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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

IN THE MATTER OF THE APPLICATION
OF BACA FLOAT WATER COMPANY -
SEWER DIVISION FOR AN APPROVAL OF
A RATE INCREASE.

) DOCKET NO. WS-01678A-14-0424

IN THE MATTER OF THE APPLICATION
OF BACA FLOAT WATER COMPANY FOR
APPROVAL OF A RATE INCREASE.

) DOCKET NO. WS-01678A-14-0425

) BACA FLOAT WATER COMPANY,
) INC.'S RESPONSE TO COMMISSION
) STAFF REPORT

Attached for filing in the above referenced and docketed proceedings is the response of Baca Float Water Company, Inc. to the Commission Staff's May 1, 2015 Staff Report. The attached response consists of (i) four (4) pages of written comment and (ii) sixteen (16) Response Schedules.

Dated this 13th day of May 2015.

Respectfully submitted,

Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.
Attorney for Baca Float Water Company, Inc.

The ORIGINAL and thirteen (13) copies of the foregoing will be filed the 13th day of May 2015 with:

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

Arizona Corporation Commission
DOCKETED

MAY 13 2015

DOCKETED BY

LAWRENCE V. ROBERTSON, JR.
ATTORNEY AT LAW
P. O. Box 1448
Tubac, Arizona 85646

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1 A copy of the foregoing will be
2 emailed/mailed this same date to:
3
4 Lyn A. Farmer,
5 Chief Administrative Law Judge
6 Hearing Division
7 Arizona Corporation Commission
8 1200 West Washington Street
9 Phoenix, Arizona 85007
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11 Steve Olea, Director
12 James Armstrong
13 Utilities Division
14 Arizona Corporation Commission
15 1200 West Washington Street
16 Phoenix, Arizona 85007
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18 Janice M. Alward, Chief Counsel
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22 1200 W Washington
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25 Tom Davis, Consumer Services
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AG

**Baca Float Water Company, Inc.
Docket No. WS-01678A-14-0424 et al
Company Response to Staff Report**

WATER DIVISION

Water Rate Base – Response Schedule 1

Baca Float Water Company, Inc. (“Baca Float” or “Company”) and Staff agree on the amount of water utility plant in service (\$1,458,870) and the amount of accumulated depreciation (\$364,934) as of 12/31/13. However, in its rate base calculation reflected on Schedule CLP-2-W, Page 1 of 3, Staff did not include accumulated depreciation, resulting in an overstated rate base amount of \$593,529. Please refer to Response Schedule 1 for the correct amount of rate base, including working capital items. Baca Float proposes rate base of \$246,370.

Water Statement of Operating Income – Response Schedule 2

Staff and the Company agree on all items related to the adjusted test year on the Statement of Operating Income for the water division. Baca Float has adopted Staff adjustment (a) from Schedule CLP-3-W, Page 1 of 4 related to adjusted test year water testing. Company Response Schedule 2 adds \$1,185 to water testing as adjustment S1.

Regarding the Statement of Operating Income for the water division at proposed rates, Staff and the Company also agree on most items, with the exception of metered water revenue, property taxes and income taxes. Staff is recommending metered water revenue of \$276,201 and Baca Float is proposing \$283,512, a difference of \$7,311. Additionally, Staff is recommending operating expenses of \$255,236 and the Company proposes \$256,806, a difference of \$1,570. This difference is related to the revenue driven property and income tax expenses, and are a result of the difference in the revenue requirement.

Support for Adjustments 1 through 7 and S1 can be found on Response Schedules 3 through 6.

Comparison of Water Division Key Amounts – Response Schedule 7

Response Schedule 7 compares key amounts contained in the Company response to the Staff recommended amounts for the water division.

Baca Float has amended the amount of metered water revenue increase it is proposing, as an operating margin of less than 10% is just not feasible. Based on Staff's report, it is only recommending an operating margin of 8.38% and a return on

rate base of exactly 4.00%. It appears this ratio is how Staff determined the amount of recommended operating income. However, once Staff's rate base calculation is correct, the operating margin does not change, but the rate of return on rate base increases to 10.68%.

Under the rates the Company is proposing, the operating margin will be about 10.17% and the rate of return will be 11.80%. Although the rate of return appears high, due to the diminished rate base the revenue requirement must be determined by the operating margin, which should exceed 10% *at a minimum*. Baca Float does not agree with Staff's recommended metered water revenue amount.

Water Rate Design – Response Schedules 7 and 8

In addition to disagreement with the amount of metered water revenue recommended by Staff, Baca Float does not agree with Staff's water rate design. Referring again to Response Schedule 7, Staff has placed a large amount of the recommended increase on the commodity rates instead of the monthly minimum. Currently about 52% of the annual revenue is generated from the monthly minimum and 48% from the commodity rates. The Company's rate design does not materially change this design. Staff changes the structure of the rate design so that it is a 50-50 split between the monthly minimum and the commodity rates. Under normal circumstances a utility would want a 50-50 split, but there are other factors that Baca Float took into consideration for the rate design in its response.

For example, the current monthly minimum is only \$15 per month. The Company is able to maintain the 52-48 monthly minimum/commodity rate split at \$21 per month for a 5/8 x 3/4-inch meter, which is not unreasonable. In addition, Baca Float's rate design as reflected on Response Schedule 7 increases the percentage of rate increase as the tiers get larger, whereas Staff places the largest amount of increase on the first commodity tier.

Although Staff is recommending metered water revenue of \$278,576, the rates proposed only generate revenue of \$269,649, which is a shortfall of \$6,552 in the rate design.

