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MEMORANDUM

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

EA for SMD

ORIGINAL

DATE: January 15, 2014

RE: STAFF'S RESPONSE TO NOVEMBER 26, 2013 PROCEDURAL ORDER REGARDING CERBAT WATER COMPANY'S APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02391A-13-0234)

Pursuant to a Procedural Order issued on November 26, 2013, Staff files this Supplemental Staff Report to respond to questions raised by the Administrative Law Judge, in this Docket.

Staff recommends approval of its rates and charges as outlined on Revised Schedule CLP-4.

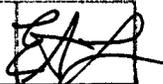
SMO:CLP:tdp\CHH

Originator: Christine Payne

Arizona Corporation Commission

DOCKETED

JAN 15 2014

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Service List for: Cerbat Water Company, Inc.
Docket No. W-02391-13-0234

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**SUPPLEMENTAL STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

CERBAT, INC.

DOCKET NO. W-02391A-13-0234

**STAFF'S RESPONSE TO NOVEMBER 26, 2013 PROCEDURAL ORDER REGARDING
CERBAT WATER COMPANY'S APPLICATION FOR A PERMANENT RATE
INCREASE (DOCKET NO. W-02391A-13-0234)**

JANUARY 15, 2014

STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for Cerbat Water Company, Inc. ("Company"), Docket No. W-02391A-13-0234 is the responsibility of the Staff member listed below. Christine Payne is responsible for the review and analysis of the Company's application for a permanent rate increase, revenue requirement, rate base, and rate design.



Christine L. Payne
Public Utilities Analyst II

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INTRODUCTION

Cerbat Water Company, Inc. (“Cerbat” or “Company”) is a Class D water utility located approximately four miles northwest of the City of Kingman. The Company provides water service to approximately 290 customers based on rates and charges approved by the Commission in Decision No. 72739, dated January 19, 2012. Cerbat is owned by the Claude K. Neal Family Trust (“Trust”).

On July 2, 2013, Cerbat filed an application for a permanent rate increase with the Arizona Corporation Commission (“Commission”). On November 14, 2012, Staff filed an Amended Staff Report recommending approval of the rate application using Staff’s recommended rates and charges. On November 26, 2012, a Procedural Order was issued by the Administrative Law Judge requiring Staff to clarify certain issues and/or to provide schedules that were not included in the Staff’s original filing.

STAFFS’ RESPONSES TO THE QUESTIONS RAISED BY THE ADMINISTRATIVE LAW JUDGE IN THE NOVEMBER 26, 2013 PROCEDURAL ORDER

Question 1

The Application indicates Accumulated Deferred Income Taxes (“ADIT”) of \$100,434. The Amended Staff Report, Schedule CLP-2, indicates a \$0 balance in both the Company column and Staff’s recommended adjusted column. Please explain the discrepancy between the Company’s Application and the Staff Report regarding ADITs and provide support for the recommendation.

Staff’s Response:

The \$100,434 ADIT balance figure reported in the Liability Section of the Cerbat Balance Sheet is actually a “debit balance” or an asset/receivable, which suggests that the Company’s owners have paid more in income taxes than they have received from customers through rates. ADIT account balances generally carry a credit balance, which would indicate that the Company has recovered more in income taxes from customers than it has paid in taxes to the Federal and State Taxing Authorities.

ADIT asset balances are unusual and generally represent an underlying owner utilization of legislatively-driven bonus tax depreciation, which can drive a company into a position where it has income tax loss carry forwards that may, or may not eventually be utilized. For rate making purposes, such alleged tax loss carry forwards and resulting ADIT assets are disregarded (not added to rate base) because it would not be reasonable for ratepayers to be required to pay a return on this tax timing consideration which provides no identifiable benefit to customers.

Cerbat does not actually provide a Rate Base figure in its Application. Staff's presentation of what it believes is the Company's advocated Rate Base (shown on Schedule CLP-2) was based upon the test year-end values associated with items traditionally included in Rate Base. Absent any argument or support from Cerbat for recognition of this alleged ADIT asset as a component of Rate Base, Staff believes its decision to not reflect this ADIT balance in Rate Base is reasonable, as well as being consistent with the Company's proposed treatment of this ADIT balance.

Staff would further note that a similar ADIT asset position was presented in the rate application data filed by Cerbat in support of its previous rate increase request, Docket No. W-02391A-10-0218. Staff review of the Company's Application, the filed Staff Reports, and resulting Arizona Corporation Commission Decision No. 72739 reflect similar positions being taken by the Company and by Staff as in the instant filing. More specifically that this ADIT debit balance was disregarded as not being relevant to the processing of the Company's rate increase request.

