

ORIGINAL



0000150421

MEMORANDUM

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

Arizona Corporation Commission
DOCKETED

DEC 11 2013

DATE: December 11, 2013

DOCKETED BY

RE: STAFF'S FIFTH SUPPLEMENT TO THE STAFF REPORT ISSUED ON JANUARY 4, 2013, REGARDING SANDARIO WATER COMPANY INC.'S - APPLICATIONS FOR A PERMANENT RATE INCREASE AND FINANCING APPROVAL (DOCKET NOS. W-01831A-12-0392 AND W-01831A-12-0467)

On November 21, 2013, a Procedural Order was issued directing Staff to file, by December 11, 2013, updated Final Schedules to its Staff Report related to Sandario Water Company, Inc.'s applications for a permanent rate increase and financing approval. Along with the schedules, the Procedural Order also required Staff to respond to certain questions and/or to supply additional information raised by the Administrative Law Judge Belinda A. Martin.

Pursuant to that Procedural Order, Staff hereby submits the attached supplement.

SMO:BCA:tdp|RRM

Originator: Brendan C. Aladi

RECEIVED
2013 DEC 11 PM 3:23
AZ CORP COMMISSION
DOCKET CONTROL

Service List for: Staff Report for Sandario Water Company, Inc.
Docket No. W-01831A-12-0392 AND W-01831A-12-0467

Ms. Bonnie O'Connor
Sandario Water Company, Inc.
Post Office Box 85160
Tucson, Arizona 85754

**ARIZONA CORPORATION COMMISSION
SANDARIO WATER COMPANY, INC.
DOCKET NOS. W-01831A-12-0392 & W-01831A-12-0467
STAFF RESPONSE TO NOVEMBER 21, 2013 PROCEDURAL ORDER**

DECEMBER 11, 2013

1. Contribution in aid of Construction (“CIAC”) and CIAC AMORTIZATION: Final Schedules BCA - 2 and BCA - 3: Staff shall provide schedules supporting its recommended gross CIAC balance with a detailed calculation of the annual accumulated CIAC amortization balance showing the amortization rate(s) applied to all accounts by year. Staff shall provide detailed calculations of the fully amortized CIAC shown on BCA - 3, page 3, line 36, and discuss whether the fully amortized CIAC should be retired or, if not, how the fully amortized CIAC balance will ultimately be disposed.

Response

- CIAC and CIAC AMORTIZATION: Attached as Updated Final Amortization of CIAC Schedule, is Staff’s recommended gross CIAC balance with a detailed calculation of the annual accumulated CIAC amortization.

Staff made an error in depreciation expense calculation by recognizing \$23,093 as fully depreciated CIAC as shown on Final Schedule BCA-3, page 3, Staff believes the fully amortized CIAC should be retired. When CIAC is fully amortized the amount is removed from gross CIAC and from CIAC amortization.

2. Advance in aid of Construction (“AIAC”): Final Schedules BCA - 2 and BCA - 8: Staffs cash flow analyses should reflect AIAC refunds, or explain why Staff believes this is not appropriate.

Response

- AIAC: Staff’s Cash flow analysis as shown on attached Updated Final Schedule BCA-8 now reflects AIAC and meter refunds on lines 36 and 37.

3. INCOME TAX CALCULATIONS: Final Schedule BCA - 1 lists total operating revenues of \$209,221, but Final Schedule BCA - 9, line 1, lists revenue of \$202,530. Staff shall explain how it arrived at \$202,530 used in its income tax calculations or, if the \$202,350 amount is incorrect, Staff shall prepare a corrected schedule showing its full income tax calculations (including citations to the statutory or regulatory sources supporting them, e.g., ADOR and IRS tax tables), and revise any other schedules to reflect the flow-through of the income tax calculations.

Response

- **INCOME TAX CALCULATIONS:** The correct operating revenue is \$209,221. Staff recalculated income tax allowance of \$8,566 as shown on Updated Schedule BCA-1 and Updated Schedule BCA-9. Staff revised other schedules to reflect the flow-through of the income tax calculations.

Staff used 2012 Federal tax rate schedule and 2012 Arizona tax table in calculating the income tax allowance.

4. **PROPERTY TAX CALCULATIONS:** Final Schedule BCA-3, page 5, Line 13: Staff shall explain the use of a 22.5 percent Assessment Ratio instead of the 19 percent ratio adopted in other recent Staff Reports (including citations to the statutory or regulatory sources supporting them, e.g. ADOR and IRS tax tables). Additionally, Staff shall provide detailed property tax calculations reflecting: (1) Staff as Adjusted, (2) Staff Recommended without WIFA Surcharge, and (3) Staff Recommended with WIFA Surcharge.

Response

- **PROPERTY TAX CALCULATIONS:** Staff should have used 19 percent. On November 25, 2013, FRA Staff started using the lower assessment ratio of 19 percent in calculating the property tax expense amount, consistent with the Staff recommendation in Docket No. 13-0042, the rate application for Litchfield Park Service Company. However failed to capture this change in its initial calculation of property tax. Staff recalculated a property tax expense of \$8,561 as shown on Updated Final Schedule BCA-3, page 5, Line 19. The applicable statute is A.R.S. § 42-15001.
5. **FINANCIAL ANALYSIS:** Final Schedule BCA - 8: DSC calculation line 40-Staffs DSC calculations do not include the depreciation expense from line 23. Additionally, line 25, column B does not reflect Staff's adjustment to property taxes.

