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MEMORANDUM

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FROM: Thomas M. Broderick
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: November 9, 2015

RE: STAFF REPORT FOR SOUTHLAND UTILITIES COMPANY'S REQUEST
FOR AN INCREASE IN RATES (DOCKET NO. W-02062A-15-0224.)

Attached is the Staff Report for Southland Utilities Company, Inc.'s application for a rate increase. Staff recommends approval of its recommended rates and charges.

TMB:JLK:red\ML

Originator: Darron Carlson

Arizona Corporation Commission

DOCKETED

NOV 09 2015

DOCKETED BY	
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Service List for: SOUTHLAND UTILITIES COMPANY
Docket No. W-02062A-15-0224

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

SOUTHLAND UTILITIES COMPANY, INC.

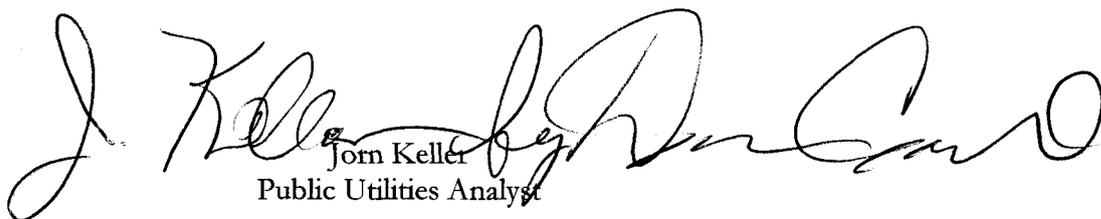
DOCKET NO. W-02062A-15-0224

**APPLICATION FOR A
PERMANENT RATE CASE**

NOVEMBER 9, 2015

STAFF ACKNOWLEDGMENT

The Staff Report for Southland Utilities Company, Inc. ("Company"), Docket No. W-02062A-15-0224, was the responsibility of the Staff members listed below. Jorn Keller was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base and rate design. Jeff Francis was responsible for the engineering and technical analysis. (Mr. Francis is no longer employed at the Commission, but his Report is adopted and presented by his supervisor, Del Smith.) Deborah Reagan was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Jorn Keller
Public Utilities Analyst



Del Smith
Engineering Supervisor



Deborah Reagan
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
SOUTHLAND UTILITIES COMPANY, INC.
DOCKET NO. W-02062A-15-0224**

Southland Utilities Company, Inc. ("Southland" or "Company"), filed an application for a rate increase before the Arizona Corporation Commission ("Commission") on June 30, 2015. The application was amended on July 28, 2015. On August 25, 2015, Staff issued a Letter of Sufficiency.

Southland is a class D Arizona public service corporation, providing potable water service to approximately 595 metered customers. The Company is located in Cochise County, near the town of Sierra Vista, Arizona. The current rates were authorized in Decision No. 72429, dated June 24, 2011, which was modified by Decision 73153 on May 7, 2012. Pursuant to Decision No. 72429, as modified by Decision No. 73153, the Company was required to file this rate request as a follow-up to previous rates and financing cases (Docket Nos. W-02062A-09-0466 and W-02062A-09-0515).

The Company proposes total annual operating revenue of \$373,119, an increase of \$41,352 over the Company's test year annual revenue of \$331,767. The Company's proposed revenue would yield a 7.19 percent rate of return on the Company proposed original cost rate base ("OCRB") of \$1,156,452. The Company did not propose a fair value rate base that differs from its OCRB. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,451 gallons from \$36.84 to \$41.30, for an increase of \$4.46, or 12.1 percent.

Staff recommends total operating revenue of \$372,336, an increase of \$40,569 or 12.23 percent over the Company's test year revenue of \$331,767. Staff's recommended revenue would yield an 8.47 percent rate of return on Staff's recommended OCRB of \$1,057,660. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,451 gallons from \$36.84 to \$39.77, for an increase of \$2.93, or 8.0 percent.

STAFF RECOMMENDATIONS

Staff recommends:

1. Approval of its recommended rates and charges as shown in Schedule JLK-4.
2. The Water Infrastructure Finance Authority or Arizona ("WIFA") Surcharge ordered by Decision No. 72429 and amended by Decision No. 73153 be discontinued as of the effective date of the Decision in this Docket.
3. The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
4. The Company be ordered to use the depreciation rates presented in Table C of the attached Engineering Report.
5. The Company file with Docket Control, as a compliance item in this docket within 90 days of the effective date of a decision in this proceeding, the three (3) Best

Management Practice (“BMP”) Tariffs that substantially conform to the templates created by Staff for the Commission’s review and consideration. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. Staff further recommends that a maximum of two BMP tariffs may come from the “Public Awareness/Public Relations” or “Education and Training” categories. The Company may request cost recovery of the actual costs associated with the BMP’s implemented in its next general rate application.

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FACT SHEET

Company:

Type of Ownership: Corporation.

Southland Utilities Company, Inc. (“Southland” or “Company”) is a class D Arizona public service corporation that provides potable water service to approximately 595 metered customers.

Rates:

Permanent rate increase application filed: June 30, 2015.

Current test year ended: December 31, 2014.

Prior test year ended: December 31, 2008.

The application became sufficient on August 25, 2015.

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Rates			
Residential Monthly Minimum Charge			
5/8 x 3/4-inch meter	\$ 16.00	\$ 30.00	\$ 24.98
(Gallons included in the minimum)	0	0	0
WIFA Surcharge	\$ 13.39	0	0
Commodity Rates (Per 1,000 gallons)			
<u>5/8 x 3/4 & 3/4 inch meters</u>			
1 to 2,000 gallons	\$ 1.55	\$ 2.75	\$ 3.87
2,001 to 6,000 gallons	\$ 3.00	\$ 4.00	\$ 4.86
6,001 to 12,000 gallons	\$ 4.00	\$ 5.79	\$ 6.40
Over 12,000 gallons	\$ 6.18	\$ 7.05	\$ 7.92
Typical 5/8x3/4 or 3/4-inch residential bill			
Average use (4,595 gallons)	\$ 40.28	\$ 45.88	\$ 45.33
Median use (3,451 gallons)	\$ 36.84	\$ 41.30	\$ 39.77

Customers

Average Number of customers in the current test year (12/31/14): 595

Notifications

Affidavit of mailing for the Customer Notification was filed on July 6, 2015.

