

ORIGINAL



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1 Steve Wene, State Bar No. 019630
2 MOYES SELLERS & HENDRICKS LTD.
3 1850 N. Central Ave., Suite 1100
4 Phoenix, Arizona 85004
5 Telephone: 602-604-2141
6 e-mail: swene@lawms.com

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AZ CORP COMMISSION
DOCKET CONTROL

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8
9 **COMMISSIONERS**

10 SUSAN BITTER SMITH, CHAIRMAN
11 BOB STUMP
12 BOB BURNS
13 TOM FORESE
14 DOUG LITTLE

Arizona Corporation Commission

DOCKETED

APR 07 2015

DOCKETED BY

RC

15 IN THE MATTER OF THE APPLICATION
16 OF GREENHAVEN SEWER COMPANY,
17 INC. FOR AN INCREASE IN ITS RATES

DOCKET NO. SW-02326A-14-0321

RESPONSE TO STAFF REPORT

18 **Greenehaven Sewer Company, Inc. ("Company" or "Greenehaven") hereby**
19 **responds to the Staff Report as follows:**

20 **Rate Base**

21 After adjustments, Staff determined that Greenehaven's rate base is \$51,923. The
22 Company agrees with Staff with a minor revision. The Company proposes a rate base of
23 \$52,923. The Company believes the \$1,000 difference is due to a typographical error in
24 the Staff Report. For the court's convenience, a schedule showing how rate base was
25 determined is set forth in Attachment 1.
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1 **Operating Expenses**

2 Greenehaven's proposed operating expenses are \$116,373, which is only \$4,906
3 higher than Staff's proposed \$111,467. The Company accepts Staff's proposed
4 adjustments to testing (\$165 increase), insurance (\$14,381 decrease), rate case expense
5 (\$2,000 decrease), and depreciation expense (\$9,305 decrease). The difference is due to
6 the Company's request for a higher revenue requirement, which drives up property and
7 income tax expense. See Attachment 2. The Company believes its proposed operating
8 expenses are appropriate and should be adopted.
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11 **Revenue Requirement**

12 The Company strongly disagrees with Staff's proposed revenue requirement of
13 \$124,528. Staff's position results in an operating income of \$13,061. This results in a
14 cash flow of only \$16,000 a year, which is \$1,333 per month.
15

16 Greenehaven has 315 connections and a substantial collection system to maintain.
17
18 Greenehaven has three lift stations with two pumps at each location. The Company has
19 nearly 7 miles of force mains and 10 miles of collection mains. With such a large
20 system, repairs are going to be necessary. Additional expenses of inflation, rising energy
21 costs, and other routine expenses will rise over time. Finally, it is important to note that
22 the owners do not take any money from the Company. They have not received any
23 dividends or taken a salary for all of the work they perform. Thus, any concern that the
24 owners will be unjustly enriched has no basis. The Company simply wants to ensure that
25 it can pay its expenses without going into debt.
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1 Greenehaven’s proposed revenue requirement of \$145,519 should put the
2 Company in a sound financial position. The Company would receive an operating
3 income of \$29,146 and cash flow of \$32,085. This would enable Greenehaven to meet
4 the rising costs, pay for substantial repairs, and possibly leave the Company with enough
5 money to make system improvements from time to time. Again, for 315 customers and
6 17 miles of mains that need to be maintained, a cash flow of \$32,085 a year is extremely
7 reasonable.
8

9
10 **Rate Design and Phase-In**

11 The Company’s current rates were set when Ronald Reagan was President.
12 Residential customers still pay \$12.25 per month for sewer service. Greenehaven is
13 proposing a flat residential rate of \$37.45 per month. According to the Water
14 Infrastructure Finance (“WIFA”) pricing survey, the median monthly bill for sewer
15 service by a sewer with less than a thousand connections is \$35.12.¹ After 25 years,
16 Greenehaven is seeking new rates that are in line with state averages and are extremely
17 reasonable when one considers how much plant must be maintained. Nevertheless, for
18 some reason Staff believes the rate increase should be phased-in. Staff proposes that
19 during the first six months residential customers would be charged \$22.45 per month.
20 Thereafter, their bill would rise to \$32.65.
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¹ See WIFA Water and Wastewater Service Pricing in Arizona, at p. 11 (Sept. 2014)

