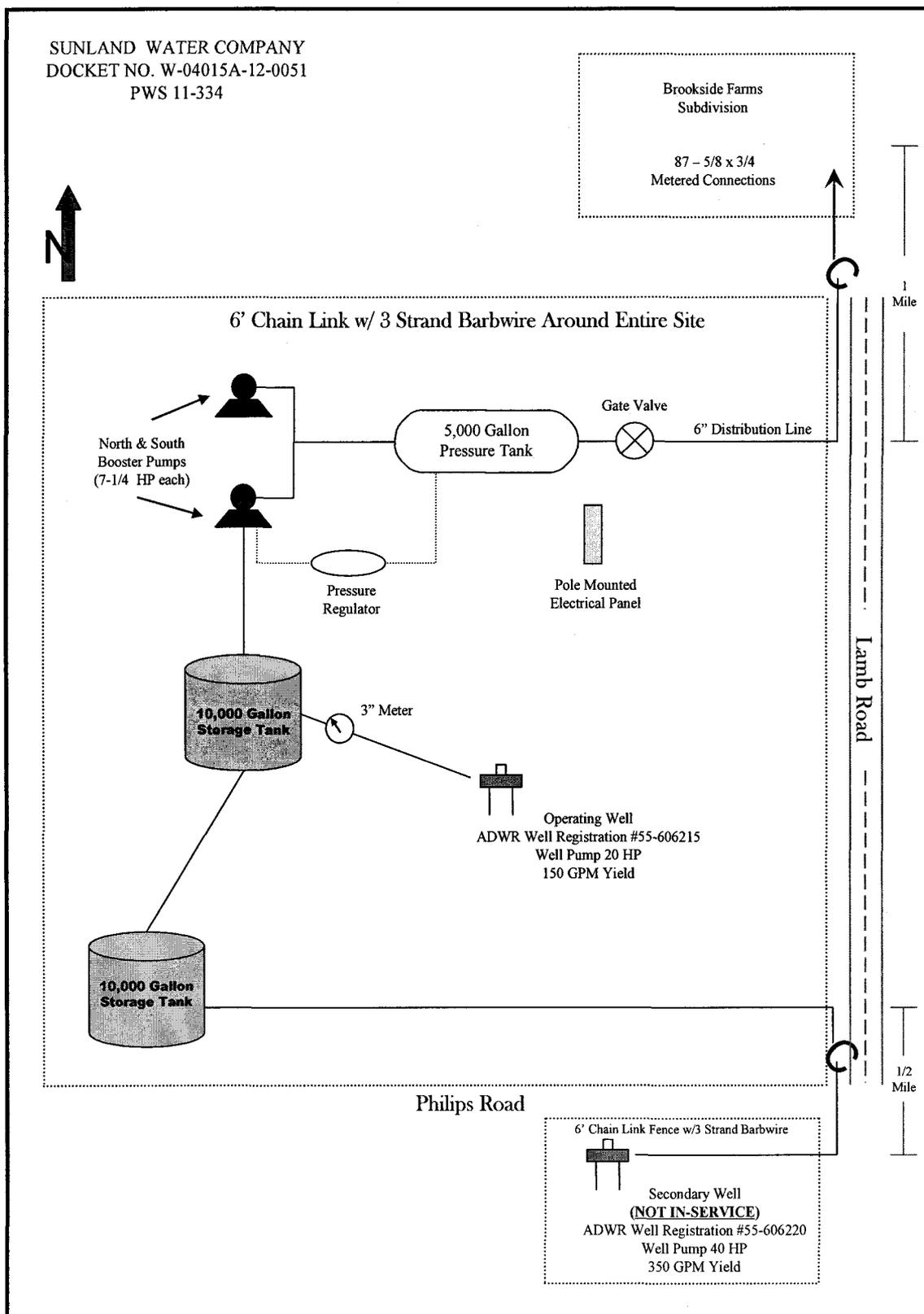