Complaints

Number of comments filed against the rate increase application: 4.

Percentage of comments to customer base: 0.67 percent (4/595).

No customer complaints were filed against the Company from January 1, 2012 through October 23, 2015.

SUMMARY OF FILING

The test year results as adjusted by Utilities Division Staff ("Staff") for Southland Utilities Company, Inc.'s ("Southland" or "Company") rate application show total operating revenue of \$331,767 and operating income of \$58,914, as shown on Schedule JLK-1. The Original Cost Rate Base ("OCRB") as adjusted by Staff is \$1,057,660.

The Company proposes total annual operating revenue of \$373,119, an increase of \$41,352 over the Company's test year annual revenue of \$331,767. The Company's proposed revenue would yield a 7.19 percent rate of return on the Company proposed original cost rate base ("OCRB") of \$1,156,452. The Company did not propose a fair value rate base that differs from its OCRB. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill, including Water Infrastructure Finance Authority of Arizona ("WIFA") Surcharge with a median usage of 3,451 gallons from \$36.84 to \$41.30, for an increase of \$4.46, or 12.1 percent.

Staff recommends total operating revenue of \$372,336, an increase of \$40,569 or 12.23 percent over the Company's test year revenue of \$331,767. Staff's recommended revenue would yield an 8.47 percent rate of return on Staff's recommended OCRB of \$1,057,660. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,451 gallons from \$36.84 to \$39.77, for an increase of \$2.93, or 8.0 percent.

The Company states that a recently completed construction project has increased its rate base substantially.

COMPANY BACKGROUND

Southland is a class D Arizona public service corporation, providing potable water service to 595 metered customers in Cochise, County near the town of Sierra Vista, Arizona.

The Company's customers consist of 590 residential users with 5/8 x 3/4 inch meters, 2 residential/commercial users with 3/4 inch meters, 2 residential/commercial users with 2 inch meters and 1 residential/commercial user with a 3 inch meter. The Company's current rates were authorized in Decision No. 72429, dated June 24, 2011. Decision No. 72429 also authorized a WIFA loan not to exceed the amount of \$1,825,941 to construct capital improvement projects and to repay a short-term loan. On May 7, 2012, Decision No. 73153 amended Decision No. 72429 in regard to the use of WIFA loan proceeds.

Decision No. 72429 ordered the implementation of a monthly WIFA surcharge in the following amounts.

5/8 X 3/4 - Inch Meter	\$ 13.39
3/4 - Inch Meter	\$ 20.09
1 inch - Meter	\$ 33.48
1 1/2 - inch Meter	\$ 66.95
2 inch Meter	\$107.13

3 inch Meter	\$214.25
4 inch Meter	\$334.77
6 inch Meter	\$669.54

Under Staff's Recommendation, the current WIFA surcharge would be eliminated, and the required WIFA loan funding would be built into the base rates.

Decision No. 72429, as modified by Decision No. 73153, required the Company to file this rate request as a follow-up to previous rates and financing cases (Docket Nos. W-02062A-09-0466 and W-02062A-09-0515). Southland filed its application for a permanent rate increase with the Arizona Corporation Commission ("Commission") on June 30, 2015 as amended on July 28, 2015. The application was deemed sufficient on August 25, 2015.

CONSUMER SERVICES

A review of the Commission's records for the period beginning January 1, 2012 through October 14, 2015 found seventeen complaints filed against the Company. All complaints have been resolved and are closed. Four comments in opposition to the rate increase request have been filed through October 14, 2015.

The Company's affidavit of mailing "Customer Notification" was filed on July 6, 2015.

COMPLIANCE

The Utilities Division Compliance Section shows no outstanding compliance issues.

Southland is current on its property and Transaction Privilege Tax obligations. The Company is in good standing with the Corporations Division of the Commission.

ENGINEERING ANALYSIS

Staff inspected Southland's plant facilities on August 28, 2015. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

RATE BASE

Staff's adjustments decreased the Company's calculated rate base by \$98,792, from \$1,156,452 to \$1,057,660 as shown on Schedule JLK-2, page 1. Details of Staff's adjustments are discussed below.

Contributions in Aid of Construction

Adjustment A increases Contributions in Aid of Construction ("CIAC") by \$104,130 from \$87,956 to \$192,086, as shown on Schedule JLK-2, page 3 of 3. On June 24, 2011, Decision 72429

ordered that plant paid for with WIFA surcharge funds be treated as CIAC.¹ Accordingly, Staff calculated the amount of loan principal paid with WIFA loan surcharge payments from the implementation of the surcharge through the expected date of the order in the present action. The total, \$104,130, was added to CIAC. Discovery regarding this issue remains outstanding, so Staff's Recommendation could be subject to refinement.

Amortization of CIAC

Adjustment B increases CIAC amortization by \$5,884 from \$81,023 to \$86,907 to reflect amortization of the additional CIAC ordered by Decision 72429.

Working Capital

The Company requested an allowance for Working Capital in the amount of \$19,926. As shown on Schedule JLK-2, page 1, Staff decreased the allowance by \$546 to \$19,380 to reflect Staff's adjustments to operating expenses. Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

Staff recommends that in future rate case applications, the Company support its recommendation for Working Capital with a lead lag study or other company-specific financial calculation.

OPERATING INCOME STATEMENT

Operating Revenue

As shown on Schedule JLK-3, page 1, Staff has no adjustments to operating revenue.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$12,012 from \$285,092 to \$273,080 as shown on Schedule JLK-3, pages 1, 2, 3 and 4. Details of Staff's adjustments are presented below.

Water Testing Expense – Adjustment A decreases water testing expense by \$2,099, from \$5,109 to \$3,010, as shown on Schedule JLK-3, pages 1 and 2. This adjustment reflects the annual water testing costs determined in Staff's Engineering Report.

Depreciation Expense – Adjustment B decreases depreciation expense by \$6,107, from \$77,101 to \$70,994, as shown on Schedule JLK-3, pages 1 and 2. This adjustment reflects the amortization of additional CIAC ordered by Decision No. 72429.

¹ Decision No. 71429, page 25, lines 6 and 7.