Response

- **FINANCIAL ANALYSIS:** Staff originally excluded depreciation expense in the DSC calculation, but should not have done so. Staff has recalculated DSC of 1.99 as shown on the Updated Final Schedule BCA-8, Line 40, Column B. Staff also reflects its adjustment to property taxes.
6. **WIFA SURCHARGE, Debt Service Reserve Fund ("DSRF") AND INCREMENTAL COSTS:** Staff shall state whether it continues to recommend that the DSRF should not be included in the WIFA Surcharge. Regardless of Staffs final recommendation on the DSRF, Staff shall provide additional financial analysis/cost flow schedules demonstrating the impact of the WIFA Surcharge with the DSRF included. Staff shall provide a

breakout of the incremental property and income taxes related to the WIFA Surcharge with and without provision for the DSRF. Additionally, Staff shall provide a recommendation as to whether, if they are authorized, the amounts related to DSRF included in a WIFA Surcharge should be treated as revenues or a regulatory liability. (Also see issues regarding income and property taxes, above.)

Response

- WIFA SURCHARGE, DSRF AND INCREMENTAL COSTS: Staff continues to recommend that the DSRF not be included in the calculation of WIFA loan surcharge. However, Staff is providing the requested analysis.

Staff provides a financial analysis and cost flow schedules as shown on Updated Final Schedule BCA-7.1 and Updated Final Schedule BCA-10.

Staff recommends that if the Commission authorizes the DSRF be included in the Calculation of WIFA surcharge, the amount related to DSRF should be treated as a regulatory liability. Additional recoveries related to incremental income taxes and property taxes should be treated as revenue.

C/IAC Balance 12/31/2002	2003 Additions	2003 Retirements	Amortization Expense	Accumulated Amortization 12/31/2003	C/IAC Balance 12/31/2003	2004 Additions	2004 Retirement	Amortization Expense	Accumulated Amortization 12/31/2004	C/IAC Balance 12/31/2004	2005 Additions	2005 Retirements
\$ 61,194	\$ 33,785	-	\$ 3,943.37	\$ 27,781	\$ 94,979	-	-	\$ 4,796	\$ 32,577	\$ 94,979	-	-

Accumulated Amortization	CIAC Balance	2011 Additions	2011 Retirement Expense	2011 Amortization Expense	Accumulated Amortization	CIAC Balance	2012 Additions	2012 Retirement Expense	2012 Amortization Expense	Accumulated Amortization	CIAC Balance
<u>12/31/2010</u>	<u>12/31/2010</u>				<u>12/31/2011</u>	<u>12/31/2011</u>				<u>6/30/2012</u>	<u>6/30/2012</u>
\$ 98,023	\$ 356,256	-	-	\$ 17,991	\$ 116,014	\$ 356,256	-	-	\$ 8,995	\$ 125,010	\$ 356,256

SUMMARY OF FILING

	-- Present Rates --		-----Proposed Rates-----		
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted (Excludes Surcharge Rev.)	Staff as Adjusted (Includes Surcharge Rev.)
Revenues:					
Metered Water Revenue	\$110,856	\$110,856	\$155,856	\$162,613	\$162,613
Unmetered Water Revenue	0	0	0	0	0
Other Water Revenues	2,147	2,147	2,147	2,147	2,147
WIFA Loan Surcharge Revenue	0	0	0	0	44,461
Total Operating Revenue	\$113,003	\$113,003	\$158,003	\$164,760	\$209,221
Operating Expenses:					
Operation and Maintenance	\$110,789	\$112,114	\$110,789	\$112,114	\$112,114
Depreciation	0	9,697	0	9,697	9,697
Property & Other Taxes	7,691	6,669	7,691	7,687	8,561
Income Tax	0	0	0	1,187	8,566
Total Operating Expense	\$118,480	\$128,480	\$118,480	\$130,686	\$138,939
Operating Income/(Loss)	(\$5,477)	(\$15,477)	\$39,523	\$34,074	\$70,282
Interest Expense on Long-term Debt	0	0	0	0	25,831
Rate Base O.C.L.D.	\$16,445	(\$49,219)	\$16,445	(\$49,219)	(\$49,219)
Rate of Return - O.C.L.D.	N/M	N/M	240.33%	N/M	N/M
Operating Margin	N/M	N/M	25.01%	20.68%	33.59%

RATE BASE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$921,442	(\$4,000) A	\$917,442
Less:			
Accum. Depreciation	637,274	(4,000) B	633,274
Net Plant	\$284,168	\$0	\$284,168
Less:			
Plant Advances	\$ 105,287	0	\$ 105,287
Customer Deposits	8,628	0	8,628
Total Advances	113,915	0	113,915
Contributions Gross	356,257	0	356,257
Less:			
Amortization of CIAC	202,449	(77,439) C	125,010
Net CIAC	\$ 153,808	\$ 77,439	\$ 231,247
Regulatory Liability-Debt Service Reserve	\$ -	-	\$ -
Total Deductions	\$ 267,723	\$ 77,439	\$ 345,162
Plus:			
1/24 Power	0	\$1,108 D	\$1,108
1/8 Operation & Maint.	0	10,667 E	10,667
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$0	\$11,775	\$11,775
Rate Base	\$16,445	(\$65,664)	(\$49,219)

