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MEMORANDUM

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2015 JUN 26 P 2: 24

FROM: *for* Steven M. Olea
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: June 26, 2015

ORIGINAL

RE: SUPPLEMENT TO STAFF REPORT FOR GREAT PRAIRIE OASIS, LLC DBA
SUNLAND WATER COMPANY (DOCKET NO. W-04015A-15-0083)

On March 6, 2015, Great Prairie Oasis, LLC dba Sunland Water Company ("Sunland" or "Company") applied for an increase in rates. The Application was deemed sufficient on April 3, 2015. Staff filed its Report on May 29, 2015. A Procedural Order of June 11, 2015, ordered Staff to file a supplemental Staff Report by June 26, 2015, addressing three issues.

Staff will address the following issues:

Arizona Corporation Commission
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1. Accumulated Deferred Income Taxes
2. Debt Service Coverage Ratio
3. Property Taxes and Income Taxes

JUN 26 2015

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Q: Did the Company have Accumulated Deferred Income Taxes?

A. Sunland had no Accumulated Deferred Income Taxes in the test year. Security Deposits in the amount of \$1,495 were reported on page 26 of the Application and were recommended by Staff. Staff inadvertently labeled the customer security deposits as Accumulated Deferred Income Taxes on the original Schedule JLK-2, page 1 of 3. Further Staff notes that this same schedule reflects Company proposed cash working capital incorrectly. An amended Schedule JLK-2, page 1 of 3, showing the deduction of security deposits and the cash working capital correction is attached hereto as Exhibit A. These corrections did not change Staff's original recommended rate base.

Q. Did Staff Calculate Debt Service Coverage Ration correctly?

A. The Debt Reserve Coverage Ratio ("DSC") is a financial ratio that measures the Company's ability to pay its current debts. It compares operating income with current debt service obligations. The terms and conditions of Sunland's Water Infrastructure Finance Authority of Arizona ("WIFA") loan require that the Company maintain a DSC of 1.20, as evidenced by WIFA's November 24, 2014 letter to the Company.

Staff reviewed WIFA's letter, particularly paragraph 2 of page 1, describing the calculation of DSC. On May 19, 2015, Staff contacted the WIFA senior loan officer assigned to the Company's loan and discussed the calculation of DSC. The WIFA representative said that

debt service reserve should be included in the calculation of DSC as it is a component of debt service. Examples of Staff's calculation were emailed to WIFA, and the lender stated that Staff's calculations were correct (see attached Exhibit B).

Q. Did Staff Amend Property Tax and Income Tax amounts on Schedule JLK-7?

A. Staff's recommended amount for taxes are as shown on Schedules JLK-1 and JLK-6: property tax, \$1,570; income tax, \$2,478. Attached as Exhibit B is the amended Schedule JLK-7, Debt Service Coverage Ratio, with Staff's recommended property and income tax amounts. The changes do not alter the DSC, which remains at 1.9.

:JLK:nr\ML

Originator: Jorn Keller

Service List for: SUNLAND WATER COMPANY
Docket No. W-04015A-15-0083

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EXHIBIT A

ORIGINAL COST RATE BASE/FAIR VALUE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$ 244,136	\$ 6,327 A	\$ 250,463
Less:			
Accum. Depreciation	47,368	7,010 B	54,378
Net Plant	\$ 196,768	\$ (683)	\$ 196,085
Less:			
Plant Advances	-	-	-
Security Deposits	1,495	-	1,495
Total Advances	1,495	-	1,495
Contributions Gross	-	-	-
Less:			
Amortization of CIAC	-	-	-
Net CIAC	-	-	-
Total Deductions	\$ 1,495	\$ -	\$ 1,495
Plus:			
1/24 Power	-	136	136
1/8 Operation & Maint.	-	2,240 C	2,240
Inventory	-	-	-
Prepayments	-	-	-
Total Additions	\$ -	\$ 2,376	\$ 2,376
Rate Base	\$ 195,273	\$ 1,693	\$ 196,966

Explanation of Adjustment:

- A Refer to JLK-2, Page 2
- B Refer to JLK-2, Page 3
- C To reflect Staff's calculation of cash working capital based on Staff's recommended operation expenses.

EXHIBIT B

DEBT SERVICE COVERAGE RATIO

	Company's Proposed Revenue	Staff's Recommended Revenue
Operating Revenue:	\$ 45,997	45,997
Operating Expenses:		
Operation and Maintenance	\$ 29,385	20,773
Depreciation	5,145	5,130
Property Taxes	1,570	1,570
Income Taxes	-	2,478
Total Operating Expense	<u>\$ 36,100</u>	<u>29,951</u>
Operating Income	\$ 9,897	16,046
Plus depreciation	<u>5,145</u>	<u>5,130</u>
Operating Income Plus Depreciation	<u>\$ 15,042</u>	<u>\$ 21,176.0</u>
Total Debt Service:		
Principal Repayment	4,219	4,219
Debt Service Reserve	1,836	1,836
Interest	1,435	1,435
Admin. Fees	<u>3,512</u>	<u>3,512</u>
Total Debt Service	<u>11,002</u>	<u>11,002</u>
Debt Service Coverage Ratio (DSCR)	1.4	1.9
(Adjusted Operating Income/Total Debt Service)		