Property Tax Expense – Adjustment C increases property tax expense by \$365, from \$15,999 to \$16,364 as shown on Schedule JLK-3, page 4. Staff calculated property tax amount using a modified version of the Arizona Department of Revenue’s (“ADOR”) property tax method and a 2016 rate of 18.00 percent.

Income Tax Expense – Adjustment D decreases income tax expense by \$4,172, from \$11,271 to \$7,099 as shown on Schedule JLK-3, page 5. This adjustment reflects Staff’s changes to required revenue and operating expenses and the rate of 5.50 percent for Arizona income taxes.

CASH FLOW

The Company’s proposed revenue requirement would provide an operating income of \$83,148 and would yield a cash flow of \$160,249 before debt service and \$76,296 after debt service, as shown on Schedules JLK-1 and JLK-6.

Staff’s recommended revenue requirement would provide an operating income of \$89,537 and would yield a cash flow of \$160,532 before debt service and \$76,579 after debt service. Staff calculates cash flow as operating income, plus depreciation expense, less debt service. See Schedules JLK-1 and JLK-6.

REVENUE REQUIREMENT

Southland has a Staff-adjusted rate base of \$1,057,660. Staff’s revenue requirement yields a return on rate base of 8.47 percent.

Staff recommends a \$40,569 or 12.23 percent increase over the test year revenue of \$331,767 to \$372,336. Staff’s recommended revenues would result in an operating income of \$89,537, an after debt service cash flow of \$76,579 and a Debt Service Coverage Ratio (“DSCR”) of 1.91 as shown on Schedules JLK-1, JLK-6 and JLK-7. Staff has built in a seven basis point cushion to provide leeway for the Company to stay above the 1.20 minimum DSCR requirement.

Staff’s total revenue requirement of \$372,336 provides the Company with sufficient cash flow to meet normalized operating expenses, fund other contingencies, and meet WIFA Debt Service Requirements.

RATE DESIGN

Schedule JLK-4 presents a complete list of the Company’s present and proposed rates and Staff’s recommended rates and charges. The top two tiers of the 5/8 x 3/4-inch residential meter size rate design were used for the rates of all other meter sizes.

Staff’s recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,451 gallons from \$36.84 to \$41.30, for an increase of \$2.93, or 8.0 percent as shown on Schedule JLK-5.

MISCELLANEOUS SERVICE CHARGES

Staff recommends the Establishment Charge and Reconnection (Delinquent) be in alignment; although the Establishment Charge requires additional work when opening new service, the Reconnection (Delinquent) serves as a deterrent for disconnection.

SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested to continue to use its current service line and meter installation charges as shown on page 12 of the Engineering Report.

Staff has recommended service line and meter installation charges based upon its analysis of costs as discussed in the Engineering Report. Staff recommends approval of Staff's service line and meter installation charges as shown on Schedule JLK-4.

STAFF RECOMMENDATIONS

Staff recommends:

1. Approval of its recommended rates and charges as shown in Schedule JLK-4.
2. The WIFA Surcharge ordered by Decision No. 72429 and amended by Decision No. 73153 be discontinued as of the effective date of the Decision in this Docket.
3. The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
4. The Company be ordered to use the depreciation rates presented in Table C of the attached Engineering Report.
5. The Company file with Docket Control, as a compliance item in this docket within 90 days of the effective date of a decision in this proceeding, the three (3) Best Management Practice ("BMP") Tariff's that substantially conform to the templates created by Staff for the Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. Staff further recommends that a maximum of two BMP's may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMP's implemented in its next general rate application.

**SUMMARY OF OPERATING INCOME
ADJUSTED TEST YEAR AND STAFF RECOMMENDED**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Proposed
Revenues:				
Metered Water Revenue	\$ 223,841	\$ 223,841	\$ 365,783	\$ 365,000
Unmetered Water Revenue	100,590	100,590	-	-
Other Water Revenues	7,336	7,336	7,336	7,336
Total Operating Revenue	\$ 331,767	\$ 331,767	\$ 373,119	\$ 372,336
Operating Expenses:				
Operation and Maintenance	\$ 180,494	\$ 178,395	\$ 180,494	\$ 178,395
Depreciation	77,101	70,994	77,101	70,994
Property & Other Taxes	15,999	16,364	17,920	16,583
Income Tax	11,271	7,099	14,456	16,826
Total Operating Expense	\$ 284,865	\$ 272,853	\$ 289,971	\$ 282,799
Operating Income/(Loss)	\$ 46,902	\$ 58,914	\$ 83,148	\$ 89,537
Rate Base O.C.L.D.	\$ 1,156,452	\$ 1,057,660	\$ 1,156,452	\$ 1,057,660
Rate of Return - O.C.L.D.	4.06%	5.57%	7.19%	8.47%
Cash Flow Analysis			\$ 76,296	\$ 76,579
DSCR			1.91	1.91

ORIGINAL COST RATE BASE/FAIR VALUE

	----- Original Cost -----		Staff
	Company	Adjustment	
Plant in Service	\$ 1,750,100	\$ -	\$ 1,750,100
Less:			
Accum. Depreciation	588,819	\$ -	588,819
Net Plant	\$ 1,161,281		\$ 1,161,281
Less:			
Plant Advances	5,158	-	5,158
Meter Deposits	5,067	-	5,067
Total Advances	10,225	-	10,225
Contributions Gross	87,956	104,130 A.	192,086
Less:			
Amortization of CIAC	81,023	5,884 B.	86,907
Net CIAC	6,933	98,246	105,179
Accumulated Deferred Income Tax	7,597	-	7,597
Total Deductions	\$ 24,755	\$ 98,246	\$ 123,001
Plus:			
Allowance for Working Capital	19,926	(546) C.	19,380
Total Additions	\$ 19,926	\$ (546)	\$ 19,380
Rate Base	\$ 1,156,452	\$ (98,792)	\$ 1,057,660

Explanation of Adjustment:

- A To Add Plant Purchased with WIFA Surcharge Funds to CIAC per Decision 72429
- B To Amortize Additional CIAC
- C To Adjust Working Capital Per Staff's Expense Adjustments