Explanation of Adjustment:

- A - Refer to Schedule BCA-2, Page 4
- B - Refer to Schedule BCA-2, Page 4
- C - Refer to Schedule BCA-2, Page 4
- D - Refer to Schedule BCA-2, Page 4
- E - Refer to Schedule BCA-2, Page 4

PLANT ADJUSTMENTS

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$650	\$0	\$650
302 Franchises	450	0	450
303 Land & Land Rights	850	0	850
304 Structures & Improvements	23,575	0	23,575
307 Wells & Springs	56,222	0	56,222
311 Electrical Pumping Equipment	127,451	0	127,451
320.2 Water Treatment Equipment (Soln.Chemical)	1,642	0	1,642
330 Distribution Reservoirs & Standpipes	33,307	0	33,307
330.1 Storage Tank	18,551	(4,000) A	14,551
330.2 Pressure Tank	15,824	0	15,824
331 Transmission & Distribution Mains	548,394	0	548,394
333 Services	53,057	0	53,057
334 Meters & Meter Installations	34,854	0	34,854
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	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	3,063	0	3,063
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	2,526	0	2,526
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	1,026	0	1,026
105 C.W.I.P.	0	0	0
TOTALS	\$921,442	(\$4,000) A	\$917,442

Explanation

A - See Schedule BCA-2, Page 3

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 637,274
Accumulated Depreciation - Per Staff	<u>633,274</u>
Total Adjustment	B <u>(\$4,000)</u>

ACCT	ACCUMULATED DEPRECIATION		
	Company	Staff	Staff
<u>No. Description</u>	<u>Application</u>	<u>Adjustment</u>	<u>Recommended</u>
301 Intangibles	\$ -	\$ -	\$ -
303 Land and Land Rights	-	-	-
304 Structures and Improvements	22,952	-	22,952
307 Wells and Springs	44,091	-	44,091
311 Electrical Pumping Equipment	35,414	-	35,414
320 Water Treat. Equipment (Soln.Chemical Feeders)	246	-	246
330 Distribution Reservoirs & Standpipes	33,307	-	33,307
330.1 Storage Tank	13,573	4,000	9,573
330.2 Pressure Tank	1,539	-	1,539
331 Transmission and Distribution Mains	422,021	-	422,021
333 Services	33,792	-	33,792
334 Meters and Meter Installation	24,861	-	24,861
335 Hydrants	-	-	-
339 Other Plant and Miscellaneous Equipment	-	-	-
340 Office Furniture and Fixtures	-	-	-
340.1 Computers and Software	-	-	-
341 Transportation Equipment	-	-	-
343 Tools and Work Equipment	3,063	-	3,063
345 Power Operated Equipment	-	-	-
346 Communications Equipment	1,389	-	1,389
348 Other Tangible Plant	1,026	-	1,026
Total	<u>\$ 637,274</u>	<u>\$ 4,000</u>	<u>\$ 633,274</u>

STAFF PLANT ADJUSTMENTS

A -	STORAGE TANK - Per Company Per Staff	\$18,551 <u>\$14,551</u> \$ (4,000)
	To remove the cost of retired storage tank from plant.	
B -	ACCUMULATED DEPRECIATION - Per Company Per Staff	\$13,573 <u>\$9,573</u> \$ (4,000)
	To remove the cost of retired storage tank from accumulated depreciation.	
C -	AMORTIZATION OF CIAC - Per Company Per Staff	\$202,449 <u>\$125,010</u> \$ (77,439)
	To remove excess amortization of contribution in aid of construction.	
D -	WORKING CAPITAL (1/24 Purchased Pwr & Wtr) Per Company Per Staff	\$0 <u>\$1,108</u> \$ 1,108
	To reflect Staff's calculation of cash working capital based on Staff's recommendations for purchased power and purchase water.	
E -	WORKING CAPITAL (1/8 operation & Maint exp.) Per Company Per Staff	\$0 <u>10,667</u> \$ 10,667
	To reflect Staff's calculation of cash working capital based on Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses).	

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$110,856	\$0	\$110,856
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	2,147	0	2,147
Total Operating Revenue	\$113,003	\$0	\$113,003
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	26,600	0	26,600
618 Chemicals	1,955	0	1,955
620 Repairs and Maintenance	9,175	0	9,175
621 Office Supplies & Expense	4,704	0	4,704
630 Outside Services	54,089	0	54,089
635 Water Testing	1,555	1,325 A	2,880
641 Rents	0	0	0
650 Transportation Expenses	2,525	0	2,525
657 Insurance - General Liability	4,763	0	4,763
670 Bad Debt Expense	565	0	565
666 Regulatory Commission Expense - Rate Case	1,250	0	1,250
675 Miscellaneous Expense	3,428	0	3,428
403 Depreciation Expense	0	9,697 B	9,697
427.4 Interest on Customer Deposits	180	0	180
408.11 Property Taxes	7,691	(1,022) C	6,669
409 Income Tax	0	0	0
Total Operating Expenses	\$118,480	\$10,000	\$128,480
OPERATING INCOME/(LOSS)	(\$5,477)	(\$10,000)	(\$15,477)

STAFF ADJUSTMENTS

A -	WATER TESTING - Per Company	\$1,555	
	Per Staff	<u>2,880</u>	<u>\$1,325</u>

To reflect annual water testing expense, per Staff's Engineering report.

