

ORIGINAL



0000151692

MEMORANDUM

RECEIVED

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division
DATE: March 10, 2014

EA
2014 MAR 10 4:03
AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

MAR 10 2014

DOCKETED BY

RE: STAFF'S SUPPLEMENTAL STAFF REPORT IN RESPONSE TO FEBRUARY 21, 2014, PROCEDURAL ORDER REGARDING CIBOLA MUTUAL WATER COMPANY'S APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-04106A-13-0266)

Pursuant to a Procedural Order issued on February 21, 2014, Staff files this Supplemental Staff Report in response to questions raised by the Administrative Law Judge, in this Docket.

Staff recommends approval of Cibola Mutual Water Company's rates and charges as outlined on Revised Schedule CLP-4.

Any party who wishes to comment to Staff's Supplemental Report should do so no later than March 17, 2014.

SMO:CLP:sms\ML

Originator: Christine Payne

Service List for: Cibola Mutual Water Company, Inc.
Docket No. W-04106A-13-0266

Mr. Dave Grundy
General Manager
Cibola Mutual Water Company
R.R. 2 Box 77
5948 Levee Road
Cibola, Arizona 85328

Ms. Janice Alward, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Steven M. Olea, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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

CIBOLA MUTUAL WATER COMPANY, INC.

DOCKET NO. W-04106A-13-0266

**STAFF'S SUPPLEMENTAL STAFF REPORT IN RESPONSE TO FEBRUARY 21, 2014,
PROCEDURAL ORDER DIRECTIVE REGARDING CIBOLA MUTUAL WATER
COMPANY'S APPLICATION FOR A PERMANENT RATE INCREASE
(DOCKET NO. W-04106A-13-0266)**

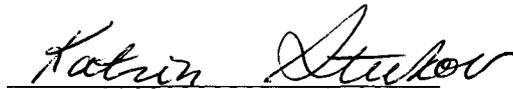
MARCH 10, 2014

STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for Cibola Mutual Water Company, Inc. ("Company"), Docket No. W-04106A-13-0266, is the responsibility of the Staff members 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. Katrin Stukov was responsible for the engineering and technical analysis.



Christine L. Payne
Public Utilities Analyst II



Katrin Stukov
Utilities Engineer

TABLE OF CONTENTS

	<u>PAGE</u>
BACKGROUND.....	1
STAFFS' RESPONSES TO THE QUESTIONS RAISED BY THE ADMINISTRATIVE LAW JUDGE IN THE FEBRUARY 21, 2014 PROCEDURAL ORDER.....	1

SCHEDULES

SUMMARY OF FILING.....	SCHEDULE CLP-1
RATE BASE	REVISED SCHEDULE CLP-2
RATE DESIGN	REVISED SCHEDULE CLP-4
CASH FLOW ANALYSIS.....	SCHEDULE CLP-6

BACKGROUND

Cibola Mutual Water Company, Inc. (“Cibola” or “Company”) is a Class D water utility located in a rural area adjacent to the Cibola National Wildlife Refuge in La Paz County. The area is located at the Arizona state line approximately 20 miles south of Blythe, California. The Company provides potable water service to approximately 160 customers based on rates and charges approved by the Commission in Decision No. 65750, dated March 20, 2003. Cibola is a non-profit corporation.

On August 2, 2013, Cibola filed an application for a permanent rate increase with the Arizona Corporation Commission (“Commission”). On February 5, 2014, Staff filed a Staff Report recommending approval of Cibola’s rate application using Staff’s recommended rates and charges. On February 19, 2014, Cibola filed its Response to the Staff Report objecting to and/or requesting clarification of specific Staff’s recommendations. On February 21, 2014, the Administrative Law Judge issued a Procedural Order requiring Staff to provide additional information in order to issue a Recommended Order for Cibola’s rate case.

STAFFS’ RESPONSES TO THE QUESTIONS RAISED BY THE ADMINISTRATIVE LAW JUDGE IN THE FEBRUARY 21, 2014 PROCEDURAL ORDER DIRECTIVE

Question 1

Provide a response to the Company’s question regarding whether Staff’s recommended service line charges cover the cost of “opening” paved roads.

Staff’s Response:

- a) Yes, Staff’s recommended service line charges cover the cost of “opening” paved roads, as reflected in the following revised Table C.
- b) The revised Table C also reflects the correct service line and meter installation charges for 5/8” x 3/4” meters.
- c) The revised Table C also reflects the correct 5/8” x 3/4” service line charge of \$445.

Question 2

Provide a response to the Company’s question regarding why Staff is not recommending service line and meter installation charges for 5” meters.

