

ORIGINAL



RECEIVED

1 FENNEMORE CRAIG, P.C.
2 Jay L. Shapiro (No. 014650)
2394 E. Camelback Road, Suite 600
3 Phoenix, Arizona 85016
Telephone (602) 916-5000

2013 MAY 22 P 2:39

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

4 Attorneys for Payson Water Co., Inc.

5

6

BEFORE THE ARIZONA CORPORATION COMMISSION

7

8

IN THE MATTER OF THE APPLICATION
OF PAYSON WATER CO., INC., AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

9

10

**RESPONSE TO STAFF'S LETTER
OF DEFICIENCY**

11

12

13

Payson Water Co., Inc. ("PWC" or the "Company"), hereby responds to Staff's
Letter of Deficiency dated May 17, 2013.

15

16

17

18

Attached are revised schedules H-1 and H-4 (Deficiency List Item 1), A-1
(Deficiency List Item 2), and E-9 (Deficiency List Item 3). Also attached are revised
schedules H-3, page 3 and D-4.1 pursuant to informal requests from Staff on
May 14, 2013 and May 21, 2013, respectively.

19

20

Deficiency List Item 4 identifies filing of a financing application. See PWC's
Application filed on May 17, 2013, Docket No. 03514A-13-0142.

21 ...

22 ...

23 ...

24 ...

25 ...

26

Arizona Corporation Commission
DOCKETED

MAY 22 2013

DOCKETED BY *DM*

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

RESPECTFULLY SUBMITTED this 22nd day of May, 2013.

FENNEMORE CRAIG, P.C.

By  _____
Jay M. Shapiro
2394 E. Camelback Road
Suite 600
Phoenix, Arizona 85016
Attorneys for Payson Water Co., Inc.

1 ORIGINAL and sixteen (16) copies of the
2 foregoing were delivered
3 this 22nd day of May, 2013, to:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington St.
6 Phoenix, AZ 85007

6 COPIES of the foregoing were delivered
7 this 22nd day of May, 2013, to:

7 Dwight D. Nodes, Asst. Chief Administrative Law Judge
8 Hearing Division
9 Arizona Corporation Commission
10 1200 W. Washington St.
11 Phoenix, AZ 85007

10 Robin Mitchell
11 Legal Division
12 Arizona Corporation Commission
13 1200 W. Washington St.
14 Phoenix, AZ 85007

13 James Armstrong
14 Utilities Division
15 Arizona Corporation Commission
16 1200 W. Washington St.
17 Phoenix, AZ 85007

16 Crystal Brown
17 Utilities Division
18 Arizona Corporation Commission
19 1200 W. Washington St.
20 Phoenix, AZ 85007

19 By: Sandra Baker

20

21

22 8192044.1/073283.0001

23

24

25

26

Payson Water Company
 Test Year Ended December 31, 2012
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1
 Page 1
 Witness: Bourassa
 Revised

Line					
<u>No.</u>					
1	Fair Value Rate Base		\$	659,457	
2					
3	Adjusted Operating Income			(182,479)	
4					
5	Current Rate of Return			-27.67%	
6					
7	Required Operating Income		\$	72,540	
8					
9	Required Rate of Return on Fair Value Rate Base			11.00%	
10					
11	Operating Income Deficiency		\$	255,020	
12					
13	Gross Revenue Conversion Factor			1.5677	
14					
15	Increase in Gross Revenue				
16	Requirement		\$	399,785	
17					
18	Adjusted Test Year Revenues		\$	320,525	
19	Increase in Gross Revenue Revenue Requirement		\$	399,785	
20	Proposed Revenue Requirement		\$	720,310	
21	% Increase			124.73%	
22					
23	Customer	Present	Proposed	Dollar	Percent
24	<u>Classification</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
25	5/8x3/4 Inch US	\$ 287,143	\$ 632,117	\$ 344,974	120.14%
26	5/8x3/4 Inch C&S	52,037	136,187	84,150	161.71%
27	3/4 Inch US	1,860	4,510	2,650	142.51%
28	1 Inch US	7,430	28,660	21,229	285.72%
29	1 Inch C&S	1,178	2,862	1,684	142.92%
30					
31	Revenue Annualization	(36,021)	(91,013)	(54,992)	152.67%
32	Subtotal	\$ 313,627	\$ 713,323	\$ 399,696	127.44%
33					
34	Other Water Revenues	6,966	6,966	-	0.00%
35	Reconciling Amount	(68)	21	89	-130.88%
36				-	0.00%
37	Total of Water Revenues	\$ 320,525	\$ 720,310	\$ 399,785	124.73%
38					
39					
40					
41	<u>SUPPORTING SCHEDULES:</u>				
42	B-1				
43	C-1				
44	C-3				
45	H-1				