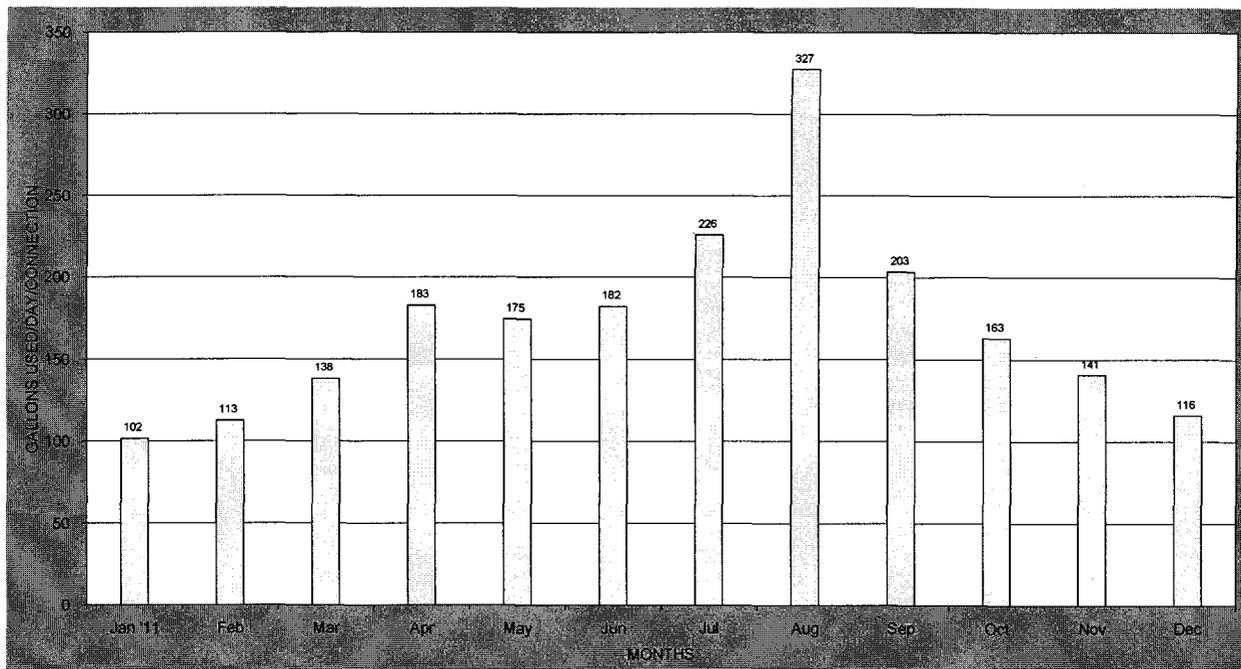