STATEMENT OF TEST YEAR OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$ 223,841	\$ -	\$ 223,841
460 Surcharge Revenue	100,590	-	100,590
474 Other Water Revenues	7,336	-	7,336
Total Operating Revenue	\$ 331,767	\$ -	\$ 331,767
Operating Expenses:			
601 Salaries and Wages	-	-	-
610 Purchased Water	-	-	-
615 Purchased Power	31,976	-	31,976
618 Chemicals	773	-	773
620 Repairs and Maintenance	10,114	-	10,114
621 Office Supplies & Expense	4,799	-	4,799
630 Outside Services	107,323	-	107,323
635 Water Testing	5,109	(2,099) A	3,010
641 Rents	1,373	-	1,373
650 Transportation Expenses	3,785	-	3,785
657 Insurance - General Liability	2,034	-	2,034
659 Insurance - Health and Life	-	-	-
666 Regulatory Commission Expense - Rate Case	6,000	-	6,000
675 Miscellaneous Expense	5,170	-	5,170
676 Bad Debt Expense	2,038	-	2,038
403 Depreciation Expense	77,101	(6,107) B	70,994
408 Taxes Other Than Income	-	-	-
408.11 Property Taxes	15,999	365 C	16,364
409 Income Tax	11,271	(4,172) D	7,099
427.2 Security Deposit Interest	227	-	227
Total Operating Expenses	\$ 285,092	\$ (12,012)	\$ 273,080
OPERATING INCOME/(LOSS)	\$ 46,675	\$ 12,012	\$ 58,687
Other Income/(Expense):			
419 Interest and Dividend Income	\$ 236	\$ -	\$ 236
421 Non-Utility Income	-	-	-
427 Interest Expense	(31,660)	-	(31,660)
4XX Reserve/Replacement Fund Deposit	-	-	-
426 Miscellaneous Non-Utility Expense	-	-	-
Total Other Income/(Expense)	(31,424)	-	31,896
NET INCOME/(LOSS)	\$ 15,251	\$ 12,012	\$ 90,583

STAFF ADJUSTMENTS

A	WATER TESTING - Per Company	\$	5,109	
	Per Staff		3,010	\$ (2,099)
			<hr/>	<hr/>

To adjust water testing expense per Staff's Engineering Report

B	DEPRECIATION - Per Company	\$	77,101	
	Per Staff		70,994	\$ (6,107)
			<hr/>	<hr/>

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

Plant in Service	\$	1,697,034	
Less: Fully Depreciated, Non Depreciable Plant and Plant Purchased in the Test Year Depreciable Plant		326,905	-
	\$	1,370,129	
Times: Staff Proposed Depreciation Rate		5.65%	
Credit to Accumulated Depreciation		77,406	
Less: Amort. of CIAC* @ 5.65%		6,411	
Pro Forma Annual Depreciation Expense	\$	70,994	

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$	192,086	
Less: Non Amortizable Contribution(s)		-	
Fully Amortized Contribution(s)		78,605	
Amortizable Contribution(s)	\$	113,481	
Times: Staff Proposed Amortization Rate		5.65%	
Amortization of CIAC	\$	6,411	

C	PROPERTY TAXES - Per Company	\$	15,999	
	Per Staff		16,364	\$ 365
			<hr/>	<hr/>

Staff has applied the 2015 property tax rate and used the ADOR method of calculation.

D	INCOME TAX - Per Company	\$	11,271	
	Per Staff		7,099	\$ (4,172)
			<hr/>	<hr/>

Staff has calculated income tax to reflect adjustments to taxable income and to reflect an Arizona tax rate of 5.5%.

Southland Utilities Company, Inc.
Docket No. W-02062A-15-0224
Test Year Ended December 31, 2014

ORGANIZATION OF ASSETS AND DEPRECIATION PLANT

LINE NO.	ACCT NO.	DESCRIPTION	UTILITY PLANT IN SERVICE BALANCES	FULLY/NON-DEPRECIABLE PLANT BALANCES	DEPRECIABLE PLANT IN SERVICE	POST-TEST YEAR PLANT	DEPREC. RATE	DEPRECIATION EXPENSE
Plant In Service								
1	301	Organization Costs	\$ -	\$ -	-	-	0.00%	-
2	302	Franchise Costs	-	-	-	-	0.00%	-
3	303	Land & Land Rights	1,070	1,070	-	-	0.00%	-
4	304	Structures & Improvements	47,056	-	47,056	-	3.33%	1,567
5	307	Wells & Springs	30,174	-	30,174	19,380	3.33%	1,649
6	311	Electric Pumping Equipment	415,531	75,674	339,857	30,938	12.50%	46,349
7	320	Water Treatment Equipment	-	-	-	-	-	-
8	320.1	Water Treatment Plants	6,560	-	6,560	-	3.33%	218
9	320.2	Solutions & Feeders	4,732	-	4,732	-	20.00%	946
10	320.3	Arsenic Remediation Plant	-	-	-	-	-	-
11	330	Distribution Reservoirs & Standpipes	653,678	-	653,678	-	2.22%	14,512
12	330.1	Storage Tank	-	-	-	-	-	-
13	330.2	Pressure Tanks	-	-	-	-	-	-
14	331	Transmission & Distribution Mains	250,436	209,091	41,345	1,319	5.00%	853
15	333	Services	41,542	41,070	472	-	3.33%	16
16	334	Meters & Meter Installations	78,982	-	78,982	1,459	8.33%	6,701
17	335	Hydrants	153,743	-	153,743	-	2.00%	3,075
18	336	Backflow Prevention Devices	-	-	-	-	6.67%	-
19	339	Other Plant & Misc. Equip.	-	-	-	-	6.67%	-
20	340	Office Furniture & Fixtures	-	-	-	-	20.00%	-
21	340.1	Computer & Software	-	-	-	-	4.00%	-
22	341	Transportation Equipment	-	-	-	-	5.00%	-
23	342	Store Equipment	-	-	-	-	10.00%	-
24	343	Tools & Work Equipment	-	-	-	-	5.00%	-
25	344	Laboratory Equipment	-	-	-	-	5.00%	-
26	345	Power Operated Equipment	-	-	-	-	10.00%	-
27	346	Communications Equipment	5,697	-	5,697	-	10.00%	570
28	347	Miscellaneous Equipment	7,833	-	7,833	(1,850)	10.00%	783
29	348	Other Intangibles	-	-	-	-	0.00%	-
29		Subtotal General	\$ 1,697,034	\$ 326,905	\$ 1,370,129	\$ 51,246		\$ 77,406
30		Less: Amortization of Contributions			\$ 113,481		5.65%	\$ 6,411
31		Staff Recommended Depreciation Expense						\$ 70,994
32		Company Proposed Depreciation Expense						\$ 77,101
33		Increase/(Decrease) to Depreciation Expense						\$ (6,107)