STAFF ADJUSTMENTS (Cont.)

B - DEPRECIATION - Per Company \$0
Per Staff 9,697 \$9,697

To reflect application of Staff's recommended depreciation rates to Staff's recommended plant, by account.

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment I - Test Year Depreciation Expense

LINE NO.	DESCRIPTION	[A] Plant In Service Per Staff	[B] NonDepreciable or Fully Depreciated Plant	[C] Depreciable Plant Col A - Col B	[D] Depreciation Rate	[E] Depreciation Expense (Col C x Col D)
1	301 - Organization Cost	\$ 650	\$ 650	-	0.00%	\$ -
2	302 - Franchise Cost	\$ 450	450	-	0.00%	-
3	303 - Land and Land Rights	\$ 850	850	-	0.00%	-
4	304 - Structures and Improvements	\$23,575	22,193	1,382	3.33%	46
5	305 - Collecting and Impounding Res.	-	-	-	2.50%	-
6	306 - Lake River and Other Intakes	-	-	-	2.50%	-
7	307 - Wells & Spring	\$56,222	32,542	23,680	3.33%	789
8	308 - Infiltration Galleries and Tunnels	-	-	-	6.67%	-
9	309 - Supply Main	-	-	-	2.00%	-
10	310 - Power Generation Equip.	-	-	-	5.00%	-
11	311 - Electric Pumping Equipment	\$127,451	-	127,451	12.50%	15,931
12	320 - Water Treatment Equipment	-	-	-	-	-
13	320.1 Water Treatment Plants	-	-	-	3.33%	-
14	320.2 Solution Chemical Feeders	1,642	-	1,642	20.00%	328
15	330 - Distribution Resvrv & Standpipe	33,307	33,307	-	-	-
16	330.1 Storage Tanks	\$14,551	-	14,551	2.22%	323
17	330.2 Pressure Tanks	15,824	-	15,824	5.00%	791
18	331 - Transmission & Distr. Mains	\$548,394	248,437	299,957	2.00%	5,999
19	333 - Services	\$53,057	15,679	37,378	3.33%	1,245
20	334 - Meter & Meter Installations	\$34,854	11,000	23,854	8.33%	1,987
21	335 - Hydrants	-	-	-	2.00%	-
22	336 - Backflow Prevention Devices	-	-	-	6.67%	-
23	339 - Other Plant & Misc Equipment	-	-	-	6.67%	-
24	340 - Office Furniture and Fixtures	-	-	-	6.67%	-
25	340.1 Computers and Softwares	-	-	-	20.00%	-
26	341 - Transportation Equipment	-	-	-	20.00%	-
27	343 - Tools & Work Equipment	3,063	3,063	-	5.00%	-
28	345 - Power Operated Equipment	-	-	-	5.00%	-
29	346 - Communication Equipment	2,526	-	2,526	10.00%	253
30	347 - Miscellaneous Equipment	-	-	-	10.00%	-
31	348 - Other Tangible Plant	1,026	1,026	-	10.00%	-
32	Total Plant	\$917,442	\$369,197	\$548,245		\$27,692
33						
34	Composite Depreciation Rate (Depr Exp / Depreciable Plant):					5.05%
35	CIAC:					\$ 356,257
36	Fully Amortized CIAC					\$ -
37	Amortizable CIAC (Line 35 minus Line 36)					\$ 356,257
38						
39	Pro Forma Annual Depreciation Expense					
40						
41	Plant in Service					\$917,442
42	Less: Non Depreciable Plant					-
43	Fully Depreciable Plant					\$369,197
44	Depreciable Plant					\$548,245
45	Times: Staff Proposed Depreciation Rate					5.05%
46	Depreciation Expense Before Amortization of CIAC:					\$ 27,692
47	Less Amortization of CIAC:					\$ 17,995
48	Test Year Depreciation Expense - Staff:					\$ 9,697
49	Depreciation Expense - Company:					0
50	Staff's Total Adjustment:					\$ 9,697

STAFF ADJUSTMENTS

C -	PROPERTY TAXES - Per Company	\$7,691	
	Per Staff	<u>6,669</u>	<u>(\$1,022)</u>

To reflect property tax expense using the Arizona
Department of Revenue property method.