Figure 3. Water System Schematic

### C. WATER USE

#### *Water Sold*

Figure 4 presents the water consumption data provided by Sunland for the test year ending December 31, 2011. Customer consumption included a high monthly water use of 327 gallons per day (“GPD”) per connection in August, and the low water use was 102 GPD per connection in January. The average annual use was 172 GPD per connection. The Company reported 5,072,000<sup>7</sup> gallons of water sold during the test year.



**Figure 4. Water Use**

#### *Non-Account Water*

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. Lost water for Sunland was calculated to be 5.3 percent in 2011 which is within acceptable limits.

Staff noted that in reviewing prior year annual report records that the Company had reported identical water pumped and water sold data for the several years Staff checked. Staff recommends that the Company coordinate the reading of its well meters and individual customer

<sup>7</sup> Total water sold during the test year based on the monthly data.

meters on a monthly basis and report this data in its Commission Annual Reports going forward.<sup>8</sup> Staff further recommends in the event the water loss reported in any Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted per this recommendation, shall be docketed as a compliance item no later than March 31 of the year following the excessive water loss.

### *System Analysis*

The Sunland water system well production capacity is 150 GPM (currently there is one well serving the water system and no water is purchased) and the system currently has 20,000 gallons of storage capacity (two 10,000 gallon storage tanks). There are no fire hydrants in the distribution system. The water system was serving 79 customers during the peak month of August 2011 when the Company reported 802,000 gallons sold. Staff concludes that the Sunland water system currently has adequate production capacity to serve the present customer base and growth. With the addition of the Secondary Well later this year the system will have adequate storage capacity.

## **D. GROWTH**

The Company serves only residential customers and in the next two years anticipates no change in the existing customer base.<sup>9</sup> Sunland will not be expanding its service area to additional properties in the next two years. Historical growth has been minimal in recent years. The Company reported 80 customers served in 2006 and 85 customers served in 2011. Staff's historical growth figures are based on the data reported by the Company in its annual reports submitted to the Commission. Staff projects that the Company could have 87 customers by 2016.

## **E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE**

### *Compliance*

ADEQ regulates the Sunland water system under ADEQ Public Water System Identification ("PWS ID") No. 11-334. According to the ADEQ Compliance Status Report, dated March 14, 2012, the Sunland system has major monitoring and reporting deficiencies and

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<sup>8</sup> The Company shall collect the data needed to accurately complete the water use data sheets contained in the Annual Report form.

<sup>9</sup> See discussion regarding "Anticipated growth/decline in customers" on page 7 of the Application.

ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4. The system has triggered increased monitoring for arsenic. Sample results from the 2<sup>nd</sup> and 4<sup>th</sup> quarters of 2011 exceeded the Maximum Contaminate Level (“MCL”) of 10 parts per billion (“ppb”). The Company has an approved ADEQ blending plan it proposes to implement to address its Arsenic MCL (See Section J – Financing).

ADEQ last inspected the Sunland water system on March 17, 2011.<sup>10</sup> Per the Inspection Report no deficiencies were observed during the inspection and no ADEQ action resulted from the inspection.

*Water Testing Expense*

The Company is subject to mandatory participation in the ADEQ Monitoring Assistance Program (“MAP”).<sup>11</sup> The Company reported water testing expenses of \$3,367.00 during the test which included \$2,550 for new source testing of the Secondary Well. Staff has reviewed and recalculated these expenses. Table A presents Staff’s adjusted annual water testing expense.

**Table A. Water Testing Cost**

| Monitoring                      | Cost per test | Quantity of tests per 3 years | Annual Testing Cost |
|---------------------------------|---------------|-------------------------------|---------------------|
| Coliform (Monthly)              | \$25          | 36                            | \$300               |
| MAP                             | MAP           | MAP                           | \$430 (Note 1)      |
| Lead & Copper (Triennially)     | \$30          | 5                             | \$50                |
| DBPs (Annually)                 | \$242         | 3                             | \$242               |
| Arsenic (Quarterly)             | \$25          | 12                            | \$100               |
| Arsenic – Field Strips (Weekly) | \$15          | 156                           | \$780               |
| Nitrate (Monthly)               | \$35          | 36                            | \$420               |
| Total Testing Cost              | -             | -                             | \$2,322             |

Notes: 1) The ADEQ MAP invoice for Calendar Year 2011 was \$430.09.

<sup>10</sup> Drinking Water Inspection Report issued April 27, 2011.

<sup>11</sup> The MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported a monthly certified operator fee of \$100 (\$1,200 annualized) going forward. Staff's recommends an annual certified operator fee of \$1,200 be used for purposes of this application.

#### **F. ADWR COMPLIANCE**

The Sunland service area is located within the Pinal Active Management Area ("AMA"). ADWR has determined that Sunland is currently compliant with departmental requirements governing water providers and/or community water systems.<sup>12</sup>

#### **G. ACC COMPLIANCE**

A check of the Utilities Division Compliance Section database indicates that there are currently no delinquent compliance items for Sunland.<sup>13</sup>

#### **H. DEPRECIATION RATES**

Sunland has been using a depreciation rate of 5.00 percent for most plant categories. Staff's typical and customary depreciation rates which vary by National Association of Regulatory Utility Commissioners ("NARUC") plant category are presented in Table B. Staff recommends that the Company use the depreciation rates in Table B on a going forward basis.