Question 2

Please clarify whether Staff is in complete agreement with the billing determinants on pages 27a through 31c of the Company's Application for the $\frac{3}{4}$ inch, 1 -inch and standpipe customer classes. If Staff has adopted any changes to the Company-proposed billing determinants, provide a complete set of Staff's billing determinants for each customer class along with an explanation of Staff's adjustments.

Staff's Response:

Staff is in agreement with the billing determinants on pages 27a through 31c of the Company's Rate Application for the $\frac{3}{4}$ inch, 1-inch and standpipe customer classes. However, Staff recommends that the Company update its Tariff to eliminate the standpipe customer class and replace this category title with "bulk water". As stated in the Staff Engineering Report, the Company does not have any standpipes.

Question 3

Please clarify the present, Company-proposed and Staff's recommended break-over points in the respective rate designs. (Schedule CLP-4-1 appears to indicate a break-over point of 7,000 gallons for the present, Company-proposed and Staff recommended rates, but Schedule CLP-5 appears to show a break-over point at 9,000 gallons for the Present and 7,000 gallons for the Company-proposed and Staff-recommended rates, while the Company's Application at page 9 appears to show a break-over at 9,000 gallons for Present rates and 7,000 gallons for Company proposed rates).

Staff's Response:

Staff concurs that the current break-over point of 9,000 gallons is for all meter sizes. Staff recommends that the break-over point be changed from 9,000 to 7,000 gallons for all meter sizes.

Staff calculated the change in break-over points from 20,000 gallons in January 2012 to 9,000 gallons for February 2012 through December 2012 for each customer class (¾ inch, 1-inch and standpipe customers) separately. A Revised Schedule CLP 4-1 and Revised Schedule CLP-5 are attached with the correct break-over points for the test year. The billing determinants showing the two different break-over points during the test year are included with this response to reflect the corrections made.

Question 4

Clarify the discrepancy between the recommended Water Testing Expense in the Engineering Report and the Amended Staff Report (the Engineering Report indicates a recommended expense of \$1,655, and the Amended Staff Report, Schedule CLP-3 indicates a Water Testing Expense of \$611).

Staff's Response:

Staff made a correction in its Schedule to show a recommended annual Water Testing Expense of \$1,655 as indicated on the Engineering Report. (Revised Schedule CLP-3).

Question 5

Please review the Cash Flow Analysis (Schedule CLP-6, in particular: 1) verify that the \$5,243 Interest Expense and \$1,844 Principal Repayment are correct for the \$331,875, 4.20 percent interest rate loan with a 4/2/2012 issuance date and a 4/1/2031 maturity date; 2) verify the calculation of Net Income with specific attention to the effect Interest Expense has in its calculation; 3) explain why the Advance in Aid of Construction ("AIAC") Refund payments (the Application indicates AIAC refunds of \$9,369) should or should not be included in the cash flow analysis; and 4) identify the amount, if any, of the annual debt service reserve fund payment required by the Company's WIFA loan, and explain whether it should or should not be included in the cash flow analysis.

Staff's Response:

1 – A Water Infrastructure Finance Authority (“WIFA”) loan was issued to Cerbat on April 2, 2012 for \$331,875 with an interest rate of 4.20%. The following is a breakdown of the annual payments from WIFA’s loan amortization schedule (*rounded to the nearest thousand*):

Principal	\$11,000
Interest	\$14,000
Administrative Fees	\$10,000
Debt Reserve Payments	<u>\$ 5,000</u>
Total Annual Payments	\$40,000

The Company erroneously showed annual interest as \$1,844 and \$5,243 as the annual principal payments on page 23 of the rate application. These amounts were shown on the original Staff Report, filed November 14, 2013. Staff has corrected the errors and included the payments listed above on the Revised Schedule CLP-6 (Cash Flow Analysis).

2- Calculation of Net Income is shown on the Revised Schedule CLP-6 (Cash Flow Analysis). The correct Interest Expense and Principal repayments are also shown on the revised Schedule.

3- Typically, Staff does not include AIAC refunds in its cash flow analysis without specific convincing arguments from the utility’s owners as to why continued reliance on non-investor supplied funding is absolutely necessary. Asking ratepayers to fund AIAC refund obligations effectively requires customers to fund the underlying assets twice; first through the recovery of depreciation on these assets as a part of rates and second through the direct funding of these refund obligations.

Staff believes that funding shortfalls should generally be a responsibility that the Company’s owners must address without further direct funding from ratepayers. Further, the level of expected refunds can vary substantially from year-to-year, which makes building these funding obligations into the utility’s rate structure problematic. Finally, there would be no assurance that funds provided to the utility for the intention of paying expected future AIAC refunds would actually be used for that specific purpose.

4- The Company’s Debt Reserve Fund monthly payment amount is \$417 or \$5,004 annually. Staff did not initially include this payment in the cash flow analysis but has reflected this in the Revised Schedule CLP -6.

