

# ARICOR

## Water Solutions



0000155958

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Phoenix, Arizona 85083

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2014 SEP 17 A 10 46

September 15, 2014

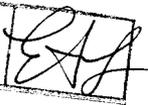
AZ CORP COMMISSION  
DOCKET CONTROL

Mr. James Armstrong  
Chief of Financial & Regulatory Analysis  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007-2927

Arizona Corporation Commission  
DOCKETED

SEP 17 2014

ORIGINAL

DOCKETED BY 

RE: Docket No. W-02370A-14-0231  
Chino Meadows II Water Co., Inc.  
Application for Rate Increase  
Supplemental Documents as Requested by Commission Staff

Dear Mr. Armstrong:

This letter and supporting materials attached are being provided in response to a request from Commission Staff related to the reconciliation of general ledger revenues to bill count revenues. The Company has determined that two revenue adjustments were booked to the general ledger during the test year in error. These items had the effect of understating test year revenues by \$2,688.06. The Company has updated its Application and supporting materials to reflect this additional revenue and its impact on the Company's rate increase application.

The following replacement pages from the Short Form Application are attached:

Page 3 & Page 4 – Narrative Description of Application for Rate Adjustment  
Page 6 – Statement in Support of Rate Request  
Page 9 – Current and Proposed Rates and Charges  
Page 19 – Comparative Statement of Income and Expense

In addition the following replacement pages for attachments supporting the Company's application are attached:

Attachment No. 2, Supplemental, Pages 1, 2, 9, 10, 11  
Attachment No. 3, Supplemental, Page 1  
Attachment No. 4, Supplemental, Pages 1, 3, 5, 6, 7, 8, 9

The above pages have been marked AMENDED and should replace previously provided documents.

Mr. James Armstrong  
September 4, 2014  
Page 2



In addition a new page, Attachment No. 2, Supplemental, Page 3A, detailing the \$2,688.06 adjustment to test year revenue is attached.

Please contact me directly should any further information or clarification be required to complete the sufficiency review for this application.

Sincerely,

A handwritten signature in black ink that reads "Ray L. Jones". The signature is written in a cursive style.

Ray L. Jones

cc: via email - Teresa B. Hunsaker  
Public Utility Analyst II  
Arizona Corporation Commission

Jenny Gomez  
Arizona Corporation Commission

Enclosures:

Page 3, AMENDED  
Page 4, AMENDED  
Page 6, AMENDED  
Page 9, 2<sup>nd</sup> AMENDED  
Page 19, AMENDED  
Attachment No. 2, Supplemental, Page 1 & 2, AMENDED  
Attachment No. 2, Supplemental, Page 3A  
Attachment No. 2, Supplemental, Page 9, 2<sup>nd</sup> AMENDED  
Attachment No. 2, Supplemental, Page 10, AMENDED  
Attachment No. 3, Supplemental, Page 1, AMENDED  
Attachment No. 4, Supplemental, Pages 1, 3, 5, 6, 7, 8, & 9, AMENDED

Original and 13 copies filed  
By US Mail with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

## NARRATIVE DESCRIPTION OF APPLICATION FOR RATE ADJUSTMENT

### Instructions:

Please provide the reasons for your requested rate adjustment by checking the appropriate box(es) below. If desired, the Company may also attach a written narrative regarding its reasons for the requested rate adjustment. Your narrative may also include efforts made by the utility to control costs/expenses and/or mitigate the amount of rate adjustment.

- Changes in current, compared to past operations that necessitate the rate adjustment

Please explain:

Pursuant to Decision No. 72896 Chino Meadows is required to file a rate case using the same test year as Granite Mountain Water Co., Inc. Pursuant to Decision No. 74384 Granite Mountain is required to file a permanent rate case application using a test year ending December 31, 2013 no later than June 30, 2014. This filing is being made to comply with the Commission Decision No. 72896.

- Descriptions and/or calculations of adjustments made to amounts that are included in this application that are different than amounts recorded in your books/ledgers (pro forma adjustments)

Please explain:

Balance Sheet/Rate Base pro forma adjustments were made to:

- Conform plant balances to Decision No. 72896.
- Reclass certain plant additions to correct plant accounts.
- Conform accumulated depreciation balances to requirements of Decision No. 72896.
- Adjust Accumulated Amortization of CIAC to requirements of Decision No. 72896.
- Adjust customer security deposit balance to agree with billing system.
- Include working capital using the formula method.

See **Attachment No. 1**, pages 1-8, for details of Balance Sheet/Rate Base adjustments.

Income Statement pro forma adjustments were made to:

- Adjust revenues to included unbilled authorized revenue due to billing system rate setup error.
- Adjust revenues to eliminate revenue adjustments booked in error.
- Increase salaries and wages to reflect post-test year increase.
- Reclass interest paid on customer deposits from interest expense to miscellaneous expense (move from below the line to above the line).
- Reclass bad debt expense from miscellaneous expense to bad debt expense
- Include \$40,000 in rate case expense amortized over 3 years.
- Adjust depreciation expense to reflect plant adjustments and proposed depreciation rates.
- Adjust property taxes per ADOR formula.
- Adjust income tax to reflect all other adjustments.

See **Attachment No. 2**, pages 1-11, for details of Income Statement adjustments.

