

ORIGINAL



0000148180

MEMORANDUM

RECEIVED

TO: Docket Control

2013 SEP 18 P 3:08

FROM: Steven M. Olea
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: September 18, 2013

RE: STAFF REPORT FOR PAYSON WATER COMPANY, INC.'S
APPLICATIONS FOR A PERMANENT RATE INCREASE AND A
FINANCING APPROVAL. (DOCKET NOS. W-03514A-13-0111 AND W-
03514A-13-0142)

Attached is the Staff Report for Phase I of Payson Water Company, Inc.'s applications for a permanent rate increase and financing approval. Staff's recommendations address only Phase I of these proceedings. Staff recommends approval of the Phase I requested financing and the associated surcharge mechanism with conditions.

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 September 23, 2013. A hearing on this matter is scheduled for September 25, 2013 at 10:00 a.m.

SMO:CSB:red

Originator: Crystal Brown

Arizona Corporation Commission

DOCKETED

SEP 18 2013

DOCKETED BY	<i>WV</i>
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Service List for: Payson Water Company, Inc.
Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

PAYSON WATER COMPANY, INC.

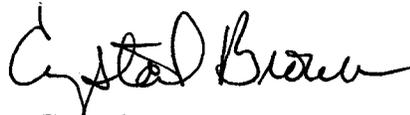
**DOCKET NOS.
W-03514A-13-0111 AND W-03514A-13-0142**

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

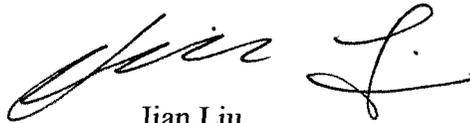
SEPTEMBER 18, 2013

STAFF ACKNOWLEDGMENT

The Staff Report for Payson Water Company, Inc., Docket Nos. W-03514A-13-0111 and W-03514A-13-0142, was the responsibility of the Staff members listed below. Crystal Brown was responsible for the financial review and analysis of the Company's applications. Jian Liu was responsible for the engineering and technical analysis.



Crystal Brown
Public Utilities Analyst V



Jian Liu
Utilities Engineer

EXECUTIVE SUMMARY
PAYSON WATER CO., INC.
DOCKET NOS.
W-03514A-13-0111 AND W-03514A-13-0142

On April 22, 2013, Payson Water Company, Inc. ("Payson Water" or "Company") filed a request for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On May 17, 2013, Payson Water filed a request for approval of \$1,238,000 financing. On June 3, 2013, Staff deemed the rate application sufficient. On August 15, 2013, the Company filed a motion to consolidate the rate case and financing applications and to expedite the processing of those applications. According to the Company's motion, the Company is requesting expedited processing "so that it will be able to pursue an opportunity to build an interconnection between the Town of Payson and the Company's Mesa Del Caballo water system ("MDC").¹" The Company anticipates completing construction by May 2014 if it obtains financing of \$275,000 before the end of the year.

On September 5, 2013, a "Stipulation for Procedural Order Bifurcating Proceeding and Establishing Case Schedule" was filed by the Company. This filing set forth the Company's and Staff agreement to bifurcate the proceeding. Staff will process the rate and financing applications under two phases. Phase I will only address the portion of the Company's financing application related to interconnecting the MDC system to the Town of Payson's water system. The Company's application for a rate increase and the remainder of its application for financing will be addressed in Phase II. Staff's recommendations contained herein only address Phase I of these proceedings.

Staff supports consideration of Phase I on an expedited basis because Staff supports the elimination of the Water Augmentation Surcharge that is currently in place for MDC. Billings to customers under the Water Augmentation Surcharge have drastically increased customers' bills. Staff believes the successful interconnection to the Town of Payson's water system before next summer provides a permanent solution to chronic and annual water shortages experienced by MDC and would obviate the need to haul water to supplement water supplies.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. Approval of the Company's request to borrow up to \$275,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA") for the purpose of financing the construction of a new water transmission line to connect its MDC system to the Town of Payson's water system.
2. Approval of a WIFA Loan Surcharge mechanism that may result in a surcharge of \$7.44 per month per MDC customer.

¹ Page 1, line 23 of motion to consolidate filed on August 15, 2013.