Payson Water Company
Test Year Ended December 31, 2012
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa
Revised

Line
No.

- 1
- 2 The Company does not conduct independent audits, reviews and/or compilations. Accordingly, there are no
- 3 notes which are typically associated with these financial statements. Management makes the following
- 4 notations to the financial statements contained herein:
- 5
- 6 **Significant Accounting Policies** - The Company prepares its financial statements in accordance with
- 7 accounting principles generally accepted in the United States of America and the accounting records of the are
- 8 are maintained in accordance with the uniform system of accounts as prescribed by the National Association
- 9 of Regulatory Utility Commissioners (USOA 1986). Significant accounting policies are as follows:
- 10
- 11 **Utility Plant** - Property, plant and equipment is stated at cost less accumulated depreciation provided on a
- 12 straight-line basis.
- 13
- 14 Depreciation rates for asset classes of utility property, plant and equipment are established by the
- 15 Commission. The cost of additions, including betterments and replacements of units of utility fixed assets are
- 16 charged to utility property, plant and equipment. When units of utility property are replaced, renewed or
- 17 retired, their cost plus removal or disposal costs, less salvage proceeds, is charged to accumulated
- 18 depreciation.
- 19
- 20 **Revenue Recognition** - Revenues are recognized on the accrual method. Under this method, revenue is
- 21 recognized when earned rather than when collected, and expenses are recognized when incurred rather than
- 22 when paid.
- 23
- 24 **Contributions in Aid of Construction** - Contributions in aid of construction (CIAC) are nonrefundable contributions
- 25 by developers and customers for plant expansion. In addition, this amount includes the remaining balance, if any,
- 26 of advances in aid of construction at the end of the repayment period. The contributions in aid of construction are
- 27 being amortized at a rate equal to the rate allowed for depreciation, as a reduction of depreciation expense
- 28
- 29 **Advances in Aid of Construction** - Customer advances for construction are subject to refund in accordance with
- 30 agreements approved by the Arizona Corporation Commission. Agreements provide for refunds which are typically
- 31 equal to 10 percent of annual water revenue generated from the expansion. The repayments are for a maximum
- 32 agreed upon period or until repaid in full. Any balance remaining at the end of the agreed-upon period for repayment
- 33 becomes a contribution in aid of construction.
- 34
- 35
- 36
- 37
- 38

Payson Water Company
Changes in Representative Rate Schedules
Test Year Ended December 31, 2012