- Significant factors influencing your revenues, expenses and/or rate base

Please explain:

**AMENDED**

Historical depreciation expense has been in excess of actual plant depletion causing a mismatch between recorded depreciation expense and actual plant depletion. Prior to Decision No. 72896, a 5% composite depreciation rate, which was in excess of the actual rate of plant depletion, was used. In Decision No. 72896 Chino Meadows was ordered to use Staff's Recommended Depreciation Rates. Those rates are generally more appropriate but include a 12.5% rate for pumping equipment and a 20% rate for transportation equipment, both of which are in excess of actual plant depletion. This has caused the Pumping Plant and Transportation accounts to become fully depreciated even though the underlying plant has significant remaining useful life.

- Anticipated growth/decline in customers expected in the next two years, the amount of anticipated construction to serve those customers, and how financed; the type of customers served by the utility, e.g. residential, irrigation, small retail businesses, large commercial, etc. Please explain:  
Chino Meadows expects zero to two residential customers to be added yearly and is not planning any additional facilities to accommodate those customers.

- Anticipated construction  
Please explain:  
Anticipated plant construction is expected to be focused on replacement of aging plant.

- Efforts made to encourage conservation of water through the proposed rate design or through other means  
Please explain:  
Chino Meadows is located within the Prescott AMA and subject to the public education and BMP requirements imposed by ADWR. In addition, Chino Meadows has a three tier inverted rate design to promote water conservation by its customers. Chino Meadow's proposed rate design, continues the use of the conservation oriented rate design.

- Other factors  
Please explain:  
Chino Meadows has a small and declining rate base due to the age of plant facilities, and the above-discussed mismatch between historically recorded depreciation expense and actual plant depletion. For a company with a very small rate bases, traditional ratemaking may yield inadequate Operating Income, which provides a dangerously small margin over expenses. A company with inadequate Operating Income may find it difficult or even impossible to cover increasing or fluctuating costs, to deal with emergencies or other contingencies, and to attract new capital for system improvements.

In Chino Meadow's case, traditional rate making would result in an Operating Margin of only 4.16%, assuming a 10.0% return on rate base. This is well below the Operating Margins the Commission typically provides companies with small or negative rate bases. Therefore, Chino Meadows has calculated a revenue requirement based on an Operating Margin of 15.0%, consistent with the California PUC policy for small water utilities (less than 2,000 customers). This approach is also consistent with past Commission Decisions for small companies with small or negative rate base.

*Attach additional pages as necessary.*

**STATEMENTS IN SUPPORT OF RATE REQUEST**

Complete the following statements in support of your rate request.

Chino Meadows II Water Co., Inc. (the "Company") requests an adjustment in the existing rates charged by the Company. The information contained in this application is based upon a twelve-month Test Year ending 12/31/2013 (mm/dd/yy). The Company had total operating revenues of \$ 358,364, served 899 metered and 0 un-metered (from page 19) customers, and sold 57,259,000 gallons of water during the Test Year. (from page 19)

The Company is requesting a(n) increase/decrease in revenues in the amount of \$ 139,014.

Total annual operating revenues, if the Company is granted the rate adjustment, will be \$ 497,378.

The Company is current on all property taxes.  YES  NO

The Company is current on all sales taxes.  YES  NO  
(Please see checklist item 2 on page 1.)

The Company currently has a Curtailment Plan Tariff on file with the Commission  YES  NO

The Company currently has a Backflow Prevention Tariff on file with the Commission.  YES  NO

The Company notified its customers of its application for a rate adjustment on \_\_\_\_\_ (mm/dd/yy). **A COPY OF THE NOTICE WITH A NOTARIZED COVER LETTER STATING THE METHOD OF CUSTOMER NOTIFICATION, AS WELL AS THE DATE OF THE NOTIFICATION, MUST BE ATTACHED. (See page 33)**

By completing this application in support of the Company's request for a rate adjustment, the Company realizes that Original Cost Less Depreciation ("OCLD") plant information will be used to determine the fair value rate base, i.e., the Company waives the right to Reconstruction Cost New.

**AMENDED**

Company Name: **Chino Meadows II Water Co., Inc.**

Test Year Ended: **2013**

**CURRENT AND PROPOSED RATES AND CHARGES**

CUSTOMER CLASS:  Residential  Commercial  Industrial

Irrigation  All  Other, specify \_\_\_\_\_

**CURRENT RATES**

**PROPOSED RATES**

MINIMUM OR SERVICE CHARGES
5/8" x 3/4" Meter
3/4" Meter
1" Meter
1-1/2" Meter
2" Meter
3" Meter
4" Meter
6" Meter

\$	GALLONS
17.75	for 0
26.63	for 0
44.38	for 0
88.75	for 0
142.00	for 0
266.25	for 0
443.75	for 0
887.50	for 0

\$	GALLONS
23.00	for 0
34.50	for 0
57.50	for 0
115.00	for 0
184.00	for 0
368.00	for 0
575.00	for 0
1,150.00	for 0

Hydrant Meter

No Current Rate

By Meter Size for 0  
All Usage \$6.50 per 1,000 gal.