Water Division Conclusion

It is for the above reasons Baca Float recommends the Commission adopt the Company proposed rates and charges for the water division as reflected on Response Schedule 8.

Baca Float also disputes the recommendation by Staff for three BMP's. As stated in the Staff report, Baca Float is located in the Santa Cruz AMA, and the Commission has routinely agreed that BMPs are excess administrative work for a utility in an AMA.

I am not sure if you want to say something about Staff recommendations #1 and #6 here.

SEWER DIVISION

Sewer Rate Base – Response Schedule 9

Baca Float and Staff agree on the amount of utility plant in service (\$2,438,720) and the amount of accumulated depreciation (\$1,613,325) as of 12/31/13. Staff's rate base calculation reflected on Schedule CLP-2-WW, Page 1 of 2, did not include working capital elements. Please refer to Response Schedule 9 for Baca Float's proposed sewer rate base of \$155,514, which now includes a working capital allowance.

Sewer Statement of Operating Income – Response Schedule 10

Staff and the Company agree on most items on the Statement of Operating Income, with the exception of revenue, property taxes and income taxes. Staff is recommending revenue \$281,500 and Baca Float is proposing \$304,991, a difference of \$23,491. Additionally, Staff is recommending operating expenses of \$266,963 and the Company proposes \$274,111, a difference of \$7,148. Part of the difference is related to the revenue driven property and income tax expenses, and can be attributed to the difference in the revenue requirement. The other portion of the difference is \$2,631 in the Contractual Services – Other account that was not included in the total for expenses in the original application, although it was a line item.

Support for sewer adjustments 1 through 7 can be found on Response Schedules 11 through 14.

Comparison of Sewer Division Key Amounts – Response Schedule 15

Response Schedule 7 compares key amounts contained in the Company response for the sewer division to the Staff recommended amounts.

Baca Float has changed the amount of revenue increase it is proposing as an operating margin of less than 10% is just not feasible. Based on Staff's report, it is only recommending an operating margin of 5.16% and a return on rate base of 10.07%.

Under the rates the Company is proposing, the operating margin will be about 10.12% and the rate of return will be 19.86%. Although the rate of return appears high, due to the diminished rate base, the revenue requirement must be determined by the operating margin, which should exceed 10%. Baca Float does not agree with Staff's recommended revenue amount for the sewer division.

Sewer Division Conclusion

Baca Float recommends the Commission adopt the Company proposed rates and charges for the sewer division as reflected on Response Schedule 16.

CALCULATION OF RATE BASE

| Acct. No. | Description | Original Cost | Accumulated Depreciation |
|-----------|--------------------------------------|---------------------|--------------------------|
| 301 | Organization | \$ - | \$ - |
| 303 | Land & Land Rights | 1,084 | |
| 304 | Structures & Improvements | 61,479 | 20,891 |
| 307 | Wells & Springs | 117,415 | 46,642 |
| 309 | Supply Mains | - | |
| 310 | Power Generation Equipment | 68,107 | 22,135 |
| 311 | Pumping Equipment | 36,830 | 29,509 |
| 320 | Water Treatment Equipment | - | |
| 320 | Water Treatment Plants | 148,706 | 36,506 |
| 320 | Solution Chemical Feeders | 2,147 | 2,147 |
| 330 | Distribution Reservoirs & Standpipes | - | |
| 330 | Storage Tanks | 261,551 | 44,604 |
| 330 | Pressure Tanks | 3,005 | 376 |
| 331 | Transmission & Distrib. Mains | 523,374 | 88,396 |
| 333 | Services | 76,400 | 16,541 |
| 334 | Meters & Meter Installations | 49,944 | 35,756 |
| 335 | Hydrants | 81,000 | 10,530 |
| 336 | Backflow Prevention Devices | - | |
| 339 | Other Plant & Misc Equipment | 24,594 | 9,022 |
| 340 | Office Furniture & Equipment | 1,913 | 1,277 |
| 340 | Computers & Software | - | - |
| 341 | Transportation Equipment | - | - |
| 343 | Tools, Shop & Garage Equip. | 1,321 | 602 |
| 345 | Power Operated Equipment | - | - |
| 347 | Miscellaneous Equipment | - | - |
| 348 | Other Tangible Plant | - | - |
| | Totals | \$ 1,458,870 | \$ 364,934 |

| | | |
|--------------------------------|-----------|----------------|
| Net Plant | \$ | 1,093,936 |
| Less CIAC | | (1,171,089) |
| Plus CIAC Amortization | | 295,748 |
| Plus 1/24th Power | | 386 |
| Plus 1/8th Operation and Maint | | 27,390 |
| Rate Base | \$ | 246,370 |

Company Name: Baca Float Water Company, Inc. (Water Division)
Docket No: WS-01678A-14-0424 et al
Test Year Ended: December 31, 2013