Composite Depreciation Rate	0.0564951
-----------------------------	-----------

OPERATING INCOME ADJUSTMENT No. 3 - PROPERTY TAXES

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 331,767	\$ 331,767
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 663,534	\$ 663,534
4	Staff Recommended Revenue	\$ 331,767	\$372,336
5	Subtotal (Line 4 + Line 5)	\$ 995,301	\$ 1,035,870
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 331,767	\$ 345,290
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 663,534	\$ 690,580
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 663,534	\$ 690,580
13	Assessment Ratio		
14	Assessment Value (Line 12 * Line 13)	\$ 126,071	\$ 127,757
15	Composite Property Tax Rate - Obtained from ADOR		
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 16,364	
17	Company Proposed Property Tax	15,999	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 365	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 16,583
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 16,364
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 219
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 219
23	Increase in Revenue Requirement		\$ 40,569
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		0.539395%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
Line 17: Company Schedule C-1 Page 2
Line 21: Line 19 - Line 20
Line 23: Schedule xxx

CALCULATION OF INCOME TAX

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
	<i>Calculation of Income Tax:</i>				
		<u>Test Year</u>		<u>STAFF</u>	
				<u>Recommended</u>	
39	Revenue (Schedule JLK-10, Col.(C), Line 5 & Sch. JLK-1, Col. [B], Line 10)	\$331,767	\$ 40,569	\$ 372,336	
40	Operating Expenses Excluding Income Taxes	\$265,754		\$265,973	
41	WIFA Interest (L47)	\$ 31,424		31,424	
42	Arizona Taxable Income (L36 - L37- L38)	\$ 34,589		\$ 74,939	
43	Arizona State Income Tax Rate	6.5000%		5.5000%	
44	Arizona Income Tax (L39 x L40)		\$ 2,248		\$ 4,122
45	Federal Taxable Income (L33 - L35)	\$ 32,341		\$ 70,818	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 4,851		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -		\$ 5,204	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax		\$ 4,851		\$ 12,704
52	Combined Federal and State Income Tax (L35 + L42)		\$ 7,099		\$ 16,826
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]		\$ (4,172)		20.41%

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8" x 3/4" Meter	\$ 16.00	\$ 30.00	\$ 24.98
3/4" Meter	\$ 22.50	\$ 45.00	\$ 45.00
1" Meter	\$ 37.50	\$ 150.00	\$ 75.00
1½" Meter	\$ 75.00	\$ 240.00	\$ 150.00
2" Meter	\$ 120.00	\$ 480.00	\$ 240.00
3" Meter	\$ 240.00	\$ 750.00	\$ 480.00
4" Meter	\$ 375.00	\$ 750.00	\$ 750.00
6" Meter	\$ 750.00	\$ 1,500.00	\$ 1,500.00
8" Meter	\$ -	\$ -	\$ -
10" Meter	\$ -	\$ -	\$ -
Commodity Rates			
5/8 x 3/4" & 3/4" Meter - Residential			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
First 2,000 Gallons	\$ 1.55		
From 2,001 to 6,000 Gallons	\$ 3.00		
From 6,001 to 12,000 Gallons	\$ 4.00		
Over 12,000 Gallons	\$ 6.18		
First 2,000 Gallons		\$ 2.75	
From 2,001 to 6,000 Gallons		\$ 4.00	
From 6,001 to 12,000 Gallons		\$ 5.79	
Over 12,000 Gallons		\$ 7.05	
First 2,000 Gallons			\$ 3.87
From 2,001 to 6,000 Gallons			\$ 4.86
From 6,001 to 12,000 Gallons			\$ 6.40
Over 12,000 Gallons			\$ 7.92
3/4" Meter - Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
First 12,000 Gallons	\$ 4.00		
Over 12,000 Gallons	\$ 6.18		
First 12,000 Gallons		\$ 5.79	
Over 12,000 Gallons		\$ 7.05	
First 12,000 Gallons			\$ 6.40
Over 12,000 Gallons			\$ 7.92
1" - Residential, Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
From 1 to 35,000 Gallons	\$ 4.00		
Over 35,000 Gallons	\$ 6.18		
From 1 to 35,000 Gallons		\$ 5.79	
Over 35,000 Gallons		\$ 7.05	
From 1 to 0 Gallons			\$ 6.40
Over 0 Gallons			\$ 7.92
1½" - Residential, Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
First 60,000 Gallons	\$ 4.00		
Over 60,000 Gallons	\$ 6.18		
First 60,000 Gallons		\$ 5.79	
Over 60,000 Gallons		\$ 7.05	
First 60,000 Gallons			\$ 6.40
Over 60,000 Gallons			\$ 7.92
2" - Residential, Commercial & Industrial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
First 90,000 Gallons	\$ 4.00		
Over 90,000 Gallons	\$ 6.18		
First 90,000 Gallons		\$ 5.79	
Over 90,000 Gallons		\$ 7.05	
First 90,000 Gallons			\$ 6.40
Over 90,000 Gallons			\$ 7.92

3" - Residential, Commercial & Industrial		
Gallons Included in Minimum	-	-
Excess of Minimum - per 1,000 Gallons		
First 125,000 Gallons	\$ 4.00	
Over 125,000 Gallons	\$ 6.18	
First 125,000 Gallons		\$ 5.79
Over 125,000 Gallons		\$ 7.05
First 125,000 Gallons		\$ 6.40
Over 125,000 Gallons		\$ 7.92
4" - Residential, Commercial & Industrial		
Gallons Included in Minimum	-	-
Excess of Minimum - per 1,000 Gallons		
First 200,000 Gallons	\$ 4.00	
Over 200,000 Gallons	\$ 6.18	
First 200,000 Gallons		\$ 5.79
Over 200,000 Gallons		\$ 7.05
First 200,000 Gallons		\$ 6.40
Over 200,000 Gallons		\$ 7.92
6" - Residential, Commercial & Industrial		
Gallons Included in Minimum	-	-
Excess of Minimum - per 1,000 Gallons		
First 400,000 Gallons	\$ 4.00	
Over 400,000 Gallons	\$ 6.18	
First 400,000 Gallons		\$ 5.79
Over 400,000 Gallons		\$ 7.05
First 400,000 Gallons		\$ 6.40
Over 400,000 Gallons		\$ 7.92