OPERATING INCOME ADJUSTMENT C - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A]	[B]	[B]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED W/D SURCHARGE	STAFF RECOMMENDED WITH SURCHARGE	STAFF RECOMMENDED W/SURCHARGE & DSRF
1	Staff Adjusted Test Year Revenues - June 30, 2012	\$ 113,003	\$ 113,003	\$ 113,003	\$ 113,003
2	Weight Factor	2	2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 226,006	\$ 226,006	\$ 226,006	\$ 226,006
4	Staff Recommended Revenue, Per Schedule BCA-1	113,003	164,760	209,221	218,113
5	Subtotal (Line 4 + Line 5)	\$ 339,009	\$ 390,766	\$ 435,227	\$ 444,119
6	Number of Years	3	3	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 113,003	\$ 130,255	\$ 145,076	\$ 148,040
8	Department of Revenue Multiplier	2	2	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 226,006	\$ 260,511	\$ 290,151	\$ 296,079
10	Plus: 10% of CWIP -	-	-	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 226,006	\$ 260,511	\$ 290,151	\$ 296,079
13	Assessment Ratio	19.0%	19.0%	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	42,941	49,497	55,129	56,255
15	Composite Property Tax Rate (Obtained from Pima County)	15.530%	15.530%	15.530%	15.530%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 6,669			
17	Company Proposed Property Tax	7,691			
18	Staff Test Year Adjustment (Line 16-Line 17)	<u>\$ (1,022)</u>			
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)	\$	7,687	\$ 8,561	\$ 8,736
20	Staff Test Year Adjusted Property Tax Expense (Line 16)	\$	6,669	\$ 6,669	\$ 6,669
21	Increase/(Decrease) to Property Tax Expense	\$	1,018	\$ 1,893	\$ 2,068
22	Decrease to Property Tax Expense	\$	1,018	\$ 1,893	\$ 2,068
23	Increase in Revenue Requirement		51,757	44,461	8,892
24	Decrease to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.97%	4.26%	23.25%

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed	Staff Recommended		Total Staff Recommended Rates
			Excluding Surcharge	Staff Recommended Surcharge	
5/8" x 3/4" Meter	\$13.00	\$15.00	\$ 15.00	\$ 10.66	\$ 25.66
3/4" Meter	15.00	22.50	21.75	15.99	37.74
1" Meter	25.00	37.50	36.25	26.66	62.91
1 1/2" Meter	40.00	75.00	72.50	53.31	125.81
2" Meter	90.00	120.00	116.00	85.30	201.30
3" Meter	125.00	240.00	232.00	170.59	402.59
4" Meter	175.00	375.00	362.00	266.55	628.55
6" Meter	\$240.00	\$ 750.00	725.00	\$ 533.11	\$ 1,258.11
Gallons in Minimum	1	0	0		

Commodity Rates (Per 1,000 gallons)

All Meter Sizes

First Tier - 0 - 1,000 gallons	0	N/A	N/A
Second Tier - Over 1,000 gallons	1.85	N/A	N/A

All meter Sizes

5/8 x 3/4 & 3/4 - inch Meter Sizes

First Tier - 0 - 3,000 gallons	N/A	\$ 1.25	0.00
Second Tier - 3,001 - 12,000 gallons	N/A	2.66	0.00
Third Tier - Over 12,000 gallons	N/A	4.00	0.00

All meter Sizes

5/8 x 3/4 & 3/4 - inch Meter Sizes

First Tier - 0 - 3,000 gallons	N/A	N/A	1.25
Second Tier - 3,001 - 9,000 gallons	N/A	N/A	2.75
Third Tier - Over 9,000 gallons	N/A	N/A	4.01

Bulk Water (No Minimum)	\$ 1.85	\$ 4.00	\$ 4.01
-------------------------	---------	---------	---------

Service Line and Meter Installation Charges	Company			-----Company Proposed-----			-----Staff Recommended-----			
	Current Rates	Service Line Charges	Meter Charges	Total Charges	Service Line Charges	Meter Charges	Total Charges	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	\$200.00	\$430.00	\$130.00	\$560	\$ 430	\$ 130	\$ 560			
3/4" Meter	240	430	230	\$660	430	230	660			
1" Meter	260	480	290	\$770	480	290	770			
1 1/2" Meter	350	535	500	\$1,035	535	500	1,035			
2" Meter Turbine	425	815	1,020	\$1,835	815	1,020	1,835			
2" Meter Compound	N/A	815	1,865	\$2,680	815	1,865	2,680			
3" Meter Turbine	750	1,030	1,645	\$2,675	1,030	1,645	2,675			
3" Meter Compound	N/A	1,150	2,520	\$3,670	1,150	2,520	3,670			
4" Meter Turbine	960	1,460	2,620	\$4,080	1,460	2,620	4,080			
4" Meter Compound	N/A	1,640	3,595	\$5,235	1,640	3,595	5,235			
6" Meter Turbine	1,700	2,180	4,975	\$7,155	2,180	4,975	7,155			
6" Meter Compound	N/A	2,300	6,870	\$9,170	2,300	6,870	9,170			
Over 6-inch	N/A	N/A	N/A	N/A	Actual Cost	Actual Cost	Actual Cost			

Service Charges

Establishment	\$15.00	\$ 25.00	\$25.00
Establishment (After Hours)	25.00	N/A	N/A
Reconnection (Delinquent)	15.00	\$ 30.00	\$30.00
Meter Test (If Correct)	50.00	\$ 60.00	\$50.00
Deposit	*	*	*
Deposit Interest Per Annum	**	**	**
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	\$ 25.00	\$25.00
Deferred Payment - Per Month	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	15.00	\$ 20.00	\$20.00
Late Payment Charge-Per Month	1.50%	2.00%	1.50%
After Hours Service Charge	N/A	\$ 30.00	\$30.00