Response Schedule 2

STATEMENT OF OPERATING INCOME/(LOSS)

| Acct. No. | OPERATING REVENUES | 2013 TEST YEAR | PROFORMA ADJUSTMENTS | REF # | ADJUSTED TEST YEAR | PROPOSED RATE INCR | REF # | PROPOSED RATES |
|-----------|-------------------------------------|--------------------|----------------------|-------|--------------------|--------------------|-------|-------------------|
| 461 | Metered Water Revenue | \$ 94,931 | \$ 110,581 | 1a | \$ 205,512 | \$ 78,000 | 7 | \$ 283,512 |
| 460 | Unmetered Water Revenue | 110,581 | (110,581) | 1b | - | - | | - |
| 474 | Other Water Revenues | 2,375 | | | 2,375 | - | | 2,375 |
| | TOTAL OPERATING REVENUES | \$ 207,887 | \$ - | * | \$ 207,887 | \$ 78,000 | | \$ 285,887 |
| | OPERATING EXPENSES | | | | | | | |
| 601 | Salaries and Wages | \$ 73,091 | \$ (5,426) | 8 | \$ 67,665 | | | \$ 67,665 |
| 610 | Purchased Water | | | | - | | | - |
| 615 | Purchased Power | 9,254 | | | 9,254 | | | 9,254 |
| 618 | Chemicals | 8,385 | | | 8,385 | | | 8,385 |
| 620 | Repairs and Maintenance | 31,729 | 10,510 | 2 | 42,239 | | | 42,239 |
| 621 | Office Supplies & Expense | 6,134 | 473 | 8 | 6,607 | | | 6,607 |
| 630 | Outside Services | 65,242 | | | 65,242 | | | 65,242 |
| 635 | Water Testing | 1,078 | 1,185 | S1 | 2,263 | | | 2,263 |
| 641 | Rents | 4,351 | | | 4,351 | | | 4,351 |
| 650 | Transportation Expenses | 904 | | | 904 | | | 904 |
| 657 | Insurance - General Liability | 2,216 | | | 2,216 | | | 2,216 |
| 659 | Insurance - Health and Life | 5,892 | | | 5,892 | | | 5,892 |
| 666 | Regulatory Commission Exp-Rate Case | 566 | 7,767 | 3 | 8,333 | | | 8,333 |
| 675 | Miscellaneous Expense | - | | | - | | | - |
| 403 | Depreciation Expense | 60,351 | (51,389) | 4 | 8,962 | | | 8,962 |
| 408 | Taxes Other Than Income | 68 | 4,953 | 8 | 5,021 | | | 5,021 |
| 408.11 | Property Taxes | 6,825 | 3,980 | 5a | 10,805 | 1,351 | 5b | 12,156 |
| 409 | Income Tax | - | (8,091) | 6a | (8,091) | 15,406 | 6b | 7,316 |
| 427.2 | Customer Security Deposit Interest | | | | - | | | - |
| | TOTAL OPERATING EXPENSES | \$ 276,086 | \$ (36,038) | | \$ 240,048 | \$ 16,758 | | \$ 256,806 |
| | OPERATING INCOME/(LOSS) | \$ (68,199) | \$ 36,038 | | \$ (32,161) | \$ 61,242 | | \$ 29,081 |

DETAIL OF PROFORMA ADJUSTMENTS

| | | | | |
|----|---|--------------------------------|-----------------------------|-------------------------|
| 1 | <u>Adjustment 1</u> | | | |
| 2 | Reclassify Revenue from Minimum Charges from Unmetered Water Revenue to Metered | | | |
| 3 | Water Revenue | | | |
| 4 | Metered Water Revenue Book: | | \$ | 94,931 |
| 5 | | | Adjustment 1a | <u>110,581</u> |
| 6 | Metered Water Revenue as Adjusted: | | \$ | <u><u>205,512</u></u> |
| 7 | Unmetered Water Revenue Book: | | | |
| 8 | | | \$ | 110,581 |
| 9 | Unmetered Water Revenue as Adjusted: | | Adjustment 1b | <u>(110,581)</u> |
| | | | \$ | <u><u>-</u></u> |
| 10 | <u>Adjustment 2</u> | | | |
| 11 | Pro Forma of 2015 Arsenic Filter Media Replacement Expense | | | |
| 12 | Total Cost of Arsenic Media Replacement | | \$ | 42,038 |
| 13 | Expected life of media in years | | | <u>4</u> |
| 14 | | Annualized cost - Adjustment 2 | \$ | <u><u>10,510</u></u> |
| 15 | <u>Adjustment 3</u> | | | |
| 16 | Rate Case Expense | | | |
| 17 | Total | \$ 25,000 | Annual Rate Case Expense | \$ 8,333 |
| 18 | Amortized over 3 years | <u>8,333</u> | Test Year Rate Case Expense | <u>(566)</u> |
| 19 | | | Adjustment 3 | <u><u>7,767</u></u> |
| 20 | <u>Adjustment 4</u> | | | |
| 21 | Refer to Response Schedule 4 | | | |
| 22 | <u>Adjustment 5</u> | | | |
| 23 | Refer to Response Schedule 5 | | | |
| 24 | <u>Adjustment 6</u> | | | |
| 25 | Refer to Response Schedule 6 | | | |
| 26 | <u>Adjustment 7</u> | | | |
| 27 | Proposed Metered Water Revenue | | | |
| 28 | Company Proposed | | \$ | 283,512 |
| 29 | Test Year Adjusted Revenue | | | <u>205,512</u> |
| 30 | | | Adjustment 7 | <u><u>\$ 78,000</u></u> |
| 31 | <u>Adjustment 8</u> | | | |
| 32 | Salaries and Wages | | Adjustment 8 | \$ (5,426) |
| 33 | Office Supplies & Expense | | Adjustment 8 | 473 |
| 34 | Taxes Other Than Income | | Adjustment 8 | <u>4,953</u> |
| 35 | Adjustment 8 has zero net effect on operating income - reclassification only | | \$ | <u><u>-</u></u> |
| 36 | <u>Adjustment S1</u> | | | |
| 37 | Company Water Testing Expense as filed | | \$ | 1,078 |
| 38 | Staff adjustment (a) from Schedule CLP-3-W, Page 1 of 4 | | | <u>1,185</u> |
| 39 | | | Adjustment S1 | <u><u>\$ 2,263</u></u> |