RATE DESIGN

Service Line and Meter Installation Charges	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8" x 3/4" Meter	\$ 600.00	\$ 600.00	\$ 520.00
3/4" Meter	\$ 700.00	\$ 700.00	\$ 620.00
1" Meter	\$ 810.00	\$ 810.00	\$ 780.00
1½" Meter	\$ 1,075.00	\$ 1,075.00	\$ 1,050.00
2" Turbine Meter	\$ 1,875.00	\$ 1,875.00	Cost
2" Compound Meter	\$ 2,720.00	\$ 2,720.00	Cost
3" Turbine Meter	\$ 2,715.00	\$ 2,715.00	Cost
3" Compound Meter	\$ 3,710.00	\$ 3,710.00	Cost
4" Turbine Meter	\$ 4,160.00	\$ 4,160.00	Cost
4" Compound Meter	\$ 5,315.00	\$ 5,315.00	Cost
6" Turbine Meter	\$ 7,235.00	\$ 7,235.00	Cost
6" Compound Meter	\$ 9,250.00	\$ 9,250.00	Cost
Service Charges			
Establishment	\$ 30.00	\$ 35.00	\$ 35.00
Establishment (After Hours)	\$ 40.00	\$ -	\$ -
Reconnection (Delinquent)	\$ 40.00	\$ 45.00	\$ 40.00
Reconnection (Delinquent and After Hours)	\$ 50.00	\$ -	\$ -
After Hours Service Charge	\$ -	\$ 50.00	\$ 40.00
Meter Test (If Correct)	\$ 35.00	\$ 40.00	\$ 35.00
Deposit	*	*	*
Deposit Interest	**	**	**
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	\$ 25.00	\$ 30.00	\$ 25.00
Deferred Payment (monthly)	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	\$ 20.00	\$ 25.00	\$ 20.00
Late Fee (monthly)	1.50%	1.50%	\$ 5.00
Monthly Service Charge for Fire Sprinkler	***	***	***
<p>* Per Commission Rules (R14-2-403.B) ** Months off system times the minimum (R14-2-403.D) *** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.</p>			

TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 590

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	4,595	\$ 40.28	\$ 45.88	\$ 5.60	13.9%
Median Usage	3,451	\$ 36.84	\$ 41.30	\$ 4.46	12.1%

<u>Staff Recommend</u>					
Average Usage	4,595	\$ 40.28	\$ 45.33	\$ 5.05	12.5%
Median Usage	3,451	\$ 36.84	\$ 39.77	\$ 2.93	8.0%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

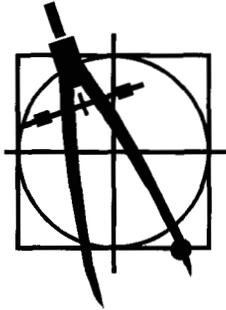
<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$ 29.39	\$ 30.00	2.1%	\$ 24.98	-15.0%
1,000	30.94	32.75	5.9%	28.85	-6.8%
2,000	32.49	35.50	9.3%	32.72	0.7%
3,000	35.49	39.50	11.3%	37.58	5.9%
4,000	38.49	43.50	13.0%	42.44	10.3%
5,000	41.49	47.50	14.5%	47.30	14.0%
6,000	44.49	51.50	15.8%	52.16	17.2%
7,000	48.49	57.29	18.1%	58.56	20.8%
8,000	52.49	63.08	20.2%	64.96	23.8%
9,000	56.49	68.87	21.9%	71.36	26.3%
10,000	60.49	74.66	23.4%	77.76	28.6%
15,000	87.03	107.39	23.4%	114.32	31.4%
20,000	117.93	142.64	21.0%	153.92	30.5%
25,000	148.83	177.89	19.5%	193.52	30.0%
50,000	303.33	354.14	16.8%	391.52	29.1%
75,000	457.83	530.39	15.8%	589.52	28.8%
100,000	612.33	706.64	15.4%	787.52	28.6%
125,000	766.83	882.89	15.1%	985.52	28.5%
150,000	921.33	1,059.14	15.0%	1,183.52	28.5%
175,000	1,075.83	1,235.39	14.8%	1,381.52	28.4%
200,000	1,230.33	1,411.64	14.7%	1,579.52	28.4%

CASH FLOW ANALYSIS

	Company Proposed	Staff Adjusted	Staff Recommended
Cash Inflows:			
1 461 Metered Water Revenue	\$ 365,783	\$ -	\$ 365,000
2 460 Unmetered Water Revenue	\$ -	-	-
3 474 Other Water Revenues	\$ 7,336	-	\$ 7,336
4 Total Operating Revenue	\$ 373,119	\$ -	\$ 372,336
Cash Outflows:			
5 601 Salaries and Wages	\$ -	\$ -	\$ -
6 610 Purchased Water	\$ -	-	-
7 615 Purchased Power	\$ 31,976	-	\$ 31,976
8 618 Chemicals	\$ 773	-	\$ 773
9 620 Repairs and Maintenance	\$ 10,114	-	\$ 10,114
10 621 Office Supplies & Expense	\$ 4,799	-	\$ 4,799
11 630 Outside Services	\$ 107,323	-	\$ 107,323
12 635 Water Testing	\$ 5,109	(2,099)	\$ 3,010
13 641 Rents	\$ 1,373	-	\$ 1,373
14 650 Transportation Expenses	\$ 3,785	-	\$ 3,785
15 657 Insurance - General Liability	\$ 2,034	-	\$ 2,034
16 659 Insurance - Health and Life	\$ -	-	\$ -
17 666 Regulatory Commission Expense - Rate Case	\$ 6,000	-	\$ 6,000
18 675 Miscellaneous Expense	\$ 5,170	-	\$ 5,170
19 676 Bad Debt Expense	\$ 2,038	-	\$ 2,038
20 403 Depreciation Expense	\$ 77,101	(6,107)	\$ 70,994
21 408 Taxes Other Than Income	\$ -	-	\$ -
22 408.11 Property Taxes	\$ 17,920	(1,337)	\$ 16,583
23 409 Income Tax	\$ 14,456	-	\$ 16,826
24 Total Operating Expenses	\$ 289,971	\$ (9,542)	\$ 282,799
25 Operating Income	\$ 83,148	\$ 9,542	\$ 89,537
26 Plus: Depreciation Expense	\$ 77,101	\$ (6,107)	\$ 70,994
27 Less Loan Interest and Fee Payment	31,660	-	31,660
28 Less: Loan Debt Service Reserve Payment	15,731	-	15,731
27 Less: Loan Principal Payment	36,562	-	36,562
28 Cash Flow from Operations	\$ 76,296	\$ 3,436	\$ 76,579