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<sup>12</sup> Per ADWR email dated February 17, 2012.

<sup>13</sup> Per ACC Compliance Section email dated February 17, 2012.

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

| NARUC Acct. No. | Depreciable Plant                    | Average Service Life (Years) | Annual Accrual Rate (%) |
|-----------------|--------------------------------------|------------------------------|-------------------------|
| 304             | Structures & Improvements            | 30                           | 3.33                    |
| 305             | Collecting & Impounding Reservoirs   | 40                           | 2.50                    |
| 306             | Lake, River, Canal Intakes           | 40                           | 2.50                    |
| 307             | Wells & Springs                      | 30                           | 3.33                    |
| 308             | Infiltration Galleries               | 15                           | 6.67                    |
| 309             | Raw Water Supply Mains               | 50                           | 2.00                    |
| 310             | Power Generation Equipment           | 20                           | 5.00                    |
| 311             | Pumping Equipment                    | 8                            | 12.5                    |
| 320             | Water Treatment Equipment            |                              |                         |
| 320.1           | Water Treatment Plants               | 30                           | 3.33                    |
| 320.2           | Solution Chemical Feeders            | 5                            | 20.00                   |
| 320.3           | Point-of-Use Treatment Devices       | 10                           | 10.00                   |
| 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                   |
|                 |                                      |                              |                         |

**I. OTHER ISSUES**

*1. Service Line and Meter Installation Charges*

Sunland proposed an increase in the amount it would charge going forward for service line and meter installations.<sup>14</sup> Service line and meter installation charges are refundable advances and the charges the Company proposed are below the typical range for these charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. The Company's proposed charges were used to develop the separate service line and meter installation charges included in Table C. Staff recommends that meter sizes 3-inches and larger be priced on an individual case basis at cost. Staff further recommends that the charges listed under "Staff's Recommendation" in Table C be adopted.

**Table C. Service Line and Meter Installation Charges**

| Meter Size     | Company Proposed       |                     |              | Staff's Recommendation |                     |              |              |
|----------------|------------------------|---------------------|--------------|------------------------|---------------------|--------------|--------------|
|                | Company Current Tariff | Service Line Charge | Meter Charge | Total Charge           | Service Line Charge | Meter Charge | Total Charge |
| 5/8 x 3/4-inch | \$100                  | -                   | -            | \$350                  | \$260               | \$90         | \$350        |
| 3/4-inch       | \$120                  | -                   | -            | \$350                  | \$222               | \$128        | \$350        |
| 1-inch         | \$160                  | -                   | -            | \$400                  | \$244               | \$156        | \$400        |
| 1-1/2-inch     | \$300                  | -                   | -            | \$500                  | \$256               | \$244        | \$500        |
| 2-inch Turbine | \$400                  | -                   | -            | \$750                  | \$332               | \$418        | \$750        |
| 2-inch Comp    | -                      | -                   | -            | -                      | -                   | -            | -            |
| 3-inch Turbine | N/A                    | -                   | -            | \$1,000                | -                   | -            | ICB *        |
| 3-inch Comp    | -                      | -                   | -            | -                      | -                   | -            | -            |
| 4-inch Turbine | N/A                    | -                   | -            | \$1,500                | -                   | -            | ICB *        |
| 4-inch Comp    | -                      | -                   | -            | -                      | -                   | -            | -            |
| 6-inch Turbine | N/A                    | -                   | -            | \$2,000                | -                   | -            | ICB *        |
| 6-inch Comp    | -                      | -                   | -            | -                      | -                   | -            | -            |

\* At cost

*2. Curtailment Tariff*

Sunland has an approved Curtailment Tariff on file with the Commission. This tariff became effective February 29, 2012.

<sup>14</sup> The Company's current charges were approved in Decision No. 40342 dated November 21, 1969.

### *3. Backflow Prevention Tariff*

Sunland has an approved Backflow Prevention Tariff on file with the Commission. This tariff became effective February 29, 2012.