Question 6

Please provide the calculations for Staff's recommended Property Tax Expense and Income Tax Expense.

Staff's Response

The calculations for Staff's recommended Property Tax Expense and Income Tax Expense are shown on the Revised Schedules CLP -3.3 and CLP – 3.4, respectively.

Question 7

Please file updated Schedules to reflect all changes, if any.

Staff's Response

A complete set of updated Schedules are attached.

Question 8

Please provide the Hearing Division with a complete set of electronic files in an Excel format that support all of Staff's recommendations including billing determinants reconciled to test year and recommended revenue.

Staff's Response

A complete set of electronic files in Excel is included with Staff's response to this Procedural Order.

STAFF ANALYSIS, CONCLUSIONS AND RECOMMENDATIONS

Staff's Recommended Operating Revenue

Staff's recommended total operating revenue was changed from \$196,631 in the original Staff Report to \$183,977 in this Revised Report, a decrease of \$12,654, or 6.44 percent as shown on the Revised Schedule CLP-1.

Staff's recommended rates and charges would provide an operating income of \$21,323 for an operating margin of 11.59 percent as shown on Supplemental Schedule CLP-1. Staff utilizes cash flow to determine revenue requirement in this case due to the Company's negative rate base.

Working Capital

Cash Working Capital (Revised Schedule CLP-2 page 1 of 3) is changed in the Revised Report because of the \$9,369 of Advances in Aid of Construction (“AIAC”) that was inadvertently left out in the previous report. Accumulated Depreciation was decreased by a negative \$1,094 from a negative \$1,230 to a negative \$138 and Operations and Maintenance was increased to \$5,147 from \$11,347 in the original filing to \$16,494 in the Revised Report.

Rate Base

Staff’s adjustments to cash working capital also resulted in a change to Rate Base. Staff’s net adjustments decreased Staff’s proposed rate base by a negative \$5,315, from (\$34,909) to (\$40,224) as shown on Revised Schedule CLP-2, page 1 of 3 from the recommendation in the original Staff Report.

Operating Income

Staff’s recommended Operating Expenses decreased by \$14,197 from \$176,851 in the original Staff Report to \$162,654 in the Revised Staff Report due to changes in Water Testing, Depreciation, Property Tax and Income Tax Expenses (Revised Schedules CLP-3 pages 1-5).

Water Testing Expense

Staff’s recommended Water Testing Expense increased by \$1,004 from the original Staff Report filing of \$611 to \$1,655 in the Revised Report (Revised Schedule CLP-3, page 2 of 5) as recommended in the Engineering Report.

Depreciation Expense

Staff’s recommended Depreciation Expense decreased by \$8,703 from the original Staff Report filing of \$23,915 to \$15,212 in the Revised Report (Revised Schedule CLP-3, page 2 of 5).

Income Tax Expense

Staff’s recommended Income Tax Expense decreased by \$4,730 from the original Staff Report filing of \$6,621 to \$1,891 in the Revised Report (Revised Schedule CLP-3, page 4 of 5).

Property Tax Expense

Staff also corrected the property tax expense because of the erroneous calculation of test year property tax expense. Adjustment E decreased property tax expense by \$1,808 from \$6,415 in the original Staff Report to \$4,607 as shown on the Revised Schedule CLP-3 page 5 of 5.

Staff calculated its property tax amount using a modified version of the Arizona Department of Revenue's ("ADOR") property tax method.

Operating Margin

Staff's adjustments resulted in an increase in Operating Margin from 10.06% in its original filing to 11.59% in this Supplemental Staff Report.

Rate Design

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

The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter residential bill with a median usage of 5,500 gallons from \$29.20 to \$65.50, an increase of \$36.30 or 124.32 percent as shown on Supplemental Schedule CLP-5.

Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter residential bill with a median usage of 5,500 gallons from \$29.20 to \$41.95, an increase of \$12.75 or 43.66 percent as shown on the Revised Schedule CLP-5.

The Company proposed to increase the bulk water rate from \$3.65 to \$5.13 per 1,000 gallons. Staff recommends a rate of \$5.00 rate per 1,000 gallons.

Staff Recommendation

Staff recommends approval of the Staff recommended rates and charges as shown on Revised Schedule CLP-4.