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

** Number of months off system times the monthly minimum (R14-2-403(D)).

TYPICAL BILL ANALYSIS

5/8 x 3/4 - Inch Meter
Without Loan Surcharge

Average Number of Customers: 322

<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	8,675	\$27.20	\$33.85	\$6.65	24.4%
Median Usage	5,115	\$20.61	\$24.37	\$3.76	18.3%
<u>Staff Recommended</u>					
Average Usage	8,675	\$27.20	\$34.36	\$7.16	26.3%
Median Usage	5,115	\$20.61	\$24.56	\$3.95	19.2%

Present & Proposed Rates (Without Taxes)
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	\$13.00	\$15.00	15.4%	\$15.00	15.4%
1,000	13.00	16.25	25.0%	16.25	25.0%
2,000	14.85	17.50	17.8%	17.50	17.8%
3,000	16.70	18.75	12.3%	18.75	12.3%
4,000	18.55	21.41	15.4%	21.50	15.9%
5,000	20.40	24.07	18.0%	24.25	18.9%
6,000	22.25	26.73	20.1%	27.00	21.3%
7,000	24.10	29.39	22.0%	29.75	23.4%
8,000	25.95	32.05	23.5%	32.50	25.2%
9,000	27.80	34.71	24.9%	35.25	26.8%
10,000	29.65	37.37	26.0%	39.26	32.4%
15,000	38.90	54.69	40.6%	59.31	52.5%
20,000	48.15	74.69	55.1%	79.36	64.8%
25,000	57.40	94.69	65.0%	99.41	73.2%
50,000	103.65	194.69	87.8%	199.66	92.6%
75,000	149.90	294.69	96.6%	299.91	100.1%
100,000	196.15	394.69	101.2%	400.16	104.0%
125,000	242.40	494.69	104.1%	500.41	106.4%
150,000	288.65	594.69	106.0%	600.66	108.1%
175,000	334.90	694.69	107.4%	700.91	109.3%
200,000	381.15	794.69	108.5%	801.16	110.2%

TYPICAL BILL ANALYSIS

5/8 x 3/4 - Inch Meter

With Reflection Of \$587,650 (Loan) Surcharge in Current Rates at
\$10.66 Per Customer Per Month

Average Number of Customers: 322

<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	8,675	\$27.20	\$48.29	\$21.09	77.5%
Median Usage	5,115	\$20.61	\$38.81	\$18.20	88.3%
<u>Staff Recommended</u>					
Average Usage	8,675	\$27.20	\$45.02	\$17.82	65.5%
Median Usage	5,115	\$20.61	\$35.22	\$14.61	70.9%

With Reflection Of \$587,650 (Loan) Surcharge in Current Rates at
\$10.66 Per Customer Per Month
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	\$13.00	\$29.44	126.5%	\$25.66	97.4%
1,000	13.00	30.69	136.1%	26.91	107.0%
2,000	14.85	31.94	115.1%	28.16	89.6%
3,000	16.70	33.19	98.7%	29.41	76.1%
4,000	18.55	35.85	93.3%	32.16	73.4%
5,000	20.40	38.51	88.8%	34.91	71.1%
6,000	22.25	41.17	85.0%	37.66	69.3%
7,000	24.10	43.83	81.9%	40.41	67.7%
8,000	25.95	46.49	79.2%	43.16	66.3%
9,000	27.80	49.15	76.8%	45.91	65.1%
10,000	29.65	51.81	74.7%	49.92	68.4%
15,000	38.90	69.13	77.7%	69.97	79.9%
20,000	48.15	89.13	85.1%	90.02	87.0%
25,000	57.40	109.13	90.1%	110.07	91.8%
50,000	103.65	209.13	101.8%	210.32	102.9%
75,000	149.90	309.13	106.2%	310.57	107.2%
100,000	196.15	409.13	108.6%	410.82	109.4%
125,000	242.40	509.13	110.0%	511.07	110.8%
150,000	288.65	609.13	111.0%	611.32	111.8%
175,000	334.90	709.13	111.7%	711.57	112.5%
200,000	381.15	809.13	112.3%	811.82	113.0%

LOAN DATA:

Loan Amount Requested	587,650	1.25		
Down Payment:	\$0			
Amount Financed:	\$587,650			
Number of years:	20	Compounding Periods:	12	
Interest rate (r):	4.46%	APR:	4.55%	

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning-of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$3,705.09	\$587,650.00	\$2,184.10	\$1,520.99	\$586,129.01			
2	3,705.09	586,129.01	2,178.45	1,526.64	584,602.37			
3	3,705.09	584,602.37	2,172.77	1,532.32	583,070.05			
4	3,705.09	583,070.05	2,167.08	1,538.01	581,532.04			
5	3,705.09	581,532.04	2,161.36	1,543.73	579,988.32			
6	3,705.09	579,988.32	2,155.62	1,549.46	578,438.85			
7	3,705.09	578,438.85	2,149.86	1,555.22	576,883.63			
8	3,705.09	576,883.63	2,144.08	1,561.00	575,322.63			
9	3,705.09	575,322.63	2,138.28	1,566.81	573,755.82			
10	3,705.09	573,755.82	2,132.46	1,572.63	572,183.19			
11	3,705.09	572,183.19	2,126.61	1,578.47	570,604.72			
12	3,705.09	570,604.72	2,120.75	1,584.34	569,020.38	25,831.43	18,629.62	44,461.05