GALLONS IN EXCESS OF MINIMUM
Commodity Charge in Excess of Minimum (Charge Per 1,000 Gallons)
First Tier
Second Tier
Third Tier
FLAT RATE

**Current Rates**

**Proposed Rates**

Rate	Gallons	Rate	Gallons
\$ 2.40	Up to <u>3,000</u>	\$ 3.50	Up to <u>3,000</u>
\$ 3.20	<u>3,001</u> to <u>8,000</u>	\$ 5.10	<u>3,001</u> to <u>8,000</u>
\$ 4.20	Over <u>8,000</u>	\$ 6.50	Over <u>8,000</u>
\$	Per Month	\$	Per Month

**Note: If rates and charges vary across customer classes, duplicate the form and complete one for each rate class. (e.g., residential, commercial) unless "All" is checked.**

**2<sup>nd</sup> AMENDED**

**COMPARATIVE STATEMENT OF INCOME AND EXPENSE**

<b>Acct. No.</b>	<b>OPERATING REVENUES</b>	<b>PRIOR YEAR</b>	<b>TEST YEAR (ADJUSTED)</b>
461	Metered Water Revenue	\$341,613	\$345,620
460	Unmetered Water Revenue	0	0
474	Other Water Revenues	10,254	12,744
	<b>TOTAL OPERATING REVENUES</b>	<b>\$351,868</b>	<b>\$ 358,364*</b>
	<b>OPERATING EXPENSES</b>		
601	Salaries and Wages (See page 1, item 4)	\$161,652	\$211,665
610	Purchased Water (See page 1, item 5)	219	40
615	Purchased Power (See page 1, item 6)	22,483	24,401
618	Chemicals	1,192	425
620	Repairs and Maintenance (See page 1, item 7)	10,219	8,899
621	Office Supplies and Expense	25,403	30,594
630	Outside Services (See page 1, item 8)	21,695	11,457
635	Water Testing (See page 1, item 9)	4,323	4,791
641	Rents	11,700	0
650	Transportation Expenses	27,359	24,752
657	Insurance – General Liability	9,544	8,964
659	Insurance – Health and Life	1,480	2,667
666	Regulatory Commission Expense – Rate Case	0	13,333
667	Regulatory Expense - Other	10,074	445
670	Bad Debt Expense	0	1,990
675	Miscellaneous Expense	9,623	8,848
403	Depreciation Expense (From page 20)	28,840	20,394
408	Taxes Other Than Income	0	0
408.11	Property Taxes (See page 1, item 10)	16,107	18,670
409	Income Tax	50	(6,972)
	<b>TOTAL OPERATING EXPENSES</b>	<b>\$362,140</b>	<b>\$385,362</b>
	<b>OPERATING INCOME/(LOSS)</b>	<b>\$(10,272)</b>	<b>\$(26,997)</b>
	<b>OTHER INCOME/(EXPENSE)</b>		
419	Interest and Dividend Income	\$0	\$0
421	Non-Utility Income	8,045	684
426	Miscellaneous Non-Utility Expenses	0	(5,000)
427	Interest Expense	(1,471)	(896)
	<b>TOTAL OTHER INCOME/(EXPENSE)</b>	<b>\$(72)</b>	<b>\$(5,212)</b>
	<b>NET INCOME/(LOSS)</b>	<b>\$(24,088)</b>	<b>\$(32,209)</b>

**Note: Do not include sales tax in revenue or expense. Please refer to the checklist on page 1 for the required attachments related to this schedule.**

**\* This number must be identical to the number entered on page 6 "total operating revenues."**

**AMENDED**

Chino Meadows II Water Co., Inc.  
 Test Year Ended December 31, 2013  
 Adjusted Test Year Income Statement

Attachment No. 2  
 Supplemental  
 Page 1  
 AMENDED

Line No.		Actual for Test Year Ended 12/31/2013	Total Pro forma Adjustments	Test Year Results After Pro forma Adjustments	Proposed Rate Increase	Adjusted With Rate Increase
1	<b>Revenues</b>					
2	460 Unmetered Water Revenue	\$ -	\$ -	\$ -		\$ -
3	461 Metered Water Revenues	339,618	6,002	345,620	139,014	484,634
4	471 Miscellaneous Service Revenue	12,744	-	12,744	-	12,744
5	<b>Total Revenues</b>	<b>\$ 352,362</b>	<b>\$ 6,002</b>	<b>\$ 358,364</b>	<b>\$ 139,014</b>	<b>\$ 497,378</b>
6	<b>Operating Expenses</b>					
7	601 Salaries and Wages	\$ 164,965	\$ 15,000	\$ 179,965		\$ 179,965
8	603 Salaries and Wages - Officers and Directors	31,700	-	31,700		31,700
9	604 Employee Pension and Benefits	-	-	-		-
10	610 Purchased Water	40	-	40		40
11	615 Purchased Power	24,401	-	24,401		24,401
12	618 Chemicals	425	-	425		425
13	620 Repairs and Maintenance	8,899	-	8,899		8,899
14	621 Office Supplies Expense	30,594	-	30,594		30,594
15	631 Contractual Services - Engineering	-	-	-		-
16	632 Contractual Services - Accounting	620	-	620		620
17	633 Contractual Services - Legal	-	-	-		-
18	634 Contractual Services - Management Fees	-	-	-		-
19	635 Contractual Services - Testing	4,791	-	4,791		4,791
20	636 Contractual Services - Other	10,837	-	10,837		10,837
21	641 Rent - Buildings	-	-	-		-
22	642 Rent - Equipment	-	-	-		-
23	650 Transportation Expense	24,752	-	24,752		24,752
24	656 Insurance - Vehicle	-	-	-		-
25	657 Insurance - General Liability	8,964	-	8,964		8,964
26	658 Insurance - Workman's Compensation	-	-	-		-
27	659 Insurance - Other	2,667	-	2,667		2,667
28	660 Advertising Expense	-	-	-		-
29	666 Regulatory Commission Expense - Rate Case	-	13,333	13,333		13,333
30	667 Regulatory Expense - Other	445	-	445		445
31	668 Water Resource Conservation Expense	-	-	-		-
32	670 Bad Debt Expense	-	1,990	1,990	772	2,762
33	675 Miscellaneous Expense	10,284	(1,435)	8,848		8,848
34	403 Depreciation Expense	28,644	(8,249)	20,394		20,394
35	408 Taxes Other Than Income	-	-	-		-
36	408.11 Property Taxes	18,173	497	18,670	2,414	21,084
37	409 Income Tax	50	(7,022)	(6,972)	34,224	27,252
38	<b>Total Operating Expenses</b>	<b>\$ 371,249</b>	<b>\$ 14,113</b>	<b>\$ 385,362</b>	<b>\$ 37,410</b>	<b>\$ 422,772</b>
39	<b>Operating Income</b>	<b>\$ (18,887)</b>	<b>\$ (8,110)</b>	<b>\$ (26,997)</b>	<b>\$ 101,604</b>	<b>\$ 74,607</b>
40	<b>Other Income (Expense)</b>					
41	419 Interest and Dividend Income	\$ -	\$ -	\$ -		\$ -
42	421 Non-Utility Income	684	-	684		684
43	426 Miscellaneous Non-Utility Expenses	(5,000)	-	(5,000)		(5,000)
44	427 Interest Expense	(1,451)	554	(896)		(896)
45	<b>Total Other Income (Expense)</b>	<b>\$ (5,767)</b>	<b>\$ 554</b>	<b>\$ (5,212)</b>	<b>\$ -</b>	<b>\$ (5,212)</b>
46	<b>Net Income (Loss)</b>	<b>\$ (24,653)</b>	<b>\$ (7,556)</b>	<b>\$ (32,209)</b>	<b>\$ 101,604</b>	<b>\$ 69,395</b>
47						