3. The immediate elimination of the Emergency Interim Water Augmentation Surcharge Tariff ("Water Augmentation Tariff") that is currently in effect for Payson Water's MDC system.
4. That the WIFA Loan Surcharge apply only to customers of the MDC system.
5. That the amount of the WIFA Loan Surcharge be calculated based upon the actual amount of the WIFA loan and actual number of customers in the MDC system.
6. That the Company file with the Commission a WIFA loan surcharge tariff that would enable the Company to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan.
7. That the Company follow the same methodology presented on Schedule CSB-1 to calculate the additional revenue needed to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan using actual loan amounts and customer counts.
8. That the Company make a WIFA loan surcharge filing within 15 days of the loan closing.
9. That the Company record the WIFA loan surcharge proceeds as Contributions In Aid of Construction ("CIAC").
10. That the Company place the WIFA loan surcharge proceeds in a segregated account, to be used only for making payments on the WIFA loan.
11. That the Commission affirm in its Phase I order its intent to process Payson Water's rate case prior to the end of 2014 with a final decision resulting in a debt service coverage of 1.2 or greater for the resulting WIFA loan approval.
12. Approval of a new Purchased Water Adjustor, which is included as an attachment to this Staff Report, to allow for the purchase of water from the Town of Payson.
13. That the Company be required to post a bond or irrevocable letter or credit in the amount of \$10,000 prior to the implementation of the WIFA Loan Surcharge and Purchased Water Adjustor Surcharge authorized in this matter.
14. That the Company notify the MDC customers of the elimination of the Water Augmentation Surcharge and the creation of the WIFA Loan Surcharge and Purchased Water Adjustor by means of a bill insert in the next regularly scheduled billing after the Commission's decision in Phase I of this proceeding.

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BACKGROUND

Payson Water Company, Inc. ("Payson Water" or "Company") is an Arizona Class C utility engaged in the business of providing potable water service in portions of Gila County, Arizona. Payson serves approximately 1,114 customers.

In Decision No. 71902 (Sept. 28, 2010), the Commission approved an Emergency Interim Water Augmentation Surcharge Tariff ("Water Augmentation Surcharge") for Payson Water. The purpose of the Water Augmentation Surcharge was to allow the Company to recover the costs of hauling water to its Mesa Del Caballo ("MDC") system, which has experienced annual water shortages during the summer months in recent years. The Water Augmentation Surcharge only applies to customers served on the MDC system and is in effect only between May 1 and September 30 of each year. Decision No. 71902 required the Company to file a request to establish permanent rates.

On April 22, 2013, Payson filed a request for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On May 17, 2013, Payson filed a request for approval of \$1,238,000 financing. On June 3, 2013, Staff deemed the rate application sufficient. On August 15, 2013, the Company filed a motion to consolidate the rate case and financing applications and to expedite the processing of those applications. According to the Company's motion, the Company is requesting expedited processing "so that it will be able to pursue an opportunity to build an interconnection between the Town of Payson and" MDC.² The Company anticipates completing construction by May 2014 if it obtains financing of \$275,000 before the end of the year.

Customer Frustration with MDC Water Augmentation Surcharge

Consumer Services Staff has processed several informal complaints forwarded by the Commissioner offices this summer regarding the high cost of MDC's Water Augmentation Surcharge. Staff is aware of one MDC customer whose June 2013 bill was \$131.86 for a usage of 4,460 gallons. Of the \$131.86, approximately 75 percent or \$98.57 was for the Water Augmentation Surcharge. The next month the same customer reduced usage to 3,500 gallons, yet the July bill was \$161.21, \$128.45 of which was for water augmentation. Another MDC customer, a commercial customer, received a June 2013 bill of \$552.02, \$449.96 of which was for the Water Augmentation Surcharge. A redacted copy of these bills can be seen in Attachment A. Several articles were written in the Payson Roundup this summer concerning the situation.

On August 26, 2013, a Procedural Order was filed granting the Company's motion to consolidate the rate case and financing applications. Expediting the portion of the financing related to the construction of the interconnection with the Town of Payson ("Town") would

² Page 1, line 23 of motion to consolidate filed on August 15, 2013.

allow the Company to complete construction of the interconnection by May 2014. Staff believes that this portion of the Company's application provides a viable alternative to the continuation of MDC's Water Augmentation Surcharge. If the Company is able to construct the new water transmission line before next summer it could avoid the high cost of hauling water during the summer months and the Commission could immediately eliminate MDC's Water Augmentation Surcharge. Staff, therefore, concurs with the Company that expediting the portion of its financing application necessary to enable the construction of the new transmission line is in the public interest.

On September 5, 2013, a "Stipulation for Procedural Order Bifurcating Proceeding and Establishing Case Schedule" was filed by the Company. This filing set forth the Company's and Staff agreement to bifurcate the proceeding. Staff will process the rate and financing applications under two phases. Phase I will only address the portion of the Company's financing application related to interconnecting the MDC system to the Town of Payson's water system. The Company's application for a rate increase and the remainder of its application for financing will be addressed in Phase II. Staff's recommendations contained herein only address Phase I of these proceedings.

WATER INFRASTRUCTURE FINANCING AUTHORITY OF ARIZONA ("WIFA") LOAN AND SURCHARGE

Payson Water estimates the cost to interconnect MDC to the Town of Payson's water system will be \$274,345. Staff has reviewed Payson Water's estimates and finds them to be reasonable and appropriate. A complete discussion of Staff's findings and recommendations concerning the Phase I of the financing application can be found in the attached Engineering Report. Staff recommends approval of the Company's request to borrow up to \$275,000 from WIFA to finance the construction of the new water transmission line.