Cerbat Water Company

Revised Schedule CLP-1

Docket No. Docket Nos. W-02391-13-0234

Test Year Ended December 31, 2012

SUMMARY OF FILING

	-- Present Rates --		Proposed	Recommended
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Recommended
Revenues:				
Metered Water Revenue	\$125,596	\$125,596	\$205,596	\$ 180,596
Surcharge Revenue	0	0	0	0
Other Water Revenues	3,381	3,381	3,381	3,381
Total Operating Revenue	\$128,977	\$128,977	\$208,977	\$183,977
Operating Expenses:				
Operation and Maintenance	\$148,746	\$131,949	\$146,750	\$131,949
Depreciation	17,215	15,212	20,168	15,212
Property Taxes	0	4,034	4,244	4,607
Taxes Other Than Income	177	8,995	8,995	8,995
Income Taxes	0	(10,395)	4,933	1,891
Total Operating Expense	\$166,138	\$149,794	\$185,090	\$162,654
Operating Income/(Loss)	(\$37,161)	(\$20,817)	\$23,887	\$21,323
Rate Base O.C.L.D.	(\$61,881)	(\$40,224)	(\$61,881)	(\$40,224)
Rate of Return - O.C.L.D.	N/M	N/M	N/M	N/M
Operating Margin*	-28.81%	-16.14%	11.43%	11.59%

*Amounts result from Staff's cash flow recommendation. (CLP-6)

RATE BASE				
	----- Original Cost -----			
	Company	Adjustment	Reference	Staff
Plant in Service	\$966,262	\$3,355	A	\$969,617
Less:				
Accum. Depreciation	674,375	(136)	B	674,239
Net Plant	\$291,887	\$3,491		\$295,378
Less:				
Plant Advances	\$335,362	0		\$335,362
Meter Refunds	9,369	0		9,369
Total Advances	\$344,731	\$0		\$344,731
Contributions Gross	\$196,718	\$0		\$196,718
Less:				
Accumulated Amortization of CIAC	(184,787)			(184,787)
Net CIAC	\$11,931	\$0		\$11,931
Accumulated Deferred Income Taxes	0	0		0
Total Deductions	\$356,662	\$0		\$356,662
Plus:				
1/24 Purchased Power & Water	\$0	\$1,672	C	\$1,672
1/8 Operation & Maint.	0	16,494	D	16,494
Inventory	0	0		0
Prepayments	2,894	0		2,894
Total Additions	\$2,894	\$18,166		\$21,060
Rate Base	(\$61,881)	\$21,657		(\$40,224)

A - For Rate Base adjustment A, see Revised Schedule 2, page 2
B - For Rate Base adjustment B, see Revised Schedule 2, page 3
C - For Rate Base adjustment C, see Revised Schedule 2, page 4
D - For Rate Base adjustment D, see Revised Schedule 2, page 4

PLANT ADJUSTMENT

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	\$0	\$0		\$0
302 Franchises	0	0		0
303 Land & Land Rights	4,500	0		4,500
304 Structures & Improvements	14,500	13,875	b	28,375
307 Wells & Springs	90,716	3,355	a	94,071
311 Pumping Equipment	82,459	(13,875)	b	68,584
320 Water Treatment Equipment	0	0		0
320.1 Water Treatment Plant	0	0		0
320.2 Solution Chemical Feeders	0	0		0
330 Distribution Reservoirs & Standpipes	0	0		0
330.1 Storage Tanks	135,220	0		135,220
330.2 Pressure Tanks	0	0		0
331 Transmission & Distribution Mains	543,756	0		543,756
333 Services	57,228	0		57,228
334 Meters & Meter Installations	21,183	0		21,183
335 Hydrants	14,400	0		14,400
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipment	0	0		0
340 Office Furniture & Equipment	0	0		0
340.1 Computers & Software	0	0		0
341 Transportation Equipment	0	0		0
343 Tools Shop & Garage Equipment	0	0		0
344 Laboratory Equipment	0	0		0
345 Power Operated Equipment	0	0		0
346 Communication Equipment	0	0		0
347 Miscellaneous Equipment	2,300	0		2,300
348 Other Tangible Plant	0	0		0
	966,262	3,355	A	969,617

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	674,375
Accumulated Depreciation - Per Staff	<u>674,239</u>
Total Adjustment	B <u><u>(\$136)</u></u>

Explanation of Adjustment:

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

	Per Company ¹	Per Staff ¹
<u>Accumulated Depreciation Balances</u>		
301 Organization	-	-
302 Franchises	-	-
303 Land & Land Rights	-	-
304 Structures & Improvements	241	472
307 Wells & Springs	1,510	1,566
311 Pumping Equipment	52,795	52,371
320 Water Treatment Equipment	-	-
320.1 Water Treatment Plants	-	-
320.2 Solution Chemical Feeders	-	-
330 Distribution Reservoirs & Standpipes	-	-
330.1 Storage Tanks	104,380	104,380
330.2 Pressure Tanks	-	-
331 Transmission & Distribution Mains	440,767	440,767
333 Services	41,385	41,385
334 Meters & Meter Installations	21,183	21,183
335 Hydrants	11,769	11,769
336 Backflow Prevention Devices	-	-
339 Other Plant and Misc. Equipment	-	-
340 Office Furniture & Equipment	-	-
340.1 Computers & Software	-	-
341 Transportation Equipment	-	-
343 Tools Shop & Garage Equipment	-	-
344 Laboratory Equipment	-	-
345 Power Operated Equipment	-	-
346 Communication Equipment	-	-
347 Miscellaneous Equipment	345	345
348 Other Tangible Plant	-	-
	-	-
Total Accumulated Depreciation¹	<u><u>674,375</u></u>	<u><u>674,239</u></u>

¹ The Company's balance sheet shows Accumulated Depreciation \$674,376.