**CALCULATION OF SURCHARGE AMOUNT FOR
INSTALLATION OF 100,000 GALLON WATER STORAGE TANK**

Installation of Storage Tank Loan Amount	\$ 587,650
Total Yearly Interest and Principal Payments Based on a 20-year WIFA Loan and a 4.46% Interest Rate.	\$ 44,461
Annual Income Tax Component of the Surcharge Revenue	\$ -
Total Annual Surcharge Revenue Requirement for the Loan	\$ 44,461
Total Equivalent Annual Bills	4,170
5/8"x 3/4" Meter Surcharge Amount	\$ 44,461 ÷ 4,170 = \$ 10.66
3/4" Meter Surcharge Amount	\$ 10.66 x 1.0 = \$ 15.99
1" Meter Surcharge Amount	\$ 10.66 x 2.5 = \$ 26.66
1 1/2" Meter Surcharge Amount	\$ 10.66 x 5.0 = \$ 53.31
2" Meter Surcharge Amount	\$ 10.66 x 6.0 = \$ 85.30
3" Meter Surcharge Amount	\$ 10.66 x 16.0 = \$ 170.59
4" Meter Surcharge Amount	\$ 10.66 x 25.0 = \$ 266.55
6" Meter Surcharge Amount	\$ 10.66 x 50.0 = \$ 533.11

Meter Size	Number of Customers	Customer Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	322	1	322	3,864	\$10.66	\$ 127.95	\$ 41,198.39
3/4" Meter	2	1.5	3	36	15.99	191.92	383.84
1" Meter	5	2.5	13	150	26.66	319.86	1,599.32
1 1/2" Meter	2	5	10	120	53.31	639.73	1,279.45
2" Meter	-	8	-	-	85.30	-	-
3" Meter	-	16	-	-	170.59	-	-
4" Meter	-	25	-	-	266.55	-	-
6" Meter	-	50	-	-	533.11	-	-
TOTAL	331		348	4,170			\$ 44,461

ALJ's Request
CALCULATION OF SURCHARGE AMOUNT
INSTALLATION OF 100,000 GALLON WATER STORAGE TANK

Installation of Storage Tank Loan Amount				\$ 587,650
Additional Revenue Required for:	<u>Debt Service Reserve</u>	<u>Surcharge</u>	<u>Incremental Income Taxes</u>	
Cash Flow:	\$ 8,892	\$ 44,461	\$ 7,379	\$ 60,732
Total Equivalent Annual Bills				4,170
5/8"x 3/4" Meter Surcharge Amount	\$ 60,732 ÷	4,170		\$ 14.56
3/4" Meter Surcharge Amount	\$ 14.56 x	1.5		\$ 21.85
1" Meter Surcharge Amount	\$ 14.56 x	2.5		\$ 36.41
1 1/2" Meter Surcharge Amount	\$ 14.56 x	5.0		\$ 72.82
2" Meter Surcharge Amount	\$ 14.56 x	6.0		\$ 116.51
3" Meter Surcharge Amount	\$ 14.56 x	16.0		\$ 233.02
4" Meter Surcharge Amount	\$ 14.56 x	25.0		\$ 364.10
6" Meter Surcharge Amount	\$ 14.56 x	50.0		\$ 728.20

Meter Size	Number of Customers	Customer Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	322	1	322	3,864	\$ 14.56	\$ 174.77	\$ 56,275.41
3/4" Meter	2	1.5	3	36	21.85	262.15	524.31
1" Meter	5	2.5	13	150	36.41	436.92	2,184.60
1 1/2" Meter	2	5	10	120	72.82	873.84	1,747.68
2" Meter	-	8	-	-	116.51	-	-
3" Meter	-	16	-	-	233.02	-	-
4" Meter	-	25	-	-	364.10	-	-
6" Meter	-	50	-	-	728.20	-	-
TOTAL	331		348	4,170			\$ 60,732.00