### *4. Best Management Practices ("BMP") Tariff*

In 2008, ADWR added a new regulatory program for the ADWR Third Management Plan for AMAs. The new program, called Modified Non-Per Capita Conservation Program ("Modified NPCCP"), addresses large municipal water providers (cities, towns and private water companies serving more than 250 acre-feet per year) and was developed in conjunction with stakeholders from all AMAs. Participation in the program is required for all large municipal water providers that do not have a Designation of Assured Water Supply and that are not regulated as a large untreated water provider or an institutional provider.

The Modified NPCCP is a performance-based program that requires participating providers to implement water conservation measures that result in water use efficiency in their service areas. A water provider regulated under the program must implement a required Public Education Program and choose one or more additional BMPs based on its size, as defined by its total number of water service connections. The provider must select the additional BMPs from the list included in the Modified NPCCP Program. The BMPs are a mix of technical, policy, and information conservation efforts.

Although the implementation of the Modified NPCCP is required of large municipal water providers within an AMA, the Commission has previously adopted the BMPs for implementation by Commission regulated small and large water companies.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

**J. FINANCING (DOCKET NO. W-04015A-12-0050)**

*Blending Plan*

The Company filed with the Commission a financing application requesting authority to incur long term debt in the amount of \$125,000 to fund the installation of approximately one-half mile of transmission line which will connect the Company's Secondary Well to storage tanks at the Company's Operating Well site.<sup>15</sup> Per the Blending Plan approved by ADEQ<sup>16</sup> water from both wells will be blended in storage tanks at the Operating Well Site, arsenic concentration in the combined water is lowered to an amount that meets the current arsenic standard addressing the Company's compliance issue noted above. The Company has been operating under an exemption based on the Company completing construction of its blending system by April 2013.

*Blending System Cost Information*

A general description and breakdown of the funding required is as follows:

**Table E. Finance Related Capital Costs**

| Description   | Company            |            |          | Staff's Adjustment |
|---|--------------------|------------|----------|--------------------|
|   | Unit Cost (Note 1) | # of Units | Total    |                    |
| <b>6" PVC Transmission Line</b>   | \$18               | 2759       | \$49,662 |                    |
| Install 6" Connection   | \$550              | 1          | \$550    |                    |
| Install 4" PVC Connection   | \$35               | 16         | \$560    |                    |
| Sub-total (labor & material included)                                   |                    |            | \$50,772 |                    |
| <b>Operating Well Upgrades</b>  |                    |            |          |                    |
| Valves  |                    |            | \$9,000  |                    |
| Electrical Upgrades   |                    |            | \$6,000  |                    |
| Sub-total (labor & material included)                                   |                    |            | \$15,000 |                    |
| <b>Secondary Well Additional Fencing</b><br>(labor & material included) |                    |            | \$3,000  | (\$1,000)          |
| <b>Mobilization</b>   |                    |            | \$6,000  |                    |
| <b>Traffic &amp; Dust Control</b>                                       |                    |            | \$7,200  |                    |
| <b>Compaction &amp; Testing</b>   |                    |            | \$4,500  |                    |

<sup>15</sup> Sunland is seeking Disadvantaged Community Financial Assistance from the Water Infrastructure Finance Authority ("WIFA") in the amount of \$125,000 with a 20-year term through the Drinking Water Revolving Fund. Sunland was ranked 8th on the WIFA Priority List dated February 2012.