Chino Meadows II Water Co., Inc.  
 Test Year Ended December 31, 2013  
 Income Statement Pro forma Adjustments

Line No.	Revenues	Actual for Test Year Ended 12/31/2013	ADJ 15-1 Correct Underbilled Revenue	ADJ 15-1A Eliminate Revenue Adjustments	ADJ 15-2 2014 Salary Increase	ADJ 15-3 Recl. Cust. Deposit Interest	ADJ 15-4 Recl. Bad Debt Expense	ADJ 15-5 Rate Case Expense	ADJ 15-6 Adjust Depreciation Expense	ADJ 15-7 Adjust Property Taxes	ADJ 15-8 Income Taxes	Total Adjustments	Test Year Adjusted Results
1	460 Unmetered Water Revenue	\$ -										\$ -	\$ -
2	461 Metered Water Revenues	339,618	3,314	2,688								6,002	345,620
3	471 Miscellaneous Service Revenue	12,744											12,744
4	<b>Total Revenues</b>	\$ 352,362	\$ 3,314	\$ 2,688	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,002	\$ 358,364
5	<b>Operating Expenses</b>												
6	601 Salaries and Wages	\$ 164,965		\$ 15,000								\$ 15,000	\$ 179,965
7	603 Salaries and Wages - Officers and Directors	31,700											31,700
8	604 Employee Pension and Benefits	-											-
9	610 Purchased Water	40											40
10	615 Purchased Power	24,401											24,401
11	618 Chemicals	425											425
12	620 Repairs and Maintenance	8,899											8,899
13	621 Office Supplies Expense	30,594											30,594
14	631 Contractual Services - Engineering	-											-
15	632 Contractual Services - Accounting	620											620
16	633 Contractual Services - Legal	-											-
17	634 Contractual Services - Management Fees	-											-
18	635 Contractual Services - Testing	4,791											4,791
19	636 Contractual Services - Other	10,837											10,837
20	641 Rent - Buildings	-											-
21	642 Rent - Equipment	-											-
22	650 Transportation Expense	24,752											24,752
23	656 Insurance - Vehicle	-											-
24	657 Insurance - General Liability	8,964											8,964
25	658 Insurance - Workman's Compensation	-											-
26	659 Insurance - Other	2,667											2,667
27	660 Advertising Expense	-											-
28	666 Regulatory Commission Expense - Rate Case	-											-
29	667 Regulatory Expense - Other	445											445
30	668 Water Resource Conservation Expense	-											-
31	670 Bad Debt Expense	-					1,990					1,990	1,990
32	675 Miscellaneous Expense	10,284				554	(1,990)					(1,435)	8,848
33	403 Depreciation Expense	28,644							(8,249)			(8,249)	20,394
34	408 Taxes Other Than Income	-											-
35	408 Property Taxes	18,173								497		497	18,670
36	409 Income Tax	50									(7,022)	(7,022)	(6,972)
37	<b>Total Operating Expenses</b>	\$ 371,249	\$ -	\$ 15,000	\$ -	\$ 554	\$ -	\$ 13,333	\$ (8,249)	\$ 497	\$ (7,022)	\$ 14,113	\$ 385,362
38	<b>Operating Income</b>	\$ (18,887)	\$ 3,314	\$ 2,688	\$ (15,000)	\$ (554)	\$ -	\$ (13,333)	\$ 8,249	\$ (497)	\$ 7,022	\$ (8,110)	\$ (26,997)
39	<b>Other Income (Expense)</b>												
40	419 Interest and Dividend Income	-											-
41	421 Non-Utility Income	684											684
42	426 Miscellaneous Non-Utility Expenses	(5,000)											(5,000)
43	427 Interest Expense	(1,451)											(896)
44	<b>Total Other Income (Expense)</b>	\$ (5,767)	\$ -	\$ -	\$ -	\$ 554	\$ -	\$ (13,333)	\$ 8,249	\$ (497)	\$ 7,022	\$ (7,556)	\$ (5,212)
45	<b>Net Income (Loss)</b>	\$ (24,653)	\$ 3,314	\$ 2,688	\$ (15,000)	\$ -	\$ -	\$ (13,333)	\$ 8,249	\$ (497)	\$ 7,022	\$ (7,556)	\$ (32,209)

Line

No.