In order to enable Payson Water to demonstrate the necessary financial capability to support up to a \$275,000 WIFA loan, Staff recommends the Commission approve a new WIFA loan surcharge for Payson Water. Due to the two-phase processing of the Company's financing application, Staff has performed an abbreviated analysis of the Company's financial condition and its ability to pay the \$275,000 loan. In order for the Company to satisfy debt service coverage requirements, Staff recommends the Commission approve the establishment of a new WIFA loan surcharge for Payson Water that would recover the monthly payments of principal, interest and fees, and debt service reserve associated with the WIFA loan. Staff also recommends that the Commission require Payson Water to place the monies collected via the WIFA loan surcharge in a segregated account, to be used only for making payments on the WIFA loan. Staff further recommends that WIFA loan surcharge monies be recorded as Contributions In Aid of Construction ("CIAC").

In order for Payson Water to receive financing from WIFA by the end of the year, it must submit its loan application with WIFA on or before October 25, 2013. Accordingly, Staff recommends the Commission issue an order on Phase I of Payson Water's financing application

at its regularly scheduled Open Meeting in October. WIFA has informed Staff that it would help establish Payson Water's financial capability to support its WIFA loan application if the Commission would, in its order on Phase I of Payson Water's application, commit to complete the processing of Payson Water's pending rate case (Phase II) before the end of 2014 with a final decision that provides Payson Water with a debt service coverage of 1.2 or greater for the WIFA loan. Staff recommends the Commission affirm in its Phase I order its intent to process Payson Water's rate case prior to the end of 2014 with a final decision resulting in a debt service coverage of 1.2 or greater for the final WIFA loan approval.

PURCHASED WATER ADJUSTOR

After constructing the interconnection line, Payson Water will need to recover the cost of the water it purchases from the Town of Payson. Staff recommends the Commission establish a Purchased Water Adjustor Surcharge on an interim basis in Phase I of this proceeding. The Purchased Water Adjustor Surcharge Staff recommends for adoption is presented as Attachment B. This surcharge will only apply to MDC customers.

INTERIM RATE RELIEF

Interim rates are rates charged by a utility for services or products pending the establishment of a permanent rate, in emergency situations or where a bond is posted that guarantees a refund to consumers for any excess paid them prior to the Commission's final determination.³ General conditions necessary for the imposition of interim emergency rates include:

1. A sudden change that causes hardship to a company
2. A company is insolvent, and
3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.⁴

Interim rates can be imposed in the absence of an emergency situation.⁵ The customers of the Company's MDC water system have been subject to a water augmentation surcharge pursuant to Decision No. 71902 (September 28, 2010). As detailed above, MDC customers have experienced significant increases in the monthly bills because of the water augmentation surcharge. While the Attorney General's opinion is instructive, its focus is that of the health of the utility and not the burden faced by ratepayers. As noted in Decision No. 71902, the Company wells lack the capacity to provide water for its customers during the peak summer month.⁶ The opportunity to alleviate the burden to the ratepayer before next summer with the building of the interconnection with the Town of Payson is an exigent circumstance that warrants the extraordinary relief requested by the Company and supported by Staff.

³ *Scates v. Arizona Corp. Commission* 118 Ariz. 531, 578 P2d 612 (App. 1978)

⁴ Attorney General Opinion No. 71-17 (1971)

⁵ See *Pueblo Del Sol Water Company v Arizona Corporation Commission* 160 Ariz. 285, 772 P2d 1138 (1988);

⁶ Decision No. 71902 at 10.

The safeguards that are required for the implementation of interim relief are in place in this case. The Company's rate application is currently pending and the surcharge being proposed will be reviewed in the context of that application. Staff is recommending a bond or irrevocable letter of credit be posted. Staff recommends a bond of \$10,000. This bond level is reasonable because it represents approximately six months of collection of surcharge revenue.

PUBLIC NOTICE

By Procedural Order dated September 10, 2013, the Company was ordered to provide notice to its Mesa del Cabollo system customers by no later than September 20, 2013.

CALCULATION OF WIFA LOAN SURCHARGE

In light of the fact that the construction of the new water transmission line and the elimination of the Water Augmentation Surcharge both primarily benefit customers on Payson Water's MDC system, Staff recommends the new WIFA Surcharge apply only to customers of the MDC water system. These customers will receive an immediate financial benefit when the interconnection is constructed and the Water Augmentation Surcharge is eliminated.