1 The Company disagrees with Staff's rate design and phase-in. The Company
2 believes its rate design is preferable because it will generate the cash flow Grenehaven
3 needs to be financially sound. Further, there is no reason to phase-in rates. Grenehaven
4 admits the percentage of increase is large, but this is due to the fact that the rates are
5 currently extremely low, not because the rates will be high. Put another way, the
6 Company should not be forced to phase-in rates because it was able to maintain
7 extremely low rates for two decades. Accordingly, the court should recommend that the
8 proposed rates set forth in Attachment 3 be adopted.
9
10

11 DATED this 7th day of April, 2015.
12

13 **MOYES SELLERS & HENDRICKS**

14 
15 _____
16 Steve Wene

17 Original and 13 copies of the foregoing
18 filed this 7th day of April, 2015, with:

19 Docket Control
20 Arizona Corporation Commission
21 1200 West Washington
22 Phoenix, Arizona 85007

23
24 
25 _____
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ATTACHMENT 1

UTILITY PLANT IN SERVICE AND RATE BASE

Acct. No.		Original Cost	Accumulated Depreciation	O.C.L.D.
351	Organization	\$ -	\$ -	\$ -
352	Franchises	-	-	-
353	Land & Land Rights	6,005	-	6,005
354	Structures & Improvements	11,262	2,979	8,283
355	Power Generation Equipment	58,609	10,257	48,352
360	Collection Sewers - Force	1,329,754	232,247	1,097,507
361	Collection Sewers - Gravity	703,537	374,926	328,611
362	Special Collecting Structures	-	-	-
363	Services to Customers	51,921	19,713	32,208
364	Flow Measuring Devices	2,250	2,081	169
365	Flow Measuring Installations	-	-	-
370	Receiving Wells	-	-	-
380	Treatment and Disposal Equipment	183,814	51,253	132,561
381	Plant Sewers	-	-	-
382	Outfall Sewer Lines	-	-	-
389	Other Plant & Misc Equipment	-	-	-
390	Office Furniture & Equipment	1,130	1,130	0
391	Transportation Equipment	-	-	-
393	Tools, Shop & Garage Equip.	1,480	177	1,303
394	Laboratory Equipment	-	-	-
395	Power Operated Equipment	2,771	2,771	0
396	Communications Equipment	95,653	15,729	79,924
398	Other Tangible Plant	-	-	-
	Totals	\$ 2,448,186	\$ 713,264	\$ 1,734,922

Gross Contributions	\$ (2,254,708)
Amortization of CIAC	561,326
1/24th Power & Water	739
1/8th Operation and Maintenance	10,644
Rate Base Proposed by Company*	\$ 52,923

* The Company proposed Rate Base differs from Staff's recommended amount by \$1,000 due to a difference in the amount of depreciation in account 361. Greenehaven believes this is a typo.

ATTACHMENT 2

STATEMENT OF OPERATING INCOME

	OPERATING REVENUES	TEST YEAR	PROFORMA ADJUSTMENTS	Ref #	ADJUSTED TEST YEAR	PROPOSED RATE INCREASE	REF #	PROPOSED TEST YEAR
521	Flat Rate Revenues	\$ 40,519			\$ 40,519	\$ 105,000		\$ 145,519
522	Measured Revenues							-
536	Other Wastewater Revenues				-			-
	TOTAL REVENUES	\$ 40,519			\$ 40,519	\$ 105,000		\$ 145,519
	OPERATING EXPENSES							
701	Salaries and Wages	\$ 14,579	\$ -		\$ 14,579			\$ 14,579
710	Purchased Wastewater Treatment	44,142	-		44,142			44,142
711	Sludge Removal Expense		-		-			-
715	Purchased Power	17,733	-		17,733			17,733
716	Fuel for Power Production		-		-			-
718	Chemicals		-		-			-
720	Materials and Supplies	541	-		541			541
721	Office Supplies		-		-			-
731	Contractual Services - Professional		-		-			-
735	Contractual Services - Testing	495	165	S	660			660
740	Rents		-		-			-
750	Transportation Expenses	2,334	-		2,334			2,334
755	Insurance Expense	28,610	(14,381)	S	14,229			14,229
765	Regulatory Commission Expense	1,500	2,500	S	4,000			4,000
775	Miscellaneous Expense	4,663	-		4,663			4,663
403	Depreciation Expense	11,856	(8,917)	S	2,939			2,939
408	Taxes Other Than Income		-		-			-
408.11	Property Taxes	1,533	(137)	1a	1,396	3,618	1b	5,014
409	Income Taxes	-	(8,073)	2a	(8,073)	13,612	2b	5,539
	TOTAL OPERATING EXPENSES	\$ 127,986	\$ (28,843)		\$ 99,143			\$ 116,373
	OPERATING INCOME/(LOSS)	\$ (87,468)	\$ 28,843		\$ (58,625)			\$ 29,146