STAFF RATE BASE ADJUSTMENTS

C	- WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company	\$0	
	Per Staff	<u>1,672</u>	<u>\$1,672</u>
	To reflect Staff's calculation of working capital based upon Staff's recommendations for purchased power and purchased water.		
D	- WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company	\$0	
	Per Staff	<u>16,494</u>	<u>\$16,494</u>
	To reflect Staff's calculation of working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses).		

STATEMENT OF OPERATING INCOME

	Company Adj Test Year	Staff Adjustments	Staff Adjusted Test Year	Staff Adjustments	Staff Recommended
461 Metered Water Revenue	\$ 125,596	\$ -	\$ 125,596	\$ 55,000	\$ 180,596
460 Unmetered Water Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
474 Other Water Revenues	\$ 3,381	\$ -	\$ 3,381	\$ -	\$ 3,381
Total Operating Revenue	\$ 128,977	\$ -	\$ 128,977	\$ 55,000	\$ 183,977
601 Salaries and Wages	\$ 24,617	\$ -	\$ 24,617	\$ -	\$ 24,617
610 Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -
615 Purchased Power	\$ 40,133	\$ -	\$ 40,133	\$ -	\$ 40,133
618 Chemicals	\$ 218	\$ -	\$ 218	\$ -	\$ 218
620 Repairs and Maintenance	\$ 9,967	\$ -	\$ 9,967	\$ -	\$ 9,967
621 Office Supplies & Expense	\$ 5,763	\$ -	\$ 5,763	\$ -	\$ 5,763
630 Contractual Services	\$ 45,613	\$ (12,004) a	\$ 33,609	\$ -	\$ 33,609
635 Water Testing	\$ 3,966	\$ (2,311) b	\$ 1,655	\$ -	\$ 1,655
641 Rents	\$ 1,838	\$ -	\$ 1,838	\$ -	\$ 1,838
650 Transportation Expenses	\$ 9,012	\$ -	\$ 9,012	\$ -	\$ 9,012
657 Insurance - General Liability	\$ 2,479	\$ (486) c	\$ 1,993	\$ -	\$ 1,993
659 Insurance - Health and Life	\$ -	\$ -	\$ -	\$ -	\$ -
666 Rate Case Expense	\$ 1,404	\$ -	\$ 1,404	\$ -	\$ 1,404
675 Miscellaneous Expense	\$ 1,740	\$ -	\$ 1,740	\$ -	\$ 1,740
403 Depreciation Expense	\$ 20,168	\$ (4,956) d	\$ 15,212	\$ -	\$ 15,212
408 Taxes Other Than Income	\$ 8,995	\$ -	\$ 8,995	\$ -	\$ 8,995
408.11 Property Taxes	\$ 4,244	\$ (210) e	\$ 4,034	\$ 573	\$ 4,607
409 Income Tax	\$ 4,933	\$ (15,328) f	\$ (10,395)	\$ 12,286	\$ 1,891
Total Operating Expenses	\$ 185,090	\$ (35,296)	\$ 149,794	\$ 12,860	\$ 162,654
OPERATING INCOME/(LOSS)	\$ (56,113)	\$ 35,296	\$ (20,817)	\$ 42,140	\$ 21,323

STAFF ADJUSTMENTS

A -	OUTSIDE SERVICES - Per Company	\$ 37,291	
	Per Staff	33,609	(\$3,682)
	To remove \$6,304 of Finance Charges due to Cerbat's delinquent payments.		
B -	WATER TESTING - Per Company	\$ 3,966	
	Per Staff	1,655	(\$2,311)
	To reflect Staff's recommended water testing expense		
C -	INSURANCE - GENERAL LIABILITY - Per Company	\$ 2,479	
	Per Staff	1,993	(\$486)
	To remove invoice for \$486 made out to the Trust for personal property.		
D -	DEPRECIATION - Per Company	\$ 17,215	
	Per Staff	15,212	(\$2,003)
	To reflect Staff's calculation of depreciation as follows:		