DEBT SERVICE COVERAGE RATIO

	Company's Proposed Revenue	Staff's Recommended Revenue
Operating Revenue:	\$ 373,119	\$ 372,336
Operating Expenses:		
Operation and Maintenance	\$ 180,494	\$ 178,395
Depreciation	77,101	70,994
Property Taxes	17,920	16,583
Income Taxes	14,456	16,826
Total Operating Expense	\$ 289,971	282,799
Operating Income	\$ 83,148	\$ 89,537
Plus depreciation	77,101	70,994
Operating Income Plus Depreciation	\$ 160,249	\$ 160,532
Total Debt Service:		
Principal Repayment	36,562	36,562
Debt Service Reserve	15,731	15,731
Interest	9,045	9,045
Admin. Fees	22,613	22,613
Total Debt Service	83,951	83,951
Net Flow	\$ 76,298	\$ 4,303
Debt Service Coverage Ratio (DSCR) (Adjusted Operating Income/Total Debt Service)	1.91	1.91



**ENGINEERING REPORT FOR
Southland Utilities Company, Inc.**

**Docket No.
W-02062A-15-0224 (Rates)**

By Del Smith

October 9, 2015

CONCLUSIONS

1. Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Staff (“Staff”) concludes that the Southland Utilities Company, Inc. (“Southland” or “Company”) water system has adequate well production and storage capacities to serve the present customer base and a reasonable level of growth.
2. The Arizona Department of Environmental Quality (“ADEQ”) regulates the Southland water system under ADEQ Public Water System (“PWS”) Identification No. 02-029. According to the ADEQ Drinking Water Compliance Status Report (“CSR”), dated August 14, 2015, ADEQ has determined that the Southland PWS is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.
3. Lost water for the Company’s water system was calculated to be 5.22 percent during the test year. This percentage is within acceptable limits of 10 percent.
4. The Southland water system is not located in an Arizona Department of Water Resources (“ADWR”) designated Active Management Area (“AMA”).
5. ADWR has reported that the Company’s water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.
6. A check of the Utilities Division Compliance Section database showed that there are currently no delinquent Commission compliance items for the Company.
7. Southland has approved Curtailment and Backflow Tariffs on file with the Commission.

RECOMMENDATIONS

1. Staff recommends an annual water testing expense of \$3,010 be used for purposes of this application.
2. Staff recommends that the Company continue using the depreciation rates presented in Table C on a going forward basis.

3. Staff recommends that Southland continue using the charges listed under “Company Proposed/Staff Recommended” in Table D for service line and meter installations.
4. Staff recommends that Southland file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three best management practices (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/Water/forms.asp>. Staff further recommends that a maximum of two BMPs may come from the “Public Awareness/Public Relations” or “Education and Training” categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

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A. INTRODUCTION AND LOCATION OF COMPANY

On June 30, 2015, Southland Utilities Company, Inc. ("Company" or "Southland") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission") in docket No. W-02062A-15-0224. The Company's current rates were approved in Commission Decision No. 72429, dated June 24, 2011. The Commission Utilities Division Staff ("Staff") engineering review and analysis of the application is presented in this report.¹

The Company provides water service to approximately 593 customers in a subdivided area located approximately five miles south of Sierra Vista, in Cochise County.

The plant facilities were visited on August 28, 2015, by Jeff Francis, Staff Utilities Engineer, accompanied by Company operation representatives Keith Dojaquez, Certified Operator², and Gary McMurtrie, Field Technician.

Figure 1 shows the location of the Company within Cochise County and Figure 2 delineates the eastern and western portions of the Company's certificated area which covers approximately 9.4 square-miles. The current service area for the existing water system is within the approximate 1.8 square-miles of the western portion of the certificated area.

¹ Staff notes that this report was initially prepared by Jeff Francis, under the supervision of Del Smith. Mr. Francis is no longer employed at the Commission, and this Report is adopted and presented by Mr. Smith.

² Mr. Dojaquez is a Certified Grade 3 Water Distribution System Operator, ADEQ Operator Identification No. OP022644.