The proposed \$275,000 financing is a 20-year amortizing loan at an interest rate of 4.99 percent. The payments are estimated to be \$1,815 per month, or \$21,779 annually, as shown on Schedule CSB-1. The surcharge also includes a provision for income taxes and the debt reserve deposit as shown on Step No. 8 on Schedule CSB-1.

The Company could begin collecting monies via the WIFA loan surcharge on the first month after Commission approval of the Company's WIFA loan surcharge filing (see Staff recommendation No. 8 below). Staff recommends that the Company calculate the surcharge needed to provide funds for the debt service on its loan as shown on Schedule CSB-1.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. Approval of the Company's request to borrow up to \$275,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA") for the purpose of financing the construction of a new water transmission line to connect its MDC system to the Town of Payson's water system.
2. Approval of a WIFA Loan Surcharge mechanism that may result in a surcharge of \$7.44 per month per MDC customer.
3. The immediate elimination of the Emergency Interim Water Augmentation Surcharge Tariff ("Water Augmentation Tariff") that is currently in effect for Payson Water's MDC system.

4. That the WIFA Loan Surcharge apply only to customers of the MDC system.
5. That the amount of the WIFA Loan Surcharge be calculated based upon the actual amount of the WIFA loan and actual number of customers in the MDC system.
6. That the Company file with the Commission a WIFA loan surcharge tariff that would enable the Company to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan.
7. That the Company follow the same methodology presented on Schedule CSB-1 to calculate the additional revenue needed to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan using actual loan amounts and customer counts.
8. That the Company make a WIFA loan surcharge filing within 15 days of the loan closing.
9. That the Company record the WIFA loan surcharge proceeds as Contributions In Aid of Construction ("CIAC").
10. That the Company place the WIFA loan surcharge proceeds in a segregated account, to be used only for making payments on the WIFA loan.
11. That the Commission affirm in its Phase I order its intent to process Payson Water's rate case with a final decision resulting in a debt service coverage of 1.2 or greater for the resulting WIFA loan approval.
12. Approval of a new Purchased Water Adjustor, which is included as an attachment to this Staff Report, to allow for the purchase of water from the Town of Payson.
13. That the Company be required to post a bond or irrevocable letter or credit in the amount of \$10,000 prior to the implementation of the WIFA Loan Surcharge and Purchased Water Adjustor Surcharge authorized in this matter.
14. That the Company notify the MDC customers of the elimination of the Water Augmentation Surcharge and the creation of the WIFA Loan Surcharge and Purchased Water Adjustor by means of a bill insert in the next regularly scheduled billing after the Commission's decision in Phase I of this proceeding.

WIFA LOAN SURCHARGE CALCULATION - EXAMPLE

Loan Amount: **\$275,000**
 Term: **20 Years**
 Interest Rate Before Subsidy: **5.25%**
 WIFA Subsidy Rate: **95%**
 WIFA Interest rate (9.25% x 100%): **4.99%** If interest rate is not found on TABLE A, use the next highest percentage

Step 1 - Find the Annual Payment on Loan

\$275,000 Total Amount of Loan
0.0792 TABLE A, Conversion Factor Table, Column B
 \$21,778.54 Annual Principle and Interest Payment

Step 2 - Find the Annual Interest Payment on Loan

\$275,000 Total Amount of Loan
0.0493 TABLE A, Conversion Factor Table, Column C
 \$13,563.43 Annual Interest Payment on Debt

Step 3 - Find the Annual Principal Payment on Loan

\$275,000 Total Amount of Loan
0.0299 TABLE A, Conversion Factor Table, Column D
 \$8,215.11 Annual Principal and Interest Payment

Step 4 - Find the Gross Revenue Conversion Factor

1.76837222

Step 5 - Find the Incremental Income Tax Factor

1.76837 minus 1 = 0.76837

Step 6 - Find the Annual Income Tax Component of Surcharge Revenue

0.76837 Incremental Income Tax Factor (from Step 5)
\$8,215.11 Multiplied by: Annual Principal Payment on Loan (from Step 3)
 \$6,312.26 Annual Income Tax Component of the Annual Surcharge Revenue

Step 7 - Find the Debt Service Component of the Annual Surcharge Revenue

\$13,563.43 Annual Interest Payment on Debt (from Step 2)
\$8,215.11 Plus: Annual Principal Payment (from Step 3)
 \$21,778.54 Debt Service Component of the Annual Surcharge Revenue

Step 8 - Find the Annual Surcharge Revenue Requirement Needed for the Loan Including Reserve Fund

\$6,312.26 Annual Income Tax Component of the Annual Surcharge Revenue (from Step 6)
\$21,778.54 Plus: Debt Service Component of the Annual Surcharge Revenue (from Step 7)
 \$4,355.71 Plus: Annual Reserve Fund Deposit [20% x Principal & Interest (From Step 1)]
\$32,446.51 Total Annual Surcharge Revenue Requirement for the Loan