CALCULATION OF DEPRECIATION EXPENSE (Current Rates)

| Acct. No. | Description | Original Cost | Depreciation Percentage | Depreciation Expense |
|-----------|--|---------------------|-------------------------|----------------------|
| 301 | Organization | \$ - | 0.00% | \$ - |
| 303 | Land & Land Rights | 1,084 | 0.00% | - |
| 304 | Structures & Improvements | 61,479 | 3.33% | 2,047 |
| 307 | Wells & Springs | 117,415 | 3.33% | 3,910 |
| 309 | Supply Mains | - | | - |
| 310 | Power Generating Equipment | 68,107 | 5.00% | 3,405 |
| 311 | Pumping Equipment | 36,830 | 12.50% | 4,604 |
| 320 | Water Treatment Equipment | - | 3.30% | - |
| 320 | Water Treatment Plants | 148,706 | 3.33% | 4,952 |
| 320 | Solution Chemical Feeders ¹ | 2,147 | 20.00% | - |
| 330 | Distribution Reservoirs & Standpipes | - | 2.22% | - |
| 330 | Storage Tanks | 261,551 | 2.22% | 5,806 |
| 330 | Pressure Tanks | 3,005 | 5.00% | 150 |
| 331 | Transmission & Distrib. Mains | 523,374 | 2.00% | 10,467 |
| 333 | Services | 76,400 | 3.33% | 2,544 |
| 334 | Meters & Meter Installations | 49,944 | 8.33% | 4,160 |
| 335 | Hydrants | 81,000 | 2.00% | 1,620 |
| 336 | Backflow Prevention Devices | - | 6.67% | - |
| 339 | Other Plant & Misc Equipment | 24,594 | 6.67% | 1,640 |
| 340 | Office Furniture & Equipment | 1,913 | 6.67% | 128 |
| 340 | Computers & Software | - | 20.00% | - |
| 341 | Transportation Equipment | - | 20.00% | - |
| 343 | Tools, Shop & Garage Equip. | 1,321 | 5.00% | 66 |
| 345 | Power Operated Equipment | - | 5.00% | - |
| 347 | Miscellaneous Equipment | - | 10.00% | - |
| 348 | Other Tangible Plant | - | 0.00% | - |
| | Totals | \$ 1,458,870 | | \$ 45,501 |

| | | |
|--------------------------------|-----------|-----------------|
| CIAC Amortization | | 36,538 |
| Net Depreciation Expense | \$ | 8,962 |
| Test Year Depreciation Expense | | 60,351 |
| Adjustment 4 | \$ | (51,389) |

¹ The amount in this category is fully depreciated.

DETAIL OF PROPERTY TAX EXPENSE ADJUSTMENT 5

| <u>Line</u> | <u>Test Year as Adjusted</u> | <u>Company at Proposed Rates</u> |
|--|----------------------------------|--------------------------------------|
| 1 Adjusted 2013 Test Year Revenue | \$ 207,887 | \$ 207,887 |
| 2 Weight Factor | 2 | 2 |
| 3 Subtotal | \$ 415,774 | \$ 415,774 |
| 4 Company Recommended Revenue | 207,887 | 285,887 |
| 5 Subtotal | \$ 623,661 | \$ 701,661 |
| 6 Number of Years | 3 | 3 |
| 7 Three Year Revenue Average | \$ 207,887 | \$ 233,887 |
| 8 AZ Department of Revenue Multiplier | 2 | 2 |
| 9 Revenue Base Value | \$ 415,774 | \$ 467,774 |
| 10 Plus 10% of CWIP | - | - |
| 11 Less: Net Book Value of Licensed Vehicles | - | - |
| 12 Full Cash Value | \$ 415,774 | \$ 467,774 |
| 13 Assessment Ratio | 18.50% | 18.50% |
| 14 Assessment Value | \$ 76,918 | \$ 86,538 |
| 15 Composite Property Tax Rate * | 14.0472% | 14.0472% |
| 16 Adjusted Test Year Property Tax Expense | \$ 10,805 | |
| 17 Actual Test Year Property Tax Expense | 6,825 | |
| 18 Total Adjustment 5a | \$ 3,980 | |
| 19 Projected Property Tax Expense | | \$ 12,156 |
| 20 Adjusted Test Year Property Tax Expense | | 10,805 |
| 21 Total Adjustment 5b | | \$ 1,351 |
| 22 * <i>Property tax composite rate calculation:</i> | | |
| 23 Assessed Value per 2013 Property Tax Notices | \$ 54,991 | |
| 24 Property Tax due per 2013 Notices | 7,725 | |
| 25 Composite Property Tax Rate | 14.0472% | |

CALCULATION OF INCOME TAX ADJUSTMENT 6

| Line No. | Description | Adjusted Company | | Total | |
|-----------------------------------|--|------------------|------------|------------|----------|
| | | Test Year | Test Year | Proposed | Proposed |
| Calculation of Income Tax: | | | | | |
| 1 | Revenue | \$ 207,887 | | \$ 285,887 | |
| 2 | Operating Expenses Excluding Income Taxes | 248,139 | | 249,490 | |
| 3 | Synchronized Interest | - | | - | |
| 4 | Arizona Taxable Income (L1 - L2- L3) | \$ (40,252) | | \$ 36,397 | |
| 5 | Arizona State Income Tax Rate | 6.0000% | | 6.0000% | |
| 6 | Arizona Income Tax (L4 x L5) | | \$ (2,415) | | \$ 2,184 |
| 7 | Federal Taxable Income (L4- L6) | \$ (37,836) | | \$ 34,213 | |
| 8 | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15% | (5,675) | | 5,132 | |
| 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 | | (5,675) | | 5,132 |
| 14 | Combined Federal and State Income Tax (L6 + L13) - Adjustment 6a | | \$ (8,091) | | |
| 15 | Combined Federal and State Income Tax (L6 + L13) | | | \$ 7,316 | |
| 16 | Adjusted Test Year Income Tax | | | (8,091) | |
| 17 | Adjustment 6b | | | \$ 15,406 | |