Financial Analysis

Selected Financial Data

Including Immediate Effect of the Proposed Debt & WIFA loan surcharge

	Staff Recommended Rates Without Surcharge Loan principal & Interest	Staff Adjustments	REF	Staff Recommended Rates With Surcharge Loan principal & Interest
1 Income Statement				
2 Revenues:				
3 461 Metered Water Revenue	\$162,613	\$0		\$162,613
4 460 Unmetered Water Revenue	-	-		-
5 474 Other Water Revenues	2,147	-		2,147
6 WIFA Loan Surcharge	-	44,461	A	44,461
7 Total Operating Revenue	\$164,760	\$44,461		\$209,221
8 Operating Expenses:				
9 601 Salaries and Wages	\$ -	\$ -		\$ -
10 610 Purchased Water	-	-		-
11 615 Purchased Power	26,600	-		26,600
12 618 Chemicals	1,955	-		1,955
13 620 Repairs and Maintenance	9,175	-		9,175
14 621 Office Supplies & Expense	4,704	-		4,704
15 630 Outside Services	54,089	-		54,089
16 635 Water Testing	2,880	-		2,880
17 641 Rents	-	-		-
18 650 Transportation Expenses	2,525	-		2,525
19 657 Insurance - General Liability	4,763	-		4,763
20 670 Bad Debt Expense	565	-		565
21 666 Regulatory Commission Expense - Rate Case	1,250	-		1,250
22 675 Miscellaneous Expense	3,428	-		3,428
23 403 Depreciation Expense	9,697	-		9,697
24 427.4 Interest on Customer Deposits	180	-		180
25 408.11 Property Taxes	7,687	875		8,561
26 409 Income Tax	1,187	7,379		8,566
27 Total Operating Expenses	\$ 130,686	\$ 8,253.2		\$138,939
28 OPERATING INCOME/(LOSS)	\$34,074	\$36,208		\$70,282
29 Interest Income	-	-		-
30 Interest Expense on Long-term Debt	-	\$25,831	B	\$25,831
31 Total Other Interest Expense	-	(25,831)		(25,831)
32 Net Income	34,074			44,451
33 Rate Base	(\$49,219)			(\$49,219)
34 Rate of Return(Line28/Line33)	N/M			N/M
35 Operating Margin (Line 28/Line 7)	20.68%			33.59%
36 Principal Repayment	-	18,630	C	18,630
37 Meter Refunds	1,357			1,357
38 Refunds of Advances in Aid of Construction	544			544
37 Cash Flow (I44+I37-I47-I58-I60-I62)	41,871			33,618
38 TIER				
[L26 + L28] / L30	N/M			3.05
39 DSC				
40 [L23 + L26 + L28] / [L30 + L36]	N/M			1.99
41 Short-term Debt	0	0%		18,630 3%
42 Long-term Debt	0	0%		569,020 98%
43 Common Equity	(4,873)	100%		(4,873) -1%
Total Capital	(4,873)			582,777 100%

A- See Revised Sch. BCA-6 and 7
B- See Revised Sch. BCA-6
C- See Revised Sch. BCA-6

		Calculations of Income Tax Allowance			
		Corporate Tax Calculation	Married Filing Jointly Tax Calculation With Surcharge	Married Filing Jointly Tax Calculation Without Surcharge	
1	Revenue (Schedule BCA-1)	\$ 209,221		\$	164,760
2	Operating Expenses Excluding Income Taxes	\$ 130,373		\$	129,498
3	Less: Interest	\$ 25,831		\$	25,831
4	Arizona Taxable Income (L1 - L2- L3)	\$ 53,017	53,017	\$	9,431
5	Arizona State Income Tax Rate	6.5000%	3.3600%		2.5900%
6	Arizona Income Tax (L4 x L5)	\$ 3,446	\$ 1,483		\$ 244
7	Federal Taxable Income (L4 - L6)	\$ 49,571	53,017		9,431
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,436			
9	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -			
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -			
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -			
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -			
13	Total Federal Income Tax	\$ 7,436	\$ 35,617x15%+1,740	\$ 7,083	\$ 943
14	Combined Federal and State Income Tax (L6 + L13)	\$ 10,882	\$ 8,566	\$ 8,566	\$ 1,187

TERMS OF PROPOSED WIFA LOAN

Terms and Conditions

Loan Amount	\$587,650
Term (No. of Years)	20.00
Combined Interest & Fee Rate	
Interest Rate Index	5.25%
Subsidy Rate Index	85.00%
Combined Interest & Fee Rate	<u>4.46%</u>
Coverage Requirement	20.00%
Debt Service Reserve Requirement	\$44,461
Number of Years Debt Service Reserve Funded	5

Monthly Fixed payment to WIFA

Years 1 through 5

Monthly Fixed Payments to WIFA	\$3,705.09
Monthly Debt Service Reserve Deposit	\$741.02
Monthly Replacement Fund Deposit	\$0.00
Total Monthly Fixed Payment	<u>\$4,446.11</u>

Years 6 through 20

Monthly Fixed Payments to WIFA	\$3,705.09
Monthly Debt Service Reserve Deposit	0.00
Monthly Replacement Fund Deposit	\$ 741.02
Total Monthly Fixed Payment	<u>\$4,446.11</u>

Annual Fiscal Impact

Year	Annual Debt Service	Reserve Fund Deposit	Replacement Fund Deposit	Total Annual Fiscal Impact
1	\$44,461.05	\$8,892.21	\$0.00	\$53,353.26
2	44,461.05	8,892.21	0.00	53,353.26
3	44,461.05	8,892.21	0.00	53,353.26
4	44,461.05	8,892.21	0.00	53,353.26
5	44,461.05	8,892.21	0.00	53,353.26
6	44,461.05	0.00	8,892.21	53,353.26
7	44,461.05	0.00	8,892.21	53,353.26
8	44,461.05	0.00	8,892.21	53,353.26
9	44,461.05	0.00	8,892.21	53,353.26
10	44,461.05	0.00	8,892.21	53,353.26
11	44,461.05	0.00	8,892.21	53,353.26
12	44,461.05	0.00	8,892.21	53,353.26
13	44,461.05	0.00	8,892.21	53,353.26
14	44,461.05	0.00	8,892.21	53,353.26
15	44,461.05	0.00	8,892.21	53,353.26
16	44,461.05	0.00	8,892.21	53,353.26
17	44,461.05	0.00	8,892.21	53,353.26
18	44,461.05	0.00	8,892.21	53,353.26
19	44,461.05	0.00	8,892.21	53,353.26
20	44,461.05	0.00	8,892.21	53,353.26
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
	\$889,221.06	\$44,461.05	\$133,383.16	\$1,067,065.27