Step 9 - Find the Equivalent Bills

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Multiplier	Number of Customers	Number of Months in Year	Equivalent Bills Col B x C x D
5/8" x 3/4" Meter	1	362	12	4,344
3/4" Meter	1.5	1	12	18
1" Meter	2.5	0	12	-
1½" Meter	5	0	12	-
2" Meter	8	0	12	-
3" Meter	15	0	12	-
4" Meter	25	0	12	-
6" Meter	50	0	12	-
		<u>363</u>		<u>4,362</u>

Step 10 - Find the Monthly Surcharge for the 5/8" x 3/4" Meter Size Customers

\$32,446.51 Total Annual Surcharge Revenue Requirement for the Loan (from Step 8)
4,362 Divided by: Total Number of Equivalent Bills
 \$ 7.44 Monthly Surcharge for 3/4" Customers

Step 11 - Find the Monthly Surcharge for the Remaining Meter Size Customers

Col A	Col B	Col C	Col D
Meter Size	NARUC Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C
5/8" x 3/4" Meter	1	\$ 7.44	\$ 7.44
3/4" Meter	1.5	\$ 7.44	\$ 11.16
1" Meter	2.5	\$ 7.44	\$ 18.60
1½" Meter	5	\$ 7.44	\$ 37.19
2" Meter	8	\$ 7.44	\$ 59.51
3" Meter	15	\$ 7.44	\$ 111.58
4" Meter	25	\$ 7.44	\$ 185.96
6" Meter	50	\$ 7.44	\$ 371.92

TABLE A
Conversion Factor Table (Based on a 20-year Loan)

Line No.	Column A Annual Interest	Column B Annual Payment Conversion Factor	Column C Annual Interest Payment Conversion Factor	Column D Annual Principal Payment Conversion Factor
1	3.50%	0.0696	0.0344	0.0352
2	3.75%	0.0711	0.0369	0.0342
3	4.00%	0.0727	0.0394	0.0333
4	4.25%	0.0743	0.0419	0.0324
5	4.50%	0.0759	0.0444	0.0316
6	4.75%	0.0775	0.0468	0.0307
7	5.00%	0.0792	0.0493	0.0299
8	5.25%	0.0809	0.0518	0.0291
9	5.50%	0.0825	0.0543	0.0283
10	5.75%	0.0843	0.0568	0.0275
11	6.00%	0.0860	0.0593	0.0267
12	6.25%	0.0877	0.0618	0.0259
13	6.50%	0.0895	0.0643	0.0252
14	6.75%	0.0912	0.0668	0.0245
15	7.00%	0.0930	0.0692	0.0238
16	7.25%	0.0948	0.0717	0.0231
17	7.50%	0.0967	0.0742	0.0224
18	7.75%	0.0985	0.0767	0.0218
19	8.00%	0.1004	0.0792	0.0211

Attachment A

MDC CUSTOMER BILL EXAMPLES

Company Inc.

Statement

Blvd. Suite 229, Denver CO 80230
 info@jwwater.com
 -6084 Fax Number (855) 508-5507

ACCOUNT INFORMATION	
Account Number:	[REDACTED]
Statement #:	392601
Bill Date:	06/25/2013
Past Due Date:	07/10/2013
Service Address:	MESA L289
Zone:	13-MDC
SPECIAL MESSAGE	
"When we receive your check you authorize us to withdraw funds on the same day we receive payment". Unresolved billing disputes ACC-800-222-7000.	

- 06/20/2013
478338-2
315,570
311,110
4,460

ACCOUNT ACTIVITY	
Previous Balance	62.15
Payment - Thank you!	-62.15
Service Charge 5/8 x 3/4" Meter	16.00
Commodity Charge (4000.00 @ 0.00193)	7.72
Commodity Charge (460.00 @ 0.00299)	1.38
Water Augmentation (4460.00 @ 0.02210)	98.57
Gila County & AZ state tax	8.16
Commodity Tax / Usage tax	0.03
Total Amount Due	131.86

2013
 013
 013

*Bill Date June 25th 2013
 Past Due July 10th 2013
 Disc Date July 20th 2013*

AVOID DISCONNECTION FOR NON-PAYMENT

accordance with A.A.C. R14-2-409. Accordingly, your bill is DUE AND PAYABLE UPON RECEIPT and is due if not paid within 15 days of the BILL DATE shown above. Pursuant to A.A.C. R14-2-410(E), if this water bill is not paid by the BILL DATE, this water bill will serve as written notice that your service will be disconnected on or after the due date. No further disconnection notice will be sent to you. Reconnection of your water service may be subject to the Company's tariffs and as approved by the Arizona Corporation Commission. Please avoid any late or non-payment of your water bill. If you have further questions please contact our Customer Service Center at

KEEP THIS PORTION FOR YOUR RECORDS

KEEP THIS PORTION OF THE STATEMENT

er Company Inc.