Company Name: Baca Float Water Company, Inc. (Water Division)
 Docket No: WS-01678A-14-0424 et al
 Test Year Ended: December 31, 2013

Response Schedule 7

COMPARISON OF KEY AMOUNTS IN COMPANY RESPONSE TO STAFF PROPOSED

| | Company Response | Staff Proposed | Staff Corrected |
|------------------------|------------------|----------------|-----------------|
| Revenue Requirement | \$ 285,887 | \$ 278,576 | \$ 278,576 |
| Operating Income | 29,081 | 23,341 | 23,341 |
| Operating Margin | 10.17% | 8.38% | 8.38% |
| Rate Base ¹ | \$ 246,370 | \$ 583,529 | \$ 218,596 |
| Rate of Return | 11.80% | 4.00% | 10.68% |
| Cash Flow | \$ 38,043 | \$ 32,303 | \$ 32,303 |

| | Company Current | Company Response | Change from Current Rates | Staff Proposed | Change from Current Rates |
|---|-----------------|------------------|---------------------------|----------------|---------------------------|
| 5/8" Monthly Minimum | \$ 15.00 | \$ 21.00 | 40.00% | \$ 18.00 | 20.00% |
| Tier 1 | 3.25 | 4.35 | 33.85% | 5.35 | 64.62% |
| Tier 2 | 4.90 | 6.63 | 35.27% | 7.00 | 42.86% |
| Tier 3 | 5.85 | 8.18 | 39.83% | 8.50 | 45.30% |
| % of revenue from minimum | 52.00% | 52.61% | 0.61% | 50.11% | -1.89% |
| % of revenue from tiers | 48.00% | 47.39% | -0.61% | 49.89% | 1.89% |
| Revenue generated by rates ² | \$ 205,833 | \$ 283,512 | 37.74% | \$ 269,649 | 31.00% |
| Bill at Average Usage (4,000 gals) | \$ 29.65 | \$ 40.68 | 37.19% | \$ 41.05 | 38.45% |
| Bill at Median Usage (3,000 gals) | \$ 24.75 | \$ 34.05 | 37.58% | \$ 34.05 | 37.58% |

¹ Although Staff agreed that accumulated depreciation as of 12/31/13 was \$364,933, it was not included in Staff's rate base calculation.

² Staff recommended metered water revenue of \$276,201, however the rate design only generated annual revenue of \$269,649, a \$6,552 shortfall.

CURRENT AND PROPOSED RATES AND CHARGES

| MINIMUM OR SERVICE CHARGES | \$ | GALLONS | \$ | GALLONS |
|----------------------------|--------|---------|----------|---------|
| 5/8" x 3/4" Meter | 15.00 | for 0 | \$ 21.00 | for 0 |
| 3/4" Meter | 22.50 | for 0 | 31.50 | for 0 |
| 1" Meter | 37.50 | for 0 | 52.50 | for 0 |
| 1-1/2" Meter | 75.00 | for 0 | 105.00 | for 0 |
| 2" Meter | 120.00 | for 0 | 168.00 | for 0 |
| 3" Meter | 240.00 | for 0 | 336.00 | for 0 |
| 4" Meter | 375.00 | for 0 | 525.00 | for 0 |
| 6" Meter | 750.00 | for 0 | 1,050.00 | for 0 |

| Commodity Charge in Excess of Minimum (Per 1,000 Gallons) | Current Rates | | Proposed Rates | |
|---|---------------|-----------------|----------------|-----------------|
| | Rate | Gallons | Rate | Gallons |
| 5/8" by 3/4" Meter (Residential) | | | | |
| First Tier | \$3.25 | 0 to 3,000 | \$ 4.35 | 0 to 3,000 |
| Second Tier | \$4.90 | 3,001 to 10,000 | 6.63 | 3,001 to 10,000 |
| Third Tier | \$5.85 | Over 10,000 | 8.18 | Over 10,000 |
| 3/4" Meter (Residential) | | | | |
| First Tier | \$3.25 | 0 to 3,000 | \$ 4.35 | 0 to 3,000 |
| Second Tier | \$4.90 | 3,001 to 10,000 | 6.63 | 3,001 to 10,000 |
| Third Tier | \$5.85 | Over 10,000 | 8.18 | Over 10,000 |
| 5/8" by 3/4" Meter (Non-Residential) | | | | |
| First Tier | \$4.90 | 0 to 10,000 | \$ 6.63 | 0 to 10,000 |
| Second Tier | \$5.85 | Over 10,000 | 8.18 | Over 10,000 |
| 3/4" Meter (Non-Residential) | | | | |
| First Tier | \$4.90 | 0 to 10,000 | \$ 6.63 | 0 to 10,000 |
| Second Tier | \$5.85 | Over 10,000 | 8.18 | Over 10,000 |
| 1" Meter (All Classes) | | | | |
| First Tier | \$4.90 | 0 to 16,000 | \$ 6.63 | 0 to 16,000 |
| Second Tier | \$5.85 | Over 16,000 | 8.18 | Over 16,000 |
| 1 1/2" Meter (All Classes) | | | | |
| First Tier | \$4.90 | 0 to 48,000 | \$ 6.63 | 0 to 48,000 |
| Second Tier | \$5.85 | Over 48,000 | 8.18 | Over 48,000 |
| 2" Meter (All Classes) | | | | |
| First Tier | \$4.90 | 0 to 90,000 | \$ 6.63 | 0 to 90,000 |
| Second Tier | \$5.85 | Over 90,000 | 8.18 | Over 90,000 |
| 3" Meter (All Classes) | | | | |
| First Tier | \$4.90 | 0 to 160,000 | \$ 6.63 | 0 to 160,000 |
| Second Tier | \$5.85 | Over 160,000 | 8.18 | Over 160,000 |