Staff’s Response:

Staff is not recommending service line and meter installation charges for 5” meters, because 5” meters are not included in the American Water Works Association’s Meter Standards. To Staff’s knowledge, 5” meters are not generally available.

Staff recommends its service line and meter installation charges labeled “Staff’s Recommendation” in the revised Table C.

TABLE C
SERVICE LINE AND METER INSTALLATION CHARGES

Meter Size	Company Current Tariff	Company Proposed Tariff*	Staff’s Recommendation		
			Service Line Charge	Meter Charge	Total Charge**
5/8 x 3/4-inch	\$375	\$4,800	\$445	\$155	\$600
3/4-inch	\$550	\$5,000	\$445	\$255	\$700
1-inch	\$630	\$5,200	\$495	\$315	\$810
1-1/2-inch	\$865	\$5,500	\$550	\$525	\$1,075
2-inch	\$1,455	\$6,090	\$830	\$1,045	\$1,875
3-inch	\$2,055	\$6,690	\$1,045	\$1,670	\$2,715
4-inch	\$3,200	\$8,980	\$1,490	\$2,670	\$4,160
5-inch	\$4,495	\$10,275	0	0	0
6-inch	\$5,795	\$11,575	\$2,210	\$5,025	\$7,235
		*Note: installation cost includes \$3,550 for boring under a paved road.	**Note: The actual cost incurred for boring under a paved road (including opening of a paved road from the top) will be added if required.		

Question 3

Provide a response to the Company’s question regarding whether the cost of refunding service line and meter installation charges (customer advances) are included in Staff’s recommendations. If the answer is no, please discuss whether it would be appropriate to adjust Staff’s recommended rates and charges for that purpose.

Staff’s Response:

Staff did not include the cost of refunding service line and meter installation charges (customer advances) in its recommendations. Staff utilized Cash Flow Analysis (see CLP-6) methodology for setting Cibola’s rates and charges. Staff does not typically include such refunds in the rates to be paid by customers. Depreciation expense recoveries on the underlying

assets and owner-supplied capital can generally be utilized to make such refunds. It would not be appropriate for ratepayers to return the cost of investment through depreciation expense while also requiring customers to fund customer advance refunds as a separate element of the utility's cost of service.

Question 4

Explain why Staff is not recommending service line and meter installation charges for 5/8" x 3/4" meters (the Company proposed a \$4,800 charge for this size meter in its September 9, 2013 amendment).

Staff's Response:

Staff inadvertently left out the recommendation for the 5/8" x 3/4" meters service line and meter installation charges. Staff made a correction on its revised Table C Service Line and Meter Installation Charges showing Staff's recommended amounts for the 5/8" x 3/4" meter service line and meter installation charges, as shown in Table C on previous page.

Question 5

Discuss whether Staff's recommended rates and charges provide sufficient cash flow to allow the Company to meet its ongoing expenses and debt service obligations and covenants on its USDA Rural Development loans.

Staff's Response:

The Company requested an increase in revenues of \$35,354 in its rate increase application. Staff recommended \$32,354 increase in revenues, just \$3,000 less than what the Company requested. Staff believes that it is reasonable to assume that both the level of rate increase requested by the Company, and Staff's very comparable rate increase recommendation should be sufficient to cover any such debt reserve payment required under the USDA loans. As shown on Staff's cash flow analysis (Schedule CLP-6), Staff provided the Company \$6,515 of cash remaining after the Company pays its ongoing expenses and debt service obligations.

Question 6

Explain whether the Company's meter deposit balance of \$124,553 is reflected in Staff's recommendations (Staff Report Schedule CLP-2, Page 1, does not show this balance in the calculation of rate base).

Staff's Response:

Staff did not include Meter Deposits in its Rate Base development shown on Schedule CLP-2, page 1. Meter Deposits represent a payment made by customers.

As mentioned in Staff's response to Question #3 above, Staff used Cash Flow methodology to figure the revenue requirement for the Company. However, Staff revised Rate Base Schedule CLP-2 to show the inclusion of meter deposits and the effect on Rate Base. Meter Deposits represent a payment made by customers. Recognition of such payments would not be meaningful since the result would have been a lower level of Rate Base, which is already negative.

Question 7

Are there any other arguments raised by the Company in its Response that Staff wishes to address?

Staff's Response

Cibola Mutual Water also makes reference to \$155,000 in "projected expenses" during 2014. The Company goes on to suggest that this expense level includes the cost of equipment that needs to be repaired or replaced. Staff would make two observations in response to this statement. First, directly funding future plant additions through current rates is not appropriate because such future investments are not known and measureable and such future investments are not providing service to customers at the present time. Second, since Staff's rate increase recommendation is just \$3,000 short of the Company's actual increase request, it appears that the Company could be attempting to raise a new issue that was not a part of its original rate increase request.