1	<u>Reverse Improper Revenue Adjustments</u>	
2		
3	In February 2013 eleven accounts were written off and sent to collections.	
4	Rather than booking an adjustment to Accounts Receivable, an adjustment	
5	was improperly booked to the Revenue account.	
6		
7	In December 2013, 45 accounts had duplicate meter reading entered in the	
8	billing system. These duplicate meter reading were adjusted in December prior	
9	to issuing November bills. The company's billing system vendor caused these	
10	adjustments to be retroactively applied to November bills prior to issuing the	
11	November bills. Since the vendor caused the adjustment to be retroactively	
12	applied, revenue reports for both November and December reflected the	
13	adjustments. The December adjustment is a duplicate that should not be	
14	deducted from Revenue.	
15		
16	Incorrect February Revenue Adjustment	\$ (1,271.97)
17	Duplicate December Revenue Adjustment	<u>(1,416.09)</u>
18	Total Revenue Adjustments to be Reversed	\$ (2,688.06)
19		
20	Increase/(Decrease) in Metered Revenue	<u><u>\$ 2,688.06</u></u>
21		
22		

Adjust Property Tax Expense to Reflect Adjusted Test Year and Proposed Revenues

Line No.	Description	Company <u>As Adjusted</u>	Company <u>Proposed</u>
1	Adjusted Test Year Revenue	\$ 358,364	\$ 358,364
2	Adjusted Test Year Revenue	358,364	358,364
3	Adjusted Test Year Revenue	358,364	
4	Proposed Revenues after Increase		497,378
5	Average of three year's of revenue	358,364	404,702
6	Average of three year's of revenue, times 2	716,729	809,405
7	Add:		
8	Construction Work In Progress at 10%	-	-
9	Deduct:		
10	Net Book Value of Transportation Equipment	-	-
11			
12	Full Cash Value	716,729	809,405
13	Assessment Ratio	19.5%	19.5%
14	Assessed Value	139,762	157,834
15	Property Tax Rate (2012 Tax Year)	13.3582%	13.3582%
16			
17	Adjusted Test Year Property Tax	\$ 18,670	
18	Recorded Test Year Property Tax	<u>18,173</u>	
19	Test Year Adjustment	\$ 497	
20			
21	Property Tax at Proposed Rates		\$ 21,084
22	Adjusted Test Year Property Tax		<u>18,670</u>
23	Increase in Property Tax due to Rate Increase		<u>\$ 2,414</u>
24			
25	<u>Calculation of Property Tax Factor</u>		
26	Increase to Property Tax Expense		\$ 2,414
27	Increase in Revenue Requirement		<u>\$ 139,014</u>
28	Property Tax Factor (L25 / L26)		1.7366%
29			
30		2013	
31	CALCULATION OF TAX RATE	<u>Value</u>	<u>Ratio</u>
32	947-25-131	583,000	19.5%
			<u>Tax Value</u>
			113,685
			<u>Tax</u>
			15,186
			<u>Rate</u>
			13.3582%

Adjust Income Tax Expense to Reflect Adjusted Test Year and Proposed Revenues

Line No.	Description	Adjusted Test Year	Proposed with Increase
1			
2	<u>Calculation of Income Tax:</u>		
3	Revenue	\$ 358,364	\$ 497,378
4	Less: Operating Expenses (Excluding Income Taxes)	392,334	395,520
5	Less: Synchronized Interest	-	-
6	Arizona Taxable Income	<u>\$ (33,970)</u>	<u>\$ 101,858</u>
7			
8	All Income at 6.5000%	\$ (2,208)	\$ 6,621
9			
10			
11			
12			
13	Arizona Income Tax	<u>\$ (2,208)</u>	<u>\$ 6,621</u>
14	Federal Taxable Income	<u>\$ (31,762)</u>	<u>\$ 95,238</u>
15			
16	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (4,764)	\$ 7,500
17	Federal Tax on Second Income Bracket (\$50,001 - 75,000) @ 25%	\$ -	6,250.00
18	Federal Tax on Third Income Bracket (\$75,001 - 100,000) @ 34%	\$ -	6,880.75
19	Federal Tax on Fourth Income Bracket (\$100,001 - 335,000) @ 39%	\$ -	-
20	Federal Tax on Fifth Income Bracket (\$335,001 - 10,000,000) @ 34%	\$ -	-
21	Federal Tax on Sixth Income Bracket (\$10,000,001 - 15,000,000) @ 35%	\$ -	-
22	Federal Tax on Seventh Income Bracket (\$15,000,001 - 18,333,333) @ 38%	\$ -	-
23	Federal Tax on Eighth Income Bracket (\$18,333,334 - ..... ) @ 35%	\$ -	-
24			
25	Total Federal Income Tax	<u>\$ (4,764)</u>	<u>\$ 20,631</u>
26			
27	Combined Federal and State Income Tax	<u>\$ (6,972)</u>	<u>\$ 27,252</u>
28			
29	Effective State Tax Rate	6.5000%	6.5000%
30	Effective Federal Tax Rate	15.0000%	21.6624%
31	Effective Combined Tax Rate	20.5250%	26.7544%
32			
33	Applicable Arizona State Income Tax Rate (Rate Applicable to Revenue Increase)		6.5000%
34	Applicable Federal Income Tax Rate (Rate Applicable to Revenue Increase)		19.9962%
35			
36	<u>Calculation of Interest Synchronization</u>		
37	Rate Base	\$ 171,398	
38	Weighted Average Cost of Debt	0.000%	
39	Synchronized Interest	<u>\$ -</u>	
40			
41	<u>Income Tax Adjustments</u>		
42	Test Year Income Taxes - Booked	\$ 50	
43	Increase / (decrease) in Income Taxes (L21 - L32)	<u>(7,022)</u>	
44			
45	Test Year Income Taxes - Adjusted		<u>\$ (6,972)</u>
46	Increase / (decrease) in Federal Income Taxes (L21 - L35)		<u>34,224</u>
47			
48			