CALCULATION OF RATE BASE

| Acct. No. | | Original Cost | Accumulated Depreciation |
|-----------|----------------------------------|---------------------|--------------------------|
| 351 | Organization | \$ - | \$ - |
| 352 | Franchises | - | - |
| 353 | Land & Land Rights | 1,084 | - |
| 354 | Structures & Improvements | 53,356 | 27,223 |
| 355 | Power Generation Equipment | 1,935 | 145 |
| 360 | Collection Sewers - Force | - | - |
| 361 | Collection Sewers - Gravity | 1,807,390 | 1,183,840 |
| 362 | Special Collecting Structures | - | - |
| 363 | Services to Customers | 5,913 | 177 |
| 364 | Flow Measuring Devices | 293 | 139 |
| 365 | Flow Measuring Installations | - | - |
| 370 | Receiving Wells | - | - |
| 371 | Pumping Equipment | - | - |
| 380 | Treatment and Disposal Equipment | 436,702 | 339,637 |
| 381 | Plant Sewers | 103,147 | 52,311 |
| 382 | Outfall Sewer Lines | - | - |
| 389 | Other Plant & Misc Equipment | 27,595 | 9,117 |
| 390 | Office Furniture & Equipment | 981 | 581 |
| 391 | Transportation Equipment | - | - |
| 393 | Tools, Shop & Garage Equip. | 324 | 154 |
| 394 | Laboratory Equipment | - | - |
| 395 | Power Operated Equipment | - | - |
| 398 | Other Tangible Plant | - | - |
| | Totals | \$ 2,438,720 | \$ 1,613,325 |

| | | |
|---------------------------------|-----------|-----------------------|
| Net Plant | \$ | 825,395 |
| Less CIAC | | (2,140,912) |
| Plus CIAC Amortization | | 1,459,917 |
| Plus 1/24th Power | | 1,405 |
| Plus 1/8th Operations and Maint | | 9,709 |
| Rate Base | \$ | <u>155,514</u> |

STATEMENT OF OPERATING INCOME/(LOSS)

| Acct. No. | OPERATING REVENUES | 2013 TEST YEAR | PROFORMA ADJUSTMENTS | Ref # | ADJUSTED TEST YEAR | PROPOSED RATE INCR | Ref # | PROPOSED RATES |
|-----------|-------------------------------------|---------------------|----------------------|-------|--------------------|--------------------|-------|-------------------|
| 521 | Flat Rate Revenues | \$ 248,222 | | | \$ 248,222 | \$ 55,000 | 5 | \$ 303,222 |
| 522 | Measured Revenues | | | | | | | - |
| 536 | Other Wastewater Revenues | 1,769 | | | 1,769 | | | 1,769 |
| | TOTAL REVENUES | \$ 249,991 | | | \$ 249,991 | \$ 55,000 | | \$ 304,991 |
| | OPERATING EXPENSES | | | | | | | |
| 701 | Salaries and Wages | \$ 73,092 | \$ (5,426) | 6 | \$ 67,666 | | | \$ 67,666 |
| 710 | Purchased Wastewater Treatment | - | | | - | | | - |
| 711 | Sludge Removal Expense | 1,075 | | | 1,075 | | | 1,075 |
| 715 | Purchased Power | 11,239 | | | 11,239 | | | 11,239 |
| 716 | Fuel for Power Production | - | | | - | | | - |
| 718 | Chemicals | 19,235 | | | 19,235 | | | 19,235 |
| 720 | Materials and Supplies | 33,075 | (3,380) | 7 | 29,695 | | | 29,695 |
| 721 | Office Supplies | - | 3,853 | 6&7 | 3,853 | | | 3,853 |
| 731 | Contractual Services - Professional | 66,755 | | | 66,755 | | | 66,755 |
| 735 | Contractual Services - Testing | 11,289 | | | 11,289 | | | 11,289 |
| 736 | Contractual Services - Other | 2,631 | | | 2,631 | | | 2,631 |
| 740 | Rents | 4,856 | | | 4,856 | | | 4,856 |
| 750 | Transportation Expenses | 784 | | | 784 | | | 784 |
| 755 | Insurance Expense | 11,728 | | | 11,728 | | | 11,728 |
| 765 | Regulatory Commission Expense | 3,750 | 4,583 | 1 | 8,333 | | | 8,333 |
| 775 | Miscellaneous Expense | - | | | - | | | - |
| 403 | Depreciation Expense | 120,703 | (112,537) | 2 | 8,166 | | | 8,166 |
| 408 | Taxes Other Than Income | 156 | 4,953 | 6 | 5,109 | | | 5,109 |
| 408.11 | Property Taxes | 7,707 | 5,270 | 3a | 12,977 | 952 | 3b | 13,928 |
| 409 | Income Taxes | - | (3,095) | 4a | (3,095) | 10,864 | 4b | 7,768 |
| | TOTAL OPERATING EXPENSES | \$ 368,075 | \$ (105,780) | | \$ 262,295 | \$ 11,815 | | \$ 274,111 |
| | OPERATING INCOME/(LOSS) | \$ (118,084) | \$ 105,780 | | \$ (12,304) | \$ 43,185 | | \$ 30,880 |