Acct No.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
301	Organization	\$ -	\$ -	\$ -	0.00%	\$ -
302	Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
303	Land & Land Rights	\$ 4,500	\$ 4,500	\$ -	0.00%	\$ -
304	Structures & Improvements ⁽¹⁾	\$ 28,375	\$ -	\$ 28,375	3.33%	\$ 472
307	Wells & Springs ⁽¹⁾	\$ 94,071	\$ -	\$ 94,071	3.33%	\$ 1,566
311	Pumping Equipment ⁽¹⁾	\$ 68,584	\$ 48,084	\$ 20,500	12.50%	\$ 1,281
320	Water Treatment Equipment					
320.1	Water Treatment Plants	\$ -	\$ -	\$ -	0.00%	\$ -
320.2	Solution Chemical Feeders	\$ -	\$ -	\$ -	0.00%	\$ -
330	Distribution Reservoirs & Standpipes					
330.1	Storage Tanks ⁽¹⁾	\$ 135,220	\$ -	\$ 135,220	2.22%	\$ 2,873
330.2	Pressure Tanks	\$ -	\$ -	\$ -	5.00%	\$ -
331	Transmission & Distribution Mains	\$ 543,756	\$ -	\$ 543,756	2.00%	\$ 10,875
333	Services ⁽¹⁾	\$ 57,228	\$ -	\$ 57,228	3.33%	\$ 1,906
334	Meters & Meter Installations	\$ 21,183	\$ 21,183	\$ -	8.33%	\$ -
335	Hydrants	\$ 14,400	\$ -	\$ 14,400	2.00%	\$ 288
336	Backflow Prevention Devices	\$ -	\$ -	\$ -	6.67%	\$ -
347	Miscellaneous Equipment	\$ 2,300	\$ -	\$ 2,300	10.00%	\$ 230
348	Other Tangible Plant	\$ -	\$ -	\$ -	5.00%	\$ -
	Total Plant	\$ 969,617	\$ 73,767	\$ 895,850		\$ 19,492

Depreciation Expense Before Amortization of CIAC:	\$ 19,492
Less Amortization of CIAC*:	\$ 4,280
Test Year Depreciation Expense - Staff:	\$ 15,212
Depreciation Expense - Company:	\$ 17,215
Staff's Total Adjustment:	\$ (2,003)

*** Amortization of CIAC Calculation:**

Contribution(s) in Aid of Construction (Gross)	\$ 196,718
Less: Non Amortizable Contribution(s)	0
Less: Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	\$ 196,718
CIAC Amortization Rate (Depreciation Expense / Depreciable Plant):	2.176%
Amortization of CIAC	\$ 4,280

STAFF ADJUSTMENTS (Cont.)

E -	INCOME TAX - Per Company	\$	4,933	
	Per Staff		1,891	<u>(\$3,042)</u>
	To reflect income taxes based on Staff's recommended operating income.			
F -	PROPERTY TAX - Per Company	\$	4,244	
	Per Staff		4,034	<u>(210)</u>

⁽¹⁾ Plant added since last rate case

INCOME TAX ON COMPANY PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A)	
		Test Year	Staff Recommended
<u>Calculation of Income Tax:</u>			
1	Revenue (Schedule CLP-1)	\$ 128,977	\$ 183,977
2	Operating Expenses Excluding Income Taxes	\$ 160,190	\$ 160,763
3	*Actual Interest Expense	\$ 14,000	\$ 14,000
4	Arizona Taxable Income (L39 - L40 - L41)	\$ (45,213)	\$ 9,214
5	Arizona State Income Tax Rate	6.500%	6.5000%
6	Arizona Income Tax (L4 x L6)	\$ (2,939)	\$ 599
7	Federal Taxable Income (L4 - L6)	\$ (42,274)	\$ 8,615
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (6,341)	\$ 1,292
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (951)	
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (143)	
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (21)	
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	
13	Total Federal Income Tax	\$ (7,456)	\$ 1,292
14	Combined Federal and State Income Tax (L44 + L51)	\$ (10,395)	\$ 1,891
15		Income Tax - Per Staff \$ (10,395)	\$ 1,891
16		Income Tax - Per Company \$ -	\$ 4,933
17		Staff Adjustment \$ (10,395)	\$ (3,042)

* Source: WIFA Loan Documents,

Adjustment E

STAFF ADJUSTMENTS (Cont.)

PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 128,977	\$ 128,977
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	257,954	\$ 257,954
4	Staff Recommended Revenue, Per Schedule CLP-1	128,977	\$ 183,977
5	Subtotal (Line 4 + Line 5)	386,931	441,931
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	128,977	\$ 147,310
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	257,954	\$ 294,621
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	257,954	\$ 294,621
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	49,011	\$ 55,978
15	Composite Property Tax Rate	8.23%	8.23%
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 4,034	
17	Company Proposed Property Tax	4,244	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (210)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 4,607
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 4,034
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 573
22	Increase to Property Tax Expense		\$ 573
23	Increase in Revenue Requirement		55,000
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.042467%