Statement

demey Blvd. Suite 229, Denver CO 80230
 Phone: info@jvwwater.net
 (303) 270-6084 Fax Number (855) 508-5507

ACCOUNT INFORMATION

Account Number:	[REDACTED]
Statement #:	397631
Bill Date:	07/24/2013
Past Due Date:	08/08/2013

Service Address: MESA L289

Zone: 13-MDC

SPECIAL MESSAGE

"When we receive your check you authorize us to withdraw funds on the same day we receive payment". Unresolved billing disputes ACC-800-222-7000.

GS

2013 - 07/17/2013
 478338-2
 319,070
 315,570
 3,500

08/04, 2013
 Past Due 08/08, 2013
 Disconnection 08/18, 2013

ACCOUNT ACTIVITY

Previous Balance	131.86
Payment - Thank you!	-131.86
Service Charge 5/8 x 3/4" Meter	16.00
Commodity Charge (3500.00 @ 0.00193)	6.76
Water Augmentation (3500.00 @ 0.03670)	128.45
Gila County & AZ state tax	9.98
Commodity Tax / Usage tax	0.02
Total Amount Due	161.21

Billed Date July 24th 2013
Past Due Aug 8th 2013
Disc Date Aug 18th 2013

AVOID DISCONNECTION FOR NON-PAYMENT

Bill is due in accordance with A.A.C. R14-2-409. Accordingly, your bill is DUE AND PAYABLE UPON RECEIPT and is due (shown above) if not paid within 15 days of the BILL DATE shown above. Pursuant to A.A.C. R14-2-410(E), if this water bill is not paid by the BILL DATE, this water bill will serve as written notice that your service will be disconnected on or after the BILL DATE shown above. No further disconnection notice will be sent to you. Reconnection of your water service may be subject to the Company's tariffs and as approved by the Arizona Corporation Commission. Please avoid service interruption by timely paying your water bill. If you have further questions please contact our Customer Service Center at (303) 270-6084.

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS REMITTANCE PORTION OF THE BILL WITH YOUR PAYMENT

Mark on your check
 J.V. Water Co., Inc.

PAST DUE CHARGES	CURRENT CHARGES	TOTAL DUE	AMOUNT ENCLOSED
-------------------------	------------------------	------------------	------------------------

Payson Water Company Inc.

Statement

Mailing Address: 7581 E Academy Blvd. Suite 229, Denver CO 80230
 Email Address: info@jwwater.com
 Customer Service Call Center (800) 270-6084 Fax Number (855) 508-5507
 Contact @ B... AT

PAYSON, AZ 85541-9741

PA \$ 500⁰⁰ 4/18/13
 Confirmation 5394832329

ACCOUNT INFORMATION	
Account Number:	[REDACTED]
Statement #:	392542
Bill Date:	06/25/2013
Past Due Date:	07/10/2013
Service Address:	MESA P15G
Zone:	13-MDC
SPECIAL MESSAGE	
"When we receive your check you authorize us to withdraw funds on the same day we receive payment". Unresolved billing disputes ACC-800-222-7000.	

METER READINGS	
SERVICE DATES	05/16/2013 - 06/20/2013
METER NUMBER	60648097
CURRENT READ	3,018,110
PREVIOUS READ	2,997,750
GALLONS USED	20,360

ACCOUNT ACTIVITY	
Previous Balance	204.80
Payment - Thank you!	-210.00
Service Charge 5/8 x 3/4" Meter	16.00
Commodity Charge (4000.00 @ 0.00193)	7.72
Commodity Charge (16360.00 @ 0.00299)	48.92
Water Augmentation (20360.00 @ 0.02210)	449.96
Gila County & AZ state tax	34.49
Commodity Tax / Usage tax	0.13
Total Amount Due	552.02

Bill Date: June 25, 2013
 Past Due: July 10, 2013
 Disconnection Date: July 20, 2013

PA \$ 520⁰⁰ 7/19/13
 CONFIRMATION # 5398391800

AVOID DISCONNECTION FOR NON-PAYMENT

Your water bill has been rendered in accordance with A.A.C. R14-2-409. Accordingly, your bill is DUE AND PAYABLE UPON RECEIPT and is considered PAST DUE (see date above) if not paid within 15 days of the BILL DATE shown above. Pursuant to A.A.C. R14-2-410(E), if this water bill remains unpaid 25 days following the BILL DATE, this water bill will serve as written notice that your service will be disconnected on or after the DISCONNECTION DATE shown above. No further disconnection notice will be sent to you. Reconnection of your water service may be subject to additional fees and penalties as provided by the Company's tariffs and as approved by the Arizona Corporation Commission. Please avoid disconnection and additional fees by timely paying your water bill. If you have further questions please contact our Customer Service Center at (800) 270-6084.