DETAIL OF PROFORMA ADJUSTMENTS

| | | | | | |
|----|--|----|---------------|-----------------------------|------------------|
| 1 | <u>Adjustment 1</u> | | | | |
| 2 | Rate Case Expense | | | | |
| 3 | Total | \$ | <u>25,000</u> | Annual Rate Case Expense | \$ 8,333 |
| 4 | Amortized over 3 years | | 8,333 | Test Year Rate Case Expense | <u>3,750</u> |
| 5 | | | | Adjustment 1 | <u>\$ 4,583</u> |
| 6 | <u>Adjustment 2</u> | | | | |
| 7 | Refer to Response Schedule 12 | | | | |
| 8 | <u>Adjustment 3</u> | | | | |
| 9 | Refer to Response Schedule 13 | | | | |
| 10 | <u>Adjustment 4</u> | | | | |
| 11 | Refer to Response Schedule 14 | | | | |
| 12 | <u>Adjustment 5</u> | | | | |
| 13 | Proposed Revenue | | | | |
| 14 | Company Proposed Revenue | | | \$ | 304,991 |
| 15 | Test Year Adjusted Revenue | | | | <u>249,991</u> |
| 16 | | | | Adjustment 5 | <u>\$ 55,000</u> |
| 17 | <u>Adjustment 6</u> | | | | |
| 18 | Salaries and Wages | | | Adjustment 6 | \$ (5,426) |
| 19 | Office Supplies | | | Adjustment 6 | 473 |
| 20 | Taxes Other Than Income | | | Adjustment 6 | <u>4,953</u> |
| 21 | Adjustment 6 has zero net effect on operating income - reclassification only | | | \$ | <u>-</u> |
| 22 | <u>Adjustment 7</u> | | | | |
| 23 | Materials and Supplies | | | Adjustment 7 | \$ (3,380) |
| 24 | Office Supplies | | | Adjustment 7 | <u>3,380</u> |
| 25 | Adjustment 7 has zero net effect on operating income - reclassification only | | | \$ | <u>-</u> |

CALCULATION OF DEPRECIATION EXPENSE (Current Rates)

| Acct. No. | Description | Original Cost | Depreciation Percentage | Depreciation Expense |
|-----------|----------------------------------|---------------------|-------------------------|----------------------|
| 351 | Organization | \$ - | | \$ - |
| 352 | Franchises | - | | - |
| 353 | Land & Land Rights | 1,084 | | - |
| 354 | Structures & Improvements | 53,356 | 3.33% | 1,777 |
| 355 | Power Generation Equipment | 1,935 | 5.00% | 97 |
| 360 | Collection Sewers - Force | - | 2.00% | - |
| 361 | Collection Sewers - Gravity | 1,807,390 | 2.00% | 36,148 |
| 362 | Special Collecting Structures | - | 2.00% | - |
| 363 | Services to Customers | 5,913 | 2.00% | 118 |
| 364 | Flow Measuring Devices | 293 | 10.00% | 29 |
| 365 | Flow Measuring Installations | - | 10.00% | - |
| 370 | Receiving Wells | - | 3.33% | - |
| 371 | Pumping Equipment | - | 12.50% | - |
| 380 | Treatment and Disposal Equipment | 436,702 | 5.00% | 21,835 |
| 381 | Plant Sewers | 103,147 | 5.00% | 5,157 |
| 382 | Outfall Sewer Lines | - | 3.33% | - |
| 389 | Other Plant & Misc Equipment | 27,595 | 6.67% | 1,841 |
| 390 | Office Furniture & Equipment | 981 | 6.67% | 65 |
| 391 | Transportation Equipment | - | 20.00% | - |
| 393 | Tools, Shop & Garage Equip. | 324 | 5.00% | 16 |
| 394 | Laboratory Equipment | - | 10.00% | - |
| 395 | Power Operated Equipment | - | 5.00% | - |
| 396 | Communications Equipment | - | 10.00% | - |
| 398 | Other Tangible Plant | - | | - |
| | TOTAL WASTEWATER PLANT | \$ 2,438,720 | | \$ 67,084 |

| | |
|--------------------------------|---------------------|
| CIAC Amortization | 58,918 |
| Net Depreciation Expense | \$ 8,166 |
| Test Year Depreciation Expense | 120,703 |
| Adjustment 4 | \$ (112,537) |