1a and 1b - refer to page 3

2a and 2b - refer to page 4

S - adopt Staff adjustments per Schedule PNT-WW3, page 1 of 6

Add depreciation expense 2,939
Annual proposed cash flow \$ 32,085

Operating Margin 20.03%

DETAIL OF PROPERTY TAX EXPENSE ADJUSTMENTS 1a AND 1b

<u>Line</u>	<u>Test Year as Adjusted</u>	<u>Company at Proposed Rates</u>
1 Adjusted 2012 Test Year Revenue	\$ 40,519	\$ 145,519
2 Weight Factor	2	2
3 Subtotal	\$ 81,037	\$ 291,037
4 Company Recommended Revenue	40,519	145,519
5 Subtotal	\$ 121,556	\$ 436,556
6 Number of Years	3	3
7 Three Year Revenue Average	\$ 40,519	\$ 145,519
8 AZ Department of Revenue Multiplier	2	2
9 Revenue Base Value	\$ 81,037	\$ 291,037
10 Plus 10% of CWIP	-	-
11 Less: Net Book Value of Licensed Vehicles	-	-
12 Full Cash Value	\$ 81,037	\$ 291,037
13 Assessment Ratio	18.50%	18.50%
14 Assessment Value	\$ 14,992	\$ 53,842
15 Composite Property Tax Rate *	9.3117%	9.3117%
16 Adjusted Test Year Property Tax Expense	\$ 1,396	
17 Actual Test Year Property Tax Expense	1,533	
18 Total Adjustment 1a	\$ (137)	
19 Projected Property Tax Expense		\$ 5,014
20 Adjusted Test Year Property Tax Expense		1,396
21 Total Adjustment 1b		\$ 3,618
22 * <i>Property tax composite rate calculation:</i>		
23 Assessed Value per 2012 Property Tax Notices	\$ 15,795	
24 Property Tax due per 2012 Notices	1,471	
25 Composite Property Tax Rate	9.3117%	

CALCULATION OF PROPOSED INCOME TAXES

<u>Line</u>	<u>Description</u>			
1	Test Year			
2	Operating Income/(Loss) Before Taxes	\$	(50,552)	
3	Add Interest Income		-	
4	Less Estimated Interest Expense		-	
5	Taxable Income	\$	(50,552)	
6	Effective Combined Federal and State Income Tax Rate		<u>15.97%</u>	
7	Total Income Tax Expense	\$	(8,073)	
8	Test Year income Tax Expense		-	
9	Total Adjustment 2a to Test Year Income Taxes	\$	<u><u>(8,073)</u></u>	
10				
11	At Proposed Rates			
12	Operating Income/(Loss) Before Taxes	\$	34,685	
13	Add Interest Income		-	
14	Less Estimated Interest Expense		-	
15	Taxable Income	\$	34,685	
16	Effective Combined Federal and State Income Tax Rate		<u>15.97%</u>	
17	Total Income Tax Expense	\$	5,539	
18	Adjusted Test Year income Tax Expense		<u>(8,073)</u>	
19	Total Adjustment 2b to Income Taxes at Proposed Rates	\$	<u><u>13,612</u></u>	

ATTACHMENT 3

PROPOSED RATES AND CHARGES

Monthly Flat Rates

Residential Units	\$	37.45
Condo Units		37.45
Recreational Vehicles and Trailers		18.70
Motels (Per Room)		18.70
Restaurants (Per Seat)		18.70
Other Structures (Per Restroom)		37.45

PROPOSED SERVICE LATERAL INSTALLATION CHARGES
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4-inch lateral	At Cost
6-inch lateral	At Cost
8-inch lateral	At Cost
12-inch lateral	At Cost

OTHER PROPOSED SERVICE CHARGES

Establishment	\$	25.00
Re-establishment (within 12 months)		*
Reconnection (delinquent)	\$	30.00
Deposit		**
Deposit Interest		**
NSF Check	\$	25.00
Deferred Payment (per month)		1.5% per month
Late Payment Fee (per month)		1.5% per month
After Hours Service Charge (at customers request)	\$	35.00

* - Number of months off the system times the monthly minimum per A.A.C. R14-2-603(D).

** - Per Rule R14-2-603(B).