Line			
<u>No.</u>	<u>Calculation of Gross Revenue Conversion Factor</u>		
1	Revenue	100.0000%	
2	Uncollectable Factor (Line 11)	0.4154%	
3	Revenue (L1 - L2)	99.5846%	
4	Combined Income Tax and Property Tax Rate (Line 23)	26.4955%	
5	Operating Income Percentage (L3 -L4)	73.0892%	
6	Gross Revenue Conversion Factor (L1 / L5)	1.368192	
	<u>Calculation of Uncollectable Factor</u>		
7	Unity	100.0000%	
8	Combined Federal and State Tax Rate (Line 17)	25.1964%	
9	One Minus Combined Federal and State Tax Rate (L7 - L8)	74.8036%	
10	Uncollectable Rate (Line 26)	0.5553%	
11	Uncollectable Factor (L9 * L10)	0.4154%	
	<u>Calculation of Effective Tax Rate</u>		
12	Operating Income Before Taxes	100.0000%	
13	Applicable Arizona State Tax Rate (from Schedule C-2)	6.5000%	
14	Federal Taxable Income (L12 - L13)	93.5000%	
15	Applicable Federal Tax Rate (from Schedule C-2)	19.9962%	
16	Effective Federal Tax Rate (L14 * L15)	18.6964%	
17	Combined Federal and State Tax Rate (L13 + L16)	25.1964%	
	<u>Calculation of Effective Property Tax Rate</u>		
18	Unity	100.0000%	
19	Combined Federal and State Tax Rate (Line 17)	25.1964%	
20	One Minus Combined Income Tax Rate (L18 - L19)	74.8036%	
21	Property Tax Factor (from Schedule C-2)	1.7366%	
22	Effective Property Tax Factor (L20 * L21)	1.2990%	
23	Combined Federal and State Income Tax Rate and Property Tax Rate (L17 + L22)	26.4955%	
	<u>Calculation of Uncollectable Rate</u>		
24	Bad Debt Expense (from Schedule C-1)	\$ 1,990	
25	Total Revenues (from Schedule C-1)	358,364	
26	Uncollectable Rate (L24 / L25)	0.5553%	
27	Revenue Increase (from Schedule C-1)	\$ 139,014	
28	Uncollectable Rate (Line 26)	0.5553%	
29	Bad Debt Expense due to Increase	\$ 772	
30	<u>Supporting Schedules:</u>		<u>Recap Schedules:</u>
31			A-1

Chino Meadows II Water Co., Inc.  
Test Year Ended December 31, 2013  
Computation of Increase in Gross Revenue Requirements

Line No.		Operating Margin Method
1	Adjusted Test Year Revenue	\$ 358,364
2		
3	Test Year Operating Income	\$ (26,997)
4		
5	Test Year Operating Margin	-7.53%
6		
7	Required Operating Margin	15.00%
8		
9	Required Operating Income	\$ 74,607
10		
11	Operating Income Deficiency	\$ 101,604
12		
13	Gross Revenue Conversion Factor	1.3682
14		
15	Increase in Gross Revenue	\$ 139,014
16		
17	Adjusted Test Year Revenue	\$ 358,364
18		
19	Proposed Annual Revenue	\$ 497,378
20		
21	Percent Increase in Gross Revenue	38.79%
22		
23		
24		



Line No.	Description	Average Number Customers	Average Consumption	Revenues		Proposed	
				Present Rates	Proposed Rates	Increase Amount	Increase %
1							
2	<u>Unmetered Water Revenue</u>						
3	Fire Service	-		\$ -	\$ -	\$ -	
4							
5	<u>Metered Water Revenue</u>						
6	R1 - 5/8" x 3/4" Meter	895	4,931	\$ 346,110	\$ 484,542	\$ 138,433	40.00%
7	R2 - 3/4" Meter	-	-	-	-	-	
8	R3 - 1" Meter	-	-	-	-	-	
9	R4 - 1.5" Meter	-	-	-	-	-	
10	R5 - 2" Meter	-	-	-	-	-	
11	R6 - 3" Meter	-	-	-	-	-	
12	R7 - 4" Meter	-	-	-	-	-	
13	R8 - 6" Meter	-	-	-	-	-	
14	Hydrant Meter						
15							
16	<b>Totals:</b>						
17	<u>Unmetered Water Revenue</u>						
18	Fire Service	-		\$ -	\$ -	\$ -	
19							
20	<u>Metered Water Revenue</u>						
21	All Customers	895	59,192	346,110	484,542	138,433	40.00%
22							
23	Other Water Revenue			\$ 12,744	\$ 12,744	-	0.00%
24							
25	Total	<u>895</u>		<u>\$ 358,854</u>	<u>\$ 497,287</u>	<u>\$ 138,433</u>	<u>38.58%</u>
26							

Supplemental Schedule  
 Breakdown of Metered Water Revenue at Proposed Rates  
 By Rate Components