DETAIL OF PROPERTY TAX EXPENSE ADJUSTMENT 3

| <u>Line</u> | <u>Test Year as Adjusted</u> | <u>Company at Proposed Rates</u> |
|--|----------------------------------|--------------------------------------|
| 1 Adjusted 2013 Test Year Revenue | \$ 249,991 | \$ 249,991 |
| 2 Weight Factor | 2 | 2 |
| 3 Subtotal | \$ 499,982 | \$ 499,982 |
| 4 Company Recommended Revenue | 249,991 | 304,991 |
| 5 Subtotal | \$ 749,973 | \$ 804,973 |
| 6 Number of Years | 3 | 3 |
| 7 Three Year Revenue Average | \$ 249,991 | \$ 268,324 |
| 8 AZ Department of Revenue Multiplier | 2 | 2 |
| 9 Revenue Base Value | \$ 499,982 | \$ 536,649 |
| 10 Plus 10% of CWIP | - | - |
| 11 Less: Net Book Value of Licensed Vehicles | - | - |
| 12 Full Cash Value | \$ 499,982 | \$ 536,649 |
| 13 Assessment Ratio | 18.50% | 18.50% |
| 14 Assessment Value | \$ 92,497 | \$ 99,280 |
| 15 Composite Property Tax Rate * | 14.0295% | 14.0295% |
| 16 Adjusted Test Year Property Tax Expense | \$ 12,977 | |
| 17 Actual Test Year Property Tax Expense | 7,707 | |
| 18 Total Adjustment 3a | \$ 5,270 | |
| 19 Projected Property Tax Expense | | \$ 13,928 |
| 20 Adjusted Test Year Property Tax Expense | | 12,977 |
| 21 Total Adjustment 3b | | \$ 952 |
| 22 * <i>Property tax composite rate calculation:</i> | | |
| 23 Assessed Value per 2013 Property Tax Notices | \$ 56,745 | |
| 24 Property Tax due per 2013 Notices | 7,961 | |
| 25 Composite Property Tax Rate | 14.0295% | |

CALCULATION OF INCOME TAX EXPENSE ADJUSTMENT 4

| LINE NO. | DESCRIPTION | Test Year | Adjusted Test Year | Company Proposed | Total Proposed |
|-----------------------------------|--|-------------|--------------------|------------------|----------------|
| Calculation of Income Tax: | | | | | |
| 1 | Revenue | \$ 249,991 | | \$ 304,991 | |
| 2 | Operating Expenses Excluding Income Taxes | 265,391 | | 266,342 | |
| 3 | Synchronized Interest (L47) | - | | - | |
| 4 | Arizona Taxable Income (L36 - L317- L38) | \$ (15,400) | | \$ 38,649 | |
| 5 | Arizona State Income Tax Rate | 6.0000% | | 6.0000% | |
| 6 | Arizona Income Tax (L39 x L40) | | \$ (924) | | \$ 2,319 |
| 7 | Federal Taxable Income (L42- L43) | \$ (14,476) | | \$ 36,330 | |
| 8 | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15% | (2,171) | | 5,449 | |
| 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 | | (2,171) | | 5,449 |
| 14 | Combined Federal and State Income Tax (L44 + L51) - Adjustment 4a | | \$ (3,095) | | |
| 15 | Combined Federal and State Income Tax (L44 + L51) | | | | \$ 7,768 |
| 16 | Adjusted Test Year Income Tax | | | | (3,095) |
| 17 | Adjustment 4b | | | | \$ 10,864 |

Company Name: Baca Float Water Company, Inc. (Sewer Division)
 Docket No. WS-01678A-14-0424 et al
 Test Year Ended: December 31, 2013

Response Schedule 15

COMPARISON OF KEY AMOUNTS IN COMPANY RESPONSE TO STAFF PROPOSED

| | Company Response | Staff Proposed |
|------------------------|------------------|----------------|
| Revenue Requirement | \$ 304,991 | \$ 281,500 |
| Operating Income | 30,880 | 14,537 |
| Operating Margin | 10.12% | 5.16% |
| Rate Base ¹ | \$ 155,514 | \$ 144,400 |
| Rate of Return | 19.86% | 10.07% |
| Cash Flow | \$ 39,046 | \$ 22,703 |

| | Company Current | Company Response | Change from Current Rates | Staff Proposed | Change from Current Rates |
|----------------------------|-----------------|------------------|---------------------------|----------------|---------------------------|
| Residential Rate | \$ 54.00 | \$ 66.00 | 22.22% | \$ 61.00 | 12.96% |
| Commercial Rate | 90.00 | 109.43 | 21.58% | 100.00 | 11.11% |
| Flat Rate Revenue | \$ 248,222 | \$ 303,222 | 22.16% | \$ 279,731 | 12.69% |
| Revenue generated by rates | 248,130 | 303,222 | 22.20% | 280,155 | 12.91% |

¹ The Company response includes working capital elements.

CURRENT AND PROPOSED RATES AND CHARGES

| Monthly Rate | CURRENT RATES | PROPOSED RATES |
|--------------------------------------|---------------|----------------|
| Residential | \$ 54.00 | \$ 66.00 |
| Commercial | 90.00 | 109.43 |
| Sale of Effluent (per 1,000 gallons) | \$ 3.27 | \$ 3.27 |

| SERVICE LATERAL INSTALLATION CHARGES (per service line) | CURRENT RATES | PROPOSED RATES |
|---|------------------|----------------|
| 4-inch lateral | \$ 800.00 | \$ 900.00 |
| 6-inch lateral | 1,000.00 | 1,150.00 |
| 8-inch lateral | 1,200.00 | 1,400.00 |
| 10-inch lateral | 1,400.00 | 1,650.00 |
| 12-inch lateral | 1,600.00 | 2,000.00 |

| SERVICE CHARGES: | CURRENT RATES | PROPOSED RATES |
|-------------------------------------|------------------|----------------|
| Establishment | \$ 20.00 | \$ 25.00 |
| After Hours Service Charge | 50.00 | 50.00 |
| Reconnection (Delinquent) | 30.00 | 35.00 |
| Deposit | * | * |
| Deposit Interest | * | * |
| Re-establishment (Within 12 months) | ** | ** |
| NSF Check | \$ 25.00 | \$ 25.00 |
| Deferred Payment | 1.50% | 1.50% |
| Late Payment Penalty | 1.50% | 1.50% |

* Per Commission A.A.C. Rule R14-2-603.B.

** Months off systems times the monthly minimum (A.A.C. R14-2-603.B).