Adjustment F

RATE DESIGN

	Present	Company	Staff
	Rates	Proposed	Recommended
Monthly Customer Charge:			
5/8" x 3/4" Meter	\$18.00	\$32.00	\$ 24.00
3/4" Meter	18.00	48.00	24.00
1" Meter	45.00	80.00	50.00
1 1/2" Meter	75.00	160.00	80.00
2" Meter	144.00	256.00	160.00
3" Meter	288.00	512.00	290.00
4" Meter	450.00	800.00	500.00
6" Meter	900.00	1,600.00	1,000.00
Gallons Included In Monthly Customer Charge:	0	0	0
Per 1,000 Gallons for 0 to 3,000 Gallons	\$1.65	\$2.50	\$2.65
Per 1,000 Gallons for 3,001 to 9,000 Gallons	\$2.50	N/A	N/A
Per 1,000 Gallons for Gallons in Excess of 9,000	\$3.65	N/A	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	\$1.65	\$2.50	\$2.65
* Per 1,000 Gallons for 3,001 to 7,000 Gallons	N/A	\$4.00	\$4.00
*Per 1,000 Gallons for Gallons in Excess of 7,000	N/A	\$5.13	\$5.75
Standpipe/Bulk Water	\$3.65	\$5.13	\$5.00

*Recommended change in break-over point

Service Line and Meter Installation Charges

	Present Rates			Company Proposed			Staff Recommended		
	Services	Meters	Total	Services	Meters	Total	Services	Meters	Total
5/8" x 3/4" Meter	\$135	\$385	\$520	\$430	\$130	\$560	\$430	\$130	\$560
3/4" Meter	\$215	\$385	\$600	\$430	\$230	\$660	\$430	\$230	\$660
1" Meter	\$255	\$435	\$690	\$480	\$290	\$770	\$480	\$290	\$770
1 1/2" Meter	\$465	\$470	\$935	\$535	\$500	\$1,035	\$535	\$500	\$1,035
2" Turbine Meter	\$965	\$630	\$1,595	\$815	\$1,020	\$1,835	\$815	\$1,020	\$1,835
2" Compound Meter	\$1,690	\$630	\$2,320	\$815	\$1,865	\$2,680	\$815	\$1,865	\$2,680
3" Turbine Meter	\$1,470	\$805	\$2,275	\$1,030	\$1,645	\$2,675	\$1,030	\$1,645	\$2,675
3" Compound Meter	\$2,265	\$845	\$3,110	\$1,150	\$2,520	\$3,670	\$1,150	\$2,520	\$3,670
4" Turbine Meter	\$2,350	\$1,170	\$3,520	\$1,460	\$2,620	\$4,080	\$1,460	\$2,620	\$4,080
4" Compound Meter	\$3,245	\$1,230	\$4,475	\$1,640	\$3,595	\$5,235	\$1,640	\$3,595	\$5,235
6" Turbine Meter	\$4,545	\$1,730	\$6,275	\$2,180	\$4,975	\$7,155	\$2,180	\$4,975	\$7,155
6" Compound Meter	\$6,280	\$1,770	\$8,050	\$2,300	\$6,870	\$9,170	\$2,300	\$6,870	\$9,170
Over 6"	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost

	Current	Company	Staff
Service Charges			
Establishment	\$ 25.00	\$ 30.00	\$ 30.00
Establishment (After Hours)	\$ 25.00	N/A	(b)
Reconnection (Delinquent)	\$ 60.00	\$ 60.00	\$ 30.00
Meter Test (If Correct)	\$ 35.00	\$ 35.00	\$ 30.00
Deposit	*	*	*
Deposit Interest	**	**	**
Re-establishment (Within 12 Months)	***	***	***
NSF Check	\$ 15.00	\$ 25.00	\$ 25.00
Deferred Payment	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%	2.00%
Charge for Moving Meter	Min. Cost	Min. Cost	Min. Cost
After Hours Service Charge (Rule R14-2-403.D)	N/A	30.00	\$ 30.00

	Current	Company	Staff
Monthly Service Charge for Fire Sprinkler			
4" or Smaller	****	****	****
6"	****	****	****
8"	****	****	****
10"	****	****	****
Larger than 10"	****	****	****

(a) - Cost to include parts, labor, overhead, and all applicable taxes, including income tax if applicable
(b) - Staff recommends discontinuance.
* Per Commission rule AAC R14-2-403(B)(7)
** Per Commission rule AAC R14-2-403(B)(3)
*** Number of months off system times the monthly minimum per Commission rule AAC R14-2-403(D).
**** 2,0% of monthly minimum for a comparable meter size connection, but no less than \$10.00 per month. The service charge for fire sprinklers

Typical Bill Analysis
General Service 3/4-inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,708	\$ 34.72	\$ 75.13	\$ 40.41	116.39%
Median Usage	5,500	29.20	65.50	\$ 36.30	124.32%
Staff Recommended					
Average Usage	7,708	\$ 34.72	\$ 52.02	\$ 17.30	49.83%
Median Usage	5,500	29.20	41.95	\$ 12.75	43.66%