Line No.	Description	Revenue at Proposed Rates					Total Revenue
		Base Charge	1st Tier	2nd Tier	3rd Tier		
1							
2	R1 - 5/8" x 3/4" Meter	\$ 247,112	\$ 94,646	\$ 93,955	\$ 48,829	\$	484,542
3	R2 - 3/4" Meter	-	-	-	-		-
4	R3 - 1" Meter	-	-	-	-		-
5	R4 - 1.5" Meter	-	-	-	-		-
6	R5 - 2" Meter	-	-	-	-		-
7	R6 - 3" Meter	-	-	-	-		-
8	R7 - 4" Meter	-	-	-	-		-
9	R8 - 6" Meter	-	-	-	-		-
10	R9 - 8" Meter	-	-	-	-		-
11	Hydrant Meter						-
12							-
13	Total Revenue	\$ 247,112	\$ 94,646	\$ 93,955	\$ 48,829	\$	484,542
14							
15	Percentage of Total Revenue	51.00%	19.53%	19.39%	10.08%		100.00%
16							
17	Percentage Increase by Tier	29.58%	45.83%	59.38%	54.76%		40.00%
18							

Supplemental Schedule  
 Metered Water Revenue at Proposed Rates  
 Analysis of Increases by Rate Tier

Line No.		Base Charge	1st Tier	2nd Tier	3rd Tier	Total Revenue
1	Revenue at Current Rates	\$ 190,706	\$ 64,900	\$ 58,952	\$ 31,551	\$ 346,110
2	Revenue at Company's Proposed Rates	<u>247,112</u>	<u>94,646</u>	<u>93,955</u>	<u>48,829</u>	<u>484,542</u>
3	Increase in Rates	\$ 56,406	\$ 29,746	\$ 35,003	\$ 17,278	\$ 138,433
4						
5	Percentage Increase by Tier	29.6%	45.8%	59.4%	54.8%	40.0%
6	Percentage of Increase within Tier	40.7%	21.5%	25.3%	12.5%	100.0%
7						
8						
9						
10						
11		Base Charge	1st Tier	2nd Tier	3rd Tier	Total Revenue
12	Revenue at Current Rates	\$ 190,706	\$ 64,900	\$ 58,952	\$ 31,551	\$ 346,110
13	Revenue at Company's Proposed Rates	\$ <u>247,112</u>	\$ <u>94,646</u>	\$ <u>93,955</u>	\$ <u>48,829</u>	\$ <u>484,542</u>
14						
15	<u>Percentage of Total Revenue</u>					
16	Current Rates	55.1%	18.8%	17.0% #	9.1%	100.0%
17	Company's Proposed Rates	<u>51.0%</u>	<u>19.5%</u>	<u>19.4% #</u>	<u>10.1%</u>	<u>100.0%</u>
18	Change	-4.1%	0.8%	2.4%	1.0%	0.0%
19						
20						

Chino Meadows II Water Co., Inc.  
Test Year Ended December 31, 2013  
Reconciliation of Bill Count Revenue to G.L. Revenue

Line			
<u>No.</u>	<u>Metered Revenue Reconciliation</u>		<u>Total</u>
1			
2	G.L. Revenue	\$	339,618
3	IS-1 -- Correct Underbilled Revenue		3,314
4	IS-1A -- Reverse Improper Revenue Adjustments		2,688
5	Adjusted G.L. Revenue	\$	345,620
6			
7	Bill Count Revenue		346,110
8			
9	Unreconciled Difference	\$	489
10	Percentage Difference		0.14%
11			
12			

Meter Size: 5/8" x 3/4"  
 Rate Code: R1

Line No.	Rate Schedules	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1	<b>Present Rates:</b>	-	\$ 17.75	\$ 23.00	\$ 5.25	29.58%
2	Base Charge:	1,000	\$ 20.15	\$ 26.50	\$ 6.35	31.51%
3		2,000	\$ 22.55	\$ 30.00	\$ 7.45	33.04%
4		3,000	\$ 24.95	\$ 33.50	\$ 8.55	34.27%
5	Tier One Rate:	4,000	\$ 28.15	\$ 38.60	\$ 10.45	37.12%
6	Tier Two Rate:	5,000	\$ 31.35	\$ 43.70	\$ 12.35	39.39%
7	Tier Three Rate:	6,000	\$ 34.55	\$ 48.80	\$ 14.25	41.24%
8		7,000	\$ 37.75	\$ 53.90	\$ 16.15	42.78%
9	Tier One Breakover (M gal):	3	\$ 40.95	\$ 59.00	\$ 18.05	44.08%
10	Tier Two Breakover (M gal):	8	\$ 45.15	\$ 65.50	\$ 20.35	45.07%
11	Tier Three Breakover (M gal):	999,999	\$ 49.35	\$ 72.00	\$ 22.65	45.90%
12		12,000	\$ 57.75	\$ 85.00	\$ 27.25	47.19%
13		14,000	\$ 66.15	\$ 98.00	\$ 31.85	48.15%
14	<b>Proposed Rates:</b>	16,000	\$ 74.55	\$ 111.00	\$ 36.45	48.89%
15	Base Charge:	18,000	\$ 82.95	\$ 124.00	\$ 41.05	49.49%
16		20,000	\$ 91.35	\$ 137.00	\$ 45.65	49.97%
17		25,000	\$ 112.35	\$ 169.50	\$ 57.15	50.87%
18	Tier One Rate:	30,000	\$ 133.35	\$ 202.00	\$ 68.65	51.48%
19	Tier Two Rate:	35,000	\$ 154.35	\$ 234.50	\$ 80.15	51.93%
20	Tier Three Rate:	40,000	\$ 175.35	\$ 267.00	\$ 91.65	52.27%
21		45,000	\$ 196.35	\$ 299.50	\$ 103.15	52.53%
22	Tier One Breakover (M gal):	3	\$ 217.35	\$ 332.00	\$ 114.65	52.75%
23	Tier Two Breakover (M gal):	8	\$ 259.35	\$ 397.00	\$ 137.65	53.07%
24	Tier Three Breakover (M gal):	999,999	\$ 301.35	\$ 462.00	\$ 160.65	53.31%
25		80,000	\$ 343.35	\$ 527.00	\$ 183.65	53.49%
26		90,000	\$ 385.35	\$ 592.00	\$ 206.65	53.63%
27		100,000	\$ 427.35	\$ 657.00	\$ 229.65	53.74%
28						
29						
30	Average Usage	4,931	\$ 31.13	\$ 43.35	\$ 12.22	39.25%
31	Median Usage	3,469	\$ 26.45	\$ 35.89	\$ 9.44	35.69%
32						
33						
34						