Exhibit
 Schedule H- 3
 Page 3
 Witness: Bourassa
 Revised

Line No.	United Systems Present Rates	C&S Systems Present Rates	Consolidated Proposed Rates
1			
2			
3 <u>Other Service Charges</u>			
4 Establishment	\$ 25.00	\$ 20.00	\$ 25.00
5 Establishment (After Hours)	35.00	35.00	35.00
6 Reconnection (Delinquent)	20.00	20.00	20.00
7 Reconnection	30.00	30.00	30.00
8 Meter Test	25.00	20.00	25.00
9 Deposit	*	*	*
10 Deposit Interest*	6.00%	6.00%	6.00%
11 Re-Establishment (With-in 12 Months)	**	**	**
12 NSF Check	\$ 17.50	\$ 10.00	\$ 17.50
13 Deferred Payment, Per Month	1.50%	1.50%	1.50%
14 Meter Re-Read (if correct and not error)	\$ 15.00	\$ 10.00	\$ 15.00
15 Late Charge per month (per R-14-2-409G(6))	1.50%	1.50%	1.50%
16			
17			
18			
19			
20			
21			
22			
23			
24 * PER COMMISSION RULE (R14-2-403.B)			
25 ** Months off system times the minimum. PER COMMISSION RULE (R14-2-403.D)			
26			
27 N/T = No tariff.			
28			
29			
30 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM			
31 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE			
32 TAX. PER COMMISSION RULE (14-2-409.D 5).			
33			
34 ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,			
35 AND ALL APPLICABLE TAXES.			
36			
37			

Witness: Bourassa
Revised

Payson Water Company
Bill Comparison Present and Proposed Rates
1 Inch (C&S Systems)

Meter Size:

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1	-	\$ 42.50	\$ 98.09	\$ 55.59	130.80%
2	1,000	43.98	102.84	58.86	133.83%
3	2,000	45.46	107.59	62.13	136.67%
4	3,000	46.94	112.34	65.40	139.33%
5	4,000	48.42	117.09	68.67	141.82%
6	5,000	49.90	121.84	71.94	144.17%
7	6,000	51.38	126.59	75.21	146.38%
8	7,000	52.86	131.34	78.48	148.47%
9	8,000	54.34	136.09	81.75	150.44%
10	9,000	55.82	140.84	85.02	152.31%
11	10,000	57.30	145.59	88.29	154.08%
12	12,000	60.26	155.09	94.83	157.37%
13	14,000	63.22	164.59	101.37	160.34%
14	16,000	66.18	174.09	107.91	163.06%
15	18,000	69.14	183.59	114.45	165.53%
16	20,000	72.10	193.09	120.99	167.81%
17	25,000	79.50	216.84	137.34	172.75%
18	30,000	86.90	250.59	163.69	188.37%
19	35,000	94.30	284.34	190.04	201.53%
20	40,000	101.70	318.09	216.39	212.77%
21	50,000	116.50	385.59	269.09	230.98%
22	60,000	131.30	453.09	321.79	245.08%
23	70,000	146.10	520.59	374.49	256.32%
24	80,000	160.90	588.09	427.19	265.50%
25	90,000	175.70	655.59	479.89	273.13%
26	100,000	190.50	723.09	532.59	279.57%
27					
28					
29					
30					
31	Average Usage	49.10	119.27	70.17	142.92%
32	4,459				
33	Median Usage	47.68	114.72	67.04	140.59%
34	3,500				

Present Rates:
Monthly Minimum:
Gallons in Minimum
Charge Per 1,000 Gallons
All gallons

Proposed Rates:
Monthly Minimum:
Gallons in Minimum
Charge Per 1,000 Gallons
Up to 25,000
Over 25,000

Payson Water Company
Summary of Results

Exhibit
Schedule D-4.1
Witness: Bourassa
Revised

Line No.	Method	Low	High	Midpoint
1	Range DCF Constant Growth Estimates ¹	8.7%	9.7%	9.2%
2				
3				
4	Range of CAPM Estimates ²	8.7%	12.4%	10.5%
5				
6	Build-up Method ³	8.1%	12.1%	10.1%
7				
8	Average of midpoint estimates	8.5%	11.4%	9.9%
9				
10	Financial Risk Adjustment ⁴	-0.9%	-0.9%	-0.9%
11				
12	Small Company Risk Premium ⁵	2.0%	2.0%	2.0%
13				
14	Indicated Cost of Equity	9.6%	12.5%	11.0%
15				
16	Recommended Cost of Equity			11.0%
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				

¹ See Schedule D-4-8
² See Schedule D-4.12
³ See Schedule D-4.18
⁴ See Schedule D-4.21, Testimony
⁵ See Schedule D-4.22, Testimony