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

Gallons	Company Proposed		%	Staff Recommended	
	Present	Proposed		Rates	Increase
	3/4"		3/4"		3/4"
	Minimum Charge \$	18.00	Minimum Charge \$	48.00	Minimum Charge \$ 24.00
	1st Tier Rate	1.65	1st Tier Rate	2.50	1st Tier Rate 2.65
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover 3,000
	2nd Tier Rate	2.5000	2nd Tier Rate	4.00	2nd Tier Rate 4.00
	2nd Tier Breakover	9,000	2nd Tier Breakover	7,000	2nd Tier Breakover 7,000
	3rd Tier Rate	3.65	3rd Tier Rate	5.13	3rd Tier Rate 5.75
Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 18.00	\$ 48.00	166.67%	\$ 24.00	33.33%
1,000	19.65	50.50	157.00%	26.65	35.62%
2,000	21.30	53.00	148.83%	29.30	37.56%
3,000	22.95	55.50	141.83%	31.95	39.22%
4,000	25.45	59.50	133.79%	35.95	41.26%
5,000	27.95	63.50	127.19%	39.95	42.93%
5,500	29.20	65.50	124.32%	41.95	43.66%
6,000	30.45	67.50	121.67%	43.95	44.33%
7,000	32.95	71.50	117.00%	47.95	45.52%
7,708	34.72	75.13	116.39%	52.02	49.83%
8,000	35.45	76.63	116.16%	53.70	51.48%
9,000	37.95	81.76	115.44%	59.45	56.65%
10,000	41.60	86.89	108.87%	65.20	56.73%
11,000	45.25	92.02	103.36%	70.95	56.80%
12,000	48.90	97.15	98.67%	76.70	56.85%
13,000	52.55	102.28	94.63%	82.45	56.90%
14,000	56.20	107.41	91.12%	88.20	56.94%
15,000	59.85	112.54	88.04%	93.95	56.98%
16,000	63.50	117.67	85.31%	99.70	57.01%
17,000	67.15	122.80	82.87%	105.45	57.04%
18,000	70.80	127.93	80.69%	111.20	57.06%
19,000	74.45	133.06	78.72%	116.95	57.09%
20,000	78.10	138.19	76.94%	122.70	57.11%
25,000	96.35	163.84	70.05%	151.45	57.19%
30,000	114.60	189.49	65.35%	180.20	57.24%
35,000	132.85	215.14	61.94%	208.95	57.28%
40,000	151.10	240.79	59.36%	237.70	57.31%
45,000	169.35	266.44	57.33%	266.45	57.34%
50,000	187.60	292.09	55.70%	295.20	57.36%
75,000	278.85	420.34	50.74%	438.95	57.41%
100,000	370.10	548.59	48.23%	582.70	57.44%

CASH FLOW ANALYSIS

Line
No.

1	INCOME STATEMENT		
2	Operating Revenue		
3	Metered Water Revenue	\$	180,596
4	Unmetered Revenue	\$	-
5	Other Water Revenues	\$	3,381
6	Total Operating Rev:	\$	183,977
7	Operating Expenses		
8	601 Salaries and Wages	\$	24,617
9	610 Purchased Water	\$	-
10	615 Purchased Power	\$	40,133
11	618 Chemicals	\$	218
12	620 Repairs and Maintenance	\$	9,967
13	621 Office Supplies & Expense	\$	5,763
14	630 Contractual Services	\$	33,609
15	635 Water Testing	\$	1,655
16	641 Rents	\$	1,838
17	650 Transportation Expenses	\$	9,012
18	657 Insurance - General Liability	\$	1,993
19	657 Insurance - Health and Life	\$	-
20	666 Regulatory Comm Exp - Rate Case	\$	1,404
21	675 Miscellaneous Expense	\$	1,740
22	403 Depreciation Expense	\$	15,212
23	408 Taxes Other Than Income	\$	8,995
24	408.11 Property Taxes	\$	4,607
25	409 Income Tax	\$	1,891
26	Total Operating Expense	\$	162,654
27	Operating Income	\$	21,323
28	Interest Income	\$	-
29	Interest Expense on Long-term debt	\$	14,000
30	Total Other Interest Expense	\$	(14,000)
31	Net Income	\$	35,323
32	Rate Base	\$	(40,224)
33	Rate of Return (Line 27 / Line 32)		-53.01%
34	Operating Margin (Line 27 / Line 6)		11.59%
35	Principal Repayment	\$	11,000
36	Debt Reserve Fund Payment	\$	5,004
37	Cash Flow [(L22+L27) - (L29+L35+L36)]	\$	6,531