Meter Size: 5/8" x 3/4"  
 Rate Code: R1

Rate Tiers	Present Rates	Proposed Rates	Charges	
			Present Rates	Proposed Rates
			Base Charge:	\$ 17.75 \$ 23.00
Tier One Breakover (M gal):	3	3	Tier One Rate:	\$ 2.40 \$ 3.50
Tier Two Breakover (M gal):	8	8	Tier Two Rate:	\$ 3.20 \$ 5.10
Tier Three Breakover (M gal):	999,999	999,999	Tier Three Rate:	\$ 4.20 \$ 6.50

Line No.	Block	Number of Bills in Block	Average Consumption in Block	Consumption in Block	Cumulative Bills		Cumulative Consumption	
					No.	% of Total	Amount	% of Total
1	- - -	248	50%		248	2.31%	-	0.00%
2	1 - 1,000	733	507	371,645	981	9.13%	371,645	0.70%
3	1,001 - 2,000	1,249	1,518	1,896,321	2,230	20.76%	2,267,966	4.28%
4	2,001 - 3,000	1,565	2,509	3,926,836	3,795	35.32%	6,194,802	11.69%
5	3,001 - 4,000	1,610	3,489	5,617,828	5,405	50.31%	11,812,630	22.30%
6	4,001 - 5,000	1,376	4,481	6,166,015	6,781	63.11%	17,978,645	33.94%
7	5,001 - 6,000	1,114	5,480	6,104,714	7,895	73.48%	24,083,359	45.46%
8	6,001 - 7,000	735	6,463	4,750,190	8,630	80.32%	28,833,549	54.43%
9	7,001 - 8,000	536	7,475	4,006,731	9,166	85.31%	32,840,280	61.99%
10	8,001 - 9,000	381	8,510	3,242,395	9,547	88.86%	36,082,675	68.11%
11	9,001 - 10,000	271	9,491	2,572,010	9,818	91.38%	38,654,685	72.97%
12	10,001 - 12,000	355	10,924	3,877,865	10,173	94.69%	42,532,550	80.29%
13	12,001 - 14,000	177	12,883	2,280,340	10,350	96.33%	44,812,890	84.59%
14	14,001 - 16,000	117	14,876	1,740,480	10,467	97.42%	46,553,370	87.88%
15	16,001 - 18,000	94	16,972	1,595,330	10,561	98.30%	48,148,700	90.89%
16	18,001 - 20,000	52	18,926	984,160	10,613	98.78%	49,132,860	92.74%
17	20,001 - 25,000	70	22,087	1,546,090	10,683	99.43%	50,678,950	95.66%
18	25,001 - 30,000	28	27,000	756,010	10,711	99.69%	51,434,960	97.09%
19	30,001 - 35,000	12	31,955	383,460	10,723	99.80%	51,818,420	97.81%
20	35,001 - 40,000	9	38,432	345,890	10,732	99.89%	52,164,310	98.47%
21	40,001 - 50,000	6	42,990	257,940	10,738	99.94%	52,422,250	98.95%
22	50,001 - 60,000	3	52,430	157,290	10,741	99.97%	52,579,540	99.25%
23	60,001 - 70,000	1	67,740	67,740	10,742	99.98%	52,647,280	99.38%
24	70,001 - 80,000	-	-	-	10,742	99.98%	52,647,280	99.38%
25	80,001 - 90,000	-	-	-	10,742	99.98%	52,647,280	99.38%
26	90,001 - 100,000	1	97,550	97,550	10,743	99.99%	52,744,830	99.56%
27	231,670 - 231,670	1	231,670	231,670	10,744	100.00%	52,976,500	100.00%
28					10,744	100.00%	52,976,500	100.00%
29					10,744	100.00%	52,976,500	100.00%
30					10,744	100.00%	52,976,500	100.00%
31								
32	Totals	10,744		52,976,500	10,744		52,976,500	

	Total Bills	10,744	Current Rates		Proposed Rates	
			Units	Revenue	Units	Revenue
			Base Charge	10,744 \$ 190,706	10,744 \$ 247,112	
37	Average Number of Customers	895				
38			Usage (gallons)			
39	Average Consumption (gallons)	4,931	Tier One	27,041,802 \$ 64,900	27,041,802 \$ 94,646	
40			Tier Two	18,422,478 58,952	18,422,478 93,955	
41	Median Consumption (gallons)	3,469	Tier Three	7,512,220 31,551	7,512,220 48,829	
42			Usage Totals	52,976,500	52,976,500	
43			Revenue Totals	\$ 346,110	\$ 484,542	