KEEP THIS PORTION FOR YOUR RECORDS

Please include your account number on your check
 Make check payable to: Payson Water Co., Inc.

Payment Coupon

Service Address: MESA P15G

HOUSTON MESA GEN ST
 8157 WEST DEADEYE RD
 PAYSON, AZ 85541-9741

DETACH AND RETURN THIS REMITTANCE PORTION OF THE BILL WITH YOUR PAYMENT

PAST DUE CHARGES	CURRENT CHARGES	TOTAL DUE	AMOUNT ENCLOSED
-520	557.22	552.02	
		Check Number	

Account Number: 58130-16615
 Statement #: 392542
 Bill Date: 06/25/2013
 Due Date: 07/10/2013

Please Remit To: Payson Water Company, Inc.
 c/o JW Water Holdings, LLC
 7581 E Academy Blvd. Suite 229
 Denver, CO 80230

Bill is due and payable when rendered and delinquent after the due date.
 For any previous balance that is overdue a delinquent charge is assessed and this location is subject to disconnect.

6798



16,247 GAL AUGMENT @ DRE 142
 AS 71007

Payson Water Company, Inc.

Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

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Attachment B

PURCHASED WATER ADJUSTOR TARIFF

PURCHASED WATER ADJUSTOR

I. Purpose and Applicability

The purpose of this tariff is to equitably apportion the costs of water purchased through an interconnection with the Town of Payson among Mesa Del Caballo customers. These charges are applicable to all connections and will be assessed based on usage, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Company" means Payson Water Company, Inc.

"Purchased Water Cost" means the actual cost billed by the Town of Payson for water purchased through the interconnection between the Town of Payson's water system and the Company's water system.

"Purchased Water Quantity" means the actual quantity (in thousands of gallons) of water billed by the Town of Payson for water purchased through the interconnection between the Town of Payson's water system and the Company's water system.

"Purchased Water Surcharge" means the surcharge calculated in accordance with Section IV below.

"Surcharge Rate" means the rate per 1,000 gallons that is calculated in accordance with Section III below.

"Water Sold" means the actual quantity (in thousands of gallons) of water sold by the Company to its Customers during the month corresponding to the month in which water was purchased from the Town of Payson through the interconnection between the Town of Payson's water system and the Company's water system.

III. Surcharge Rate Calculation

For each month that the Company purchases water from the Town of Payson through the interconnection between the Town of Payson's water system and the Company's water system, the Company will calculate the Surcharge Rate per the following example when all water is purchased from the Town of Payson.

Example (For Illustrative Purposes Only) - All water is purchased from the Town of Payson

A customer uses 4,500 gallons of water.

The commodity cost being billed by Payson Water Company to this customer would be \$8.71 calculated as follows:

Per 1,000 Gallons				
0 to 4,000	\$1.93	4.0 x \$1.93	=	\$7.72
Over 4,000	\$2.99	0.5 x \$2.99	=	\$0.99
				\$8.71

The commodity cost billed from the Town of Payson would be:

Per 1,000 Gallons				
All Gallons	\$2.75	4.5 x \$2.75	=	\$12.37

The surcharge for this customer would be:

Purchased Water Cost		Water Cost Per Company's Approved Tariff		Surcharge
\$12.75	-	\$8.71	=	\$3.66

Attachment C of this Staff Report provides examples of the surcharge calculation when less than 100 percent of all water is purchased from the Town of Payson.

IV. Terms and Conditions

(A) Assessment and Billing of Purchased Water Surcharge: For any month in which water is purchased from the Town of Payson, after completing its billing for the month and receiving the Town's billing for the month, Payson will make the surcharge calculation to determine the Surcharge Rate.

In the following month, Payson will bill the Purchased Water Surcharge to its customers. Each individual customer's billing for the Purchased Water Surcharge will be based on that customer's actual usage for the previous month (the month corresponding to the water purchase from the Town) times the Surcharge Rate.

The Purchased Water Surcharge shall be presented as a separate line item on the customer billing.

(B) Notice to Commission: For any month in which the Company intends to bill customers a Purchased Water Surcharge, the Company shall provide Commission Staff notice of the Company's intent to bill the Purchased Water Surcharge. The notice to Commission Staff shall include the following:

1. The Purchased Water Cost.
2. The Purchased Water Quantity.
3. A copy of the bill received for the purchase of water from the Town of Payson.
4. A schedule showing the calculation of the Surcharge Rate in excel format with formulas intact, including a schedule showing the determination of the Avoided Production Costs.

Payson Water Company, Inc.

Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

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Attachment C

PURCHASED WATER SURCHARGE EXAMPLE CALCULATIONS – WHEN LESS THAN 100 PERCENT OF ALL WATER PURCHASED FROM THE TOWN OF PAYSON

Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

Surcharge Calculation Example

Examples assume that 25% of total water purchased from the Town of Payson

Example 1 - Median Usage Customer

This example illustrates how the surcharge would be calculated for a customer using 4,500 gallons; 75% (or 3,375) from Payson Water Company and 25% (or 1,125) from the Town of Payson.

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Total Usage Assumption	% of Gallons From Town of Payson	Gallons in '000s From Town of Payson Col A x Col B	Town of Payson Commodity Rate	Payson Water Company Tariff Rate	Difference in Rate per 1,000 gal	Surcharge
	25% =		2.75 \$	1.93 \$	Col D - Col E	Col C x Col F
Block 1	4,000 x	1,000 \$	2.75 \$	1.93 \$	0.82 \$	0.82
Block 2	500 x	0.125 \$	2.75 \$	2.99 \$	(0.24) \$	(0.03)
Total Usage Assumption	4,500	1,125				
						Total Monthly Surcharge \$ 0.79 *

*Excludes Taxes

Example 2 - High Usage Customer

This example illustrates how the surcharge would be calculated for a customer using 25,000 gallons; 75% (or 18,750) from Payson Water Company and 25% (or 6,250) from the Town of Payson.

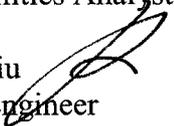
[A]	[B]	[C]	[D]	[E]	[F]	[G]
Total Usage Assumption	% of Gallons From Town of Payson	Gallons in '000s From Town of Payson Col A x Col B	Town of Payson Commodity Rate	Payson Water Company Tariff Rate	Difference in Rate per 1,000 gal	Surcharge
	25% =		2.75 \$	1.93 \$	Col D - Col E	Col C x Col F
Block 1	4,000 x	1,000 \$	2.75 \$	1.93 \$	0.82 \$	0.82
Block 2	21,000 x	5,250 \$	2.75 \$	2.99 \$	(0.24) \$	(1.26)
Total Usage Assumption	25,000	6,250				
						Total Monthly Surcharge \$ (0.44) *

*Excludes Taxes

MEMORANDUM

DATE: September 10, 2013

TO: Crystal Brown
Public Utilities Analyst V

FROM: Jian W. Liu 
Utilities Engineer

RE: Payson Water Company
Application for a Permanent Rate Increase and Financing Approval
Docket Nos. W-03514A-13-0111 (Rates) AND W-03514A-13-0142
(Financing)

Introduction and Background

On April 22, 2013, Payson Water Company, Inc. ("PWC" or "Company") filed a request for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On May 17, 2013, PWC filed a request for approval of \$1,238,000 financing. On June 3, 2013, Staff deemed the rate application sufficient. On August 15, 2013, the Company filed a motion to consolidate the rate case and financing applications and to expedite the processing of those applications. On August 26, 2013 the two applications were consolidated. PWC seeks expedited approval to borrow up to \$275,000 of the total financing so it can build a line to connect the Town of Payson system to PWC's Mesa del Caballo system before next summer.

On September 5, 2013, PWC and the Utilities Division ("Staff") of the Commission filed a Stipulation for Procedural Order Bifurcating Proceeding and Establishing Case Schedule. According to the Stipulation, the first phase of the proceeding ("Phase I") would involve consideration of PWC's request for expedited financing approval along with approval of certain interim rate relief in the form of rate surcharges and/or adjustors in order to construct a new water transmission line to connect its Mesa del Caballo system to the Town of Payson water supplies. Because of the dire need for water in the Mesa del Caballo area coupled with the present opportunity to end water hauling by next summer, Staff agrees with the expedited treatment of this portion of the financing. The second phase ("Phase II") would involve (1) the remainder of the Company's request for financing approval; and (2) establishing the fair value of PWC's plant and property used for providing water utility service and setting permanent rates thereon designed to produce a fair return on such fair value rate base and the resolution of any remaining issues, if any, with the expedited financing request.

Cost Estimates for Phase I Financing

On September 10, 2013, PWC submitted its cost estimates to build a line to connect the Town of Payson water system to PWC's Mesa del Caballo water system.

ITEM DESCRIPTION	TOTAL COST
1. Water Main Construction	\$ 172,650
2. Fees, Legal, Permits, Testing, Admin, Etc.	\$ 57,695
3. Engineering Services	<u>\$ 24,000</u>
TOTAL PROJECT BUDGET	\$ 254,345
CONTINGENCY	<u>\$ 20,000</u>
TOTAL BUDGET ALLOCATION	\$ 274,345

Staff has reviewed PWC proposed pipeline cost of \$274,345 and found the proposal reasonable and appropriate. However, no "used and useful" determination of the proposed plant items was made, and no conclusions should be inferred for rate making or rate base purposes in the future.