<sup>16</sup> ADEQ Certificate of Approval to Construct for new source well, blending plan and approximately 2,800 lineal feet of transmission line issued to Sunland dated October 4, 2011.

|  |  |  |                  |                  |
|--|--|--|------------------|------------------|
|  |  |  |                  |                  |
| <b>Fees &amp; Construction Permits</b>       |  |  |                  |                  |
| County Site Inspection & ADEQ Project Review |  |  | \$4,000          |                  |
| Blending Plan Water Testing                  |  |  | \$5,000          | (\$1,950)        |
| Sub-total                                    |  |  | \$9,000          |                  |
|  |  |  |                  |                  |
| <b>Inspection/Construction Management</b>    |  |  |                  |                  |
| Prepare Bid Specs & As-built Drawing         |  |  | \$13,013         |                  |
| Engineering Inspection Svcs                  |  |  | \$4,500          |                  |
| Sub-total                                    |  |  | \$17,513         |                  |
|  |  |  |                  |                  |
| <b>Design Services</b>                       |  |  |                  |                  |
|  |  |  | \$5,470          |                  |
|  |  |  |                  |                  |
| <b>Contingencies</b>                         |  |  |                  |                  |
|  |  |  | \$6,545          |                  |
|  |  |  |                  |                  |
| <b>Total</b>                                 |  |  | <b>\$125,000</b> | <b>\$122,050</b> |

Notes:

1. Based on cost estimates and bids listed in the D.N.A. Inc. proposal dated March 3, 2011.
2. Contingency amount estimated at 5.5 percent of remediation work.
3. Staff's water testing amount includes \$2,550 for New Source Approval testing for the Secondary Well and \$500 for the Blending Plan Initial Monitoring for Arsenic and Nitrate. Weekly arsenic and monthly nitrate testing will begin when the Company adds the secondary well and implements its blending plan.
4. Staff removed \$1,000 for a porta potty from the Company's estimate.

Staff concludes that Sunland's proposal to install a blending system to reduce arsenic concentrations in its water is appropriate and the cost estimates as adjusted by Staff and listed in the table above are reasonable. However, no "used and useful" determination of the proposed project item was made and no particular treatment should be inferred for rate making or rate base purpose in the future.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket by April 30, 2013, a copy of the ADEQ Approval of Construction for the blending system.

## MEMORANDUM

TO: John Cassidy  
Public Utility Analyst Consultant  
Finance & Rate Analysis

THRU: Connie Walczak   
Consumer Services Supervisor  
Utilities Division

FROM: Richard Martinez   
Consumer Service Analyst II  
Utilities Division

DATE: May 4, 2012

RE: **IN THE MATTER OF THE APPLICATION OF GREAT PRAIRIE  
OASIS dba SUNLAND WATER COMPANY FOR APPROVAL OF  
A RATE INCREASE - DOCKET NO. W-04015A-12-0051.**

**IN THE MATTER OF THE APPLICATION OF GREAT PRAIRIE  
OASIS L.L.C. dba SUNLAND WATER COMPANY FOR  
APPROVAL OF FINANCING - DOCKET NO. W-04015A-12-0050.  
(BOTH APPLICATIONS HAVE NOW BEEN CONSOLIDATED)**

### COMPANY HISTORY

Great Prairie Oasis LLC., dba Sunland Water Company ("Company") is authorized to provide water in portions of Pinal County Arizona pursuant to Decision No. 61227 dated December 14, 1998. Company is currently serving 79 customers all within Arizona City located within Pinal County Arizona.

### COMPLAINT HISTORY

For the period of January 1, 2009 through May 3, 2012, Consumer Services records reflect that no Complaints were filed against the Company.

### OPINION HISTORY

Two Opinions have been filed to date both against the proposed rate increase.

**AFFIDAVIT OF MAILING**

The Company's Affidavit of Mailing of the Customer Notification was filed on March 13, 2012.

**BILL FORMAT COMPLIANCE**

A review of the Company's bill format indicates that it is in compliance with the Arizona Administrative Code R14-2-409.

**CORPORATIONS DIVISION STATUS**

Per discussion with the Corporations Division, the Company is in good standing.

**CROSS-CONNECTIONS/BACK-FLOW TARIFF**

The Company's Cross Connection/Backflow Tariff was approved on March 3, 2012 per Decision No. 73003.

**CURTAILMENT TARIFF**

The Company's Curtailment Plan was approved on March 5, 2012, per Decision No. 73004.

Cc: Engineering