

ORIGINAL



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To: Docket Control

From: Timothy L Kylo
President
Humboldt Water Systems, Inc.

Date: September 27, 2013

Re: Response to and comments regarding the Staff Report on Humboldt Water Systems, Inc. Application for a Rate Increase and Authorization for Approval of Financing
(Docket Nos. W-02197A-13-0115 and W-02197A-12-0410)

Attached are the responses to and our comments regarding the Staff Report dated Sept 18, 2013. We are in agreement that a Rate increase and surcharge is necessary to fund the ongoing operation of Humboldt Water Systems, Inc. and its ability to provide water to its customers that meets the Safe Drinking Water Act as regulated by the Arizona Department of Environmental Quality. There are several items in the Staff Report that make certain assumptions that we question. Please consider the following comments in your decision regarding the Rate Structure in this case.

Thank You,

Timothy L. Kylo
President
Humboldt Water Systems, Inc.

Arizona Corporation Commission

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1. TIERED RATE CALCULATIONS

In their calculations regarding predicted revenue produced by a tiered rate, the Staff is assuming that the water use will remain constant, and are projecting revenue produced by new rates based on past consumption. The purpose of a Tiered Rates Structure is to promote conservation. It is therefore inconsistent to propose a rate that is intended to conserve water consumption and then use the pre tiered rate consumption to predict future revenue. For this reason we believe the Staff is overstating projected revenues, and then drawing conclusions that affect the rate structure they are recommending the Commissioners approve. I would suggest in this case that a conservation factor be applied to future water sales to more accurately project future revenues.

(If you would poll the water companies that have received tiered rates I am certain you will find that usage declined along with expected revenues).

2. METER SIZE RATE STRUCTURE

Humboldt like most water companies regulated by the ACC do not distinguish between 5/8 by 3/4 meters and 3/4 meters. They are both residential meters and have no effect on the cost of service to the customer. Humboldt customers, like most water customers in the State, have been charged the same rate for both size meters and will be upset by the effects of the staff recommendation for a different rate. If the rates proposed by the Staff Report go into effect as is, neighbors will compare rates and will be upset to find they are being charged more than their neighbor for potentially less usage. Our suggestion is that the two meters carry the same rate.

3. PAGE 6 OPERATING REVENUE

Staff has adjusted operating revenues to reflect an increase of \$1,784 over our stated revenue. Staff has used a bill count and applied rates to the bill count to calculate revenue that does not take into consideration any unpaid bills. Humboldt is a highly transient area and many customers leave without notice or a final payment. We do collect deposits, however many times customers will leave owing more than their deposit will cover. We have submitted some of the unpaid bills for collection, but have not been successful collecting. The effect of overstating the revenue unfairly inflates the expected rate of return in the Staff Report.

4. OPERATION OF THE TREATMENT PLANT

Consideration for the cost of installing the treatment facility has been addressed through a surcharge to pay the exact debt service payments of the WIFA loan necessary to fund the treatment plant. No consideration has been given to the additional operation and maintenance costs of the plant, nor has any consideration been given to the additional cost of filtration media, additional chemical costs, and hazardous waste disposal charges.

5. WATER TESTING

Staff has reduced the amount for Water Testing by \$762 from \$4,437 to \$3,675 based on current test costs. Please see the attachment regarding the expected increase in MAP testing for the next year. There will also be additional compliance testing resulting from the installation of the treatment facility.

6. RATE STRUCTURE WITHOUT SURCHARGE

The surcharge methodology for repaying debt on a WIFA loan is assuming a 20 year loan at 4.5 % interest, assuming this is the rate and reflects accurately the terms of the loan the surcharge should be exactly enough to make the loan payment, assuming all customers pay their bills on time and do not leave without paying a final bill. We believe there should be a bad debt rate of 3 to 5 percent applied to not only revenue projections but also to the surcharge formula.

In 1999 Humboldt received its current base rate of \$21.55 from an ACC decision. In 2013 Staff is recommending a rate of \$22.50 or a 4.4% increase over a 14 year period. The cost of doing business has been going up at the following rates:

	1999	2013	Increase
Gasoline	\$ 1.10	\$ 3.57	224%
Electric	.0774/KWH	.1482/KWH	91%
Postage	\$ 0.33	\$ 0.46	40%
CPI	100	143.75	43.75%

We believe that the Staff recommendation of a 4.4% increase is not an appropriate amount. The Company's proposed rates are more realistic considering increases in actual operating costs, and basic cost of living expenses over the same period of time. We realize 14 years is too long between rate cases, and intend to file on a more frequent basis in the future. However review our concerns mentioned above and give your consideration to the following recommendations.

7. CONCLUSION and RECOMMENDATIONS:

We believe considering the additional costs involved in the operation, maintenance and disposal of hazardous waste involved in operating an arsenic treatment plant, the minor rate increase the staff is recommending is not adequate. Actually the proposed rate for the lower range of the tiered rate is a rate decrease from an approved rate established 14 years ago when gasoline was \$1.10 per gallon. We are therefore asking you to consider the following rate structure.

Regarding the rates on page 1(Fact Sheet)

Staff's recommendation of \$27.14 for a 5/8 x 3/4 be increased to \$29.00

Staff's recommendation of \$29.45 for a 3/4 meter be decreased to \$29.00

All other rates are to be rounded up or down to the nearest \$.50 or even dollar.

Commodity rates should be as follows:

0 to 3,000 \$2.50

3,001 to 10,000 \$3.00

Over 10,000 \$4.00



Janice K. Brewer
Governor

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street Phoenix, Arizona 85007
(602) 771-2300 www.azdeq.gov



Henry R. Darwin
Director

Bill ID: 0053568
Customer ID: 9086S

TIM KYLLO

PO BOX 10593
SEDONA, AZ 86339

Billing Period: April 21, 2013 - June 20, 2013
Payment Due Date: July 31, 2013

Due to unforeseen issues associated with our new billing system, we were unable to send bills last month. To ensure our new consolidated bills provide up to date information about your charges and payments, we processed the current billing as a single two month cycle for April 21 - June 20, 2013.

ACCOUNT SUMMARY

Account ID	Fee Code	Balance Carried Forward	Current Amount	Payments / Credits	Total Amount
B2018753	MAP Monitoring Assistance Program	\$1,332.68	\$0.00	-\$1,332.68	\$0.00
TOTAL:		\$1,332.68	\$0.00	-\$1,332.68	\$0.00

AGING SUMMARY

Current Charges	(1-30 days)	(31-60 days)	(61-90 days)	(91-120 days)	(Over 120 days)	Balance
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Invoices are due and payable upon receipt. Invoices not paid by the specified due date will be charged interest on the unpaid amount per ARS Section 49-113(B), or other applicable statute, from the due date of the invoice. All payments received and not specifically allocated on the remittance advice will be applied to the oldest amount due until fees are paid and then applied to interest. Fees due for more than 90 days may be sent to the State Attorney General's Office for collection.

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