COCHISE COUNTY

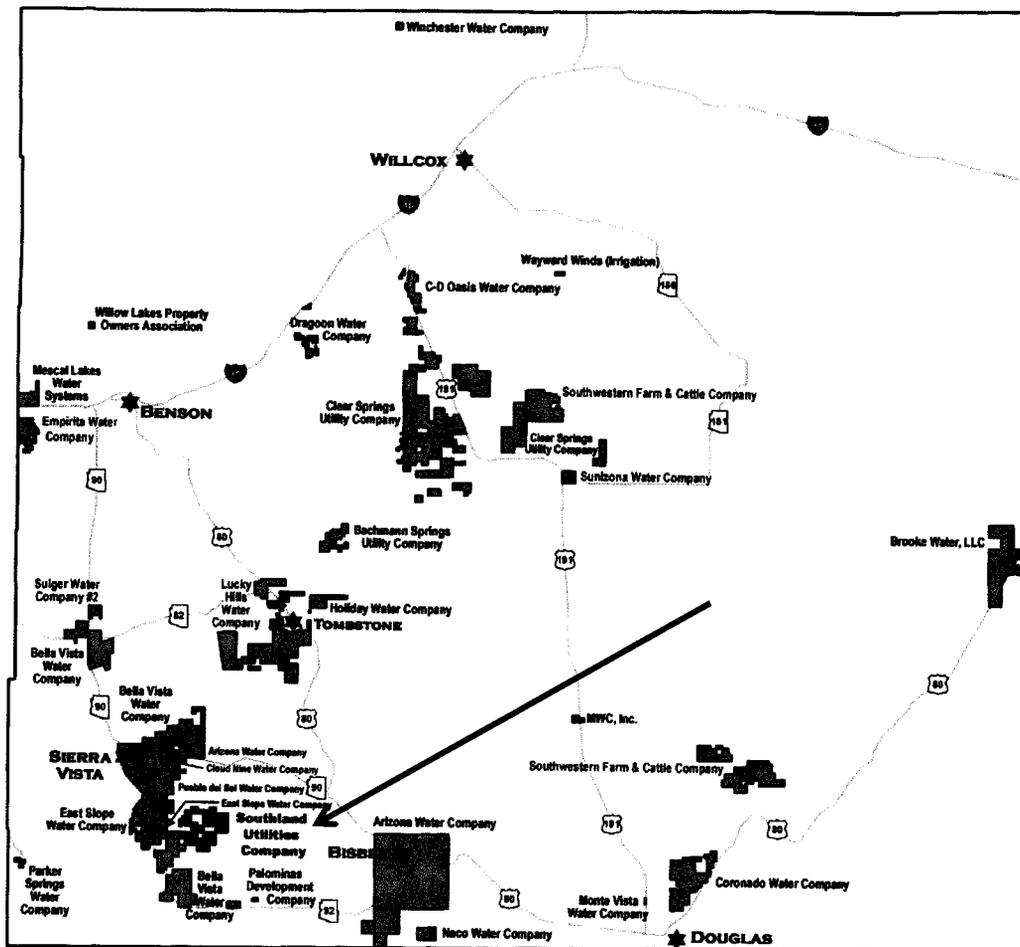


Figure 1. County Map

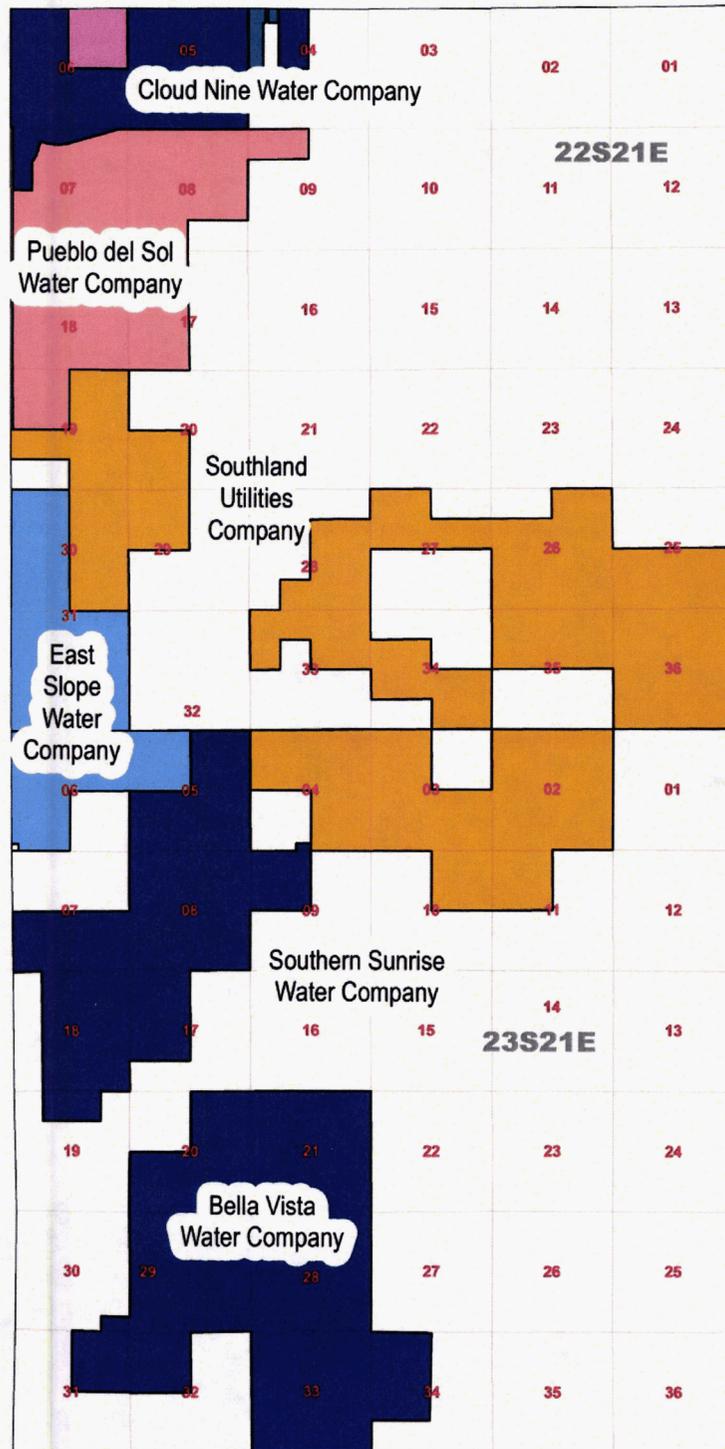


Figure 2. Southland Certificated Area

B. DESCRIPTION OF THE WATER SYSTEM

The Southland water system's plant is located on three separate sites and includes two wells, three storage tanks, eight booster pumps, a pressure tank, two bladder tanks, and a distribution system with approximately 593 metered connections in the western portion of the Southland certificated area.

A water system schematic is shown in Figure 3 and a plant facilities summary is shown in Table A below.

Table A. Southland Plant Facilities Summary³

Well Data

Plant Location	ADWR Well ID	Pump Size (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
Site 1	55-626149	40	150	600	12	4	1967
Site 2	55-626150	30	170	600	14-12-10	6	1968

Water Tanks and Pumps

Location Site	Storage		Pressure		Booster Pumps	
	Capacity (gallons)	Quantity	Capacity (Gallons)	Quantity	Capacity (HP)	Quantity
Site 1	62,000	1	5,000	1	5 10	1 1
Site 2	165,000	1	125 bladder tank	1	30	3
Site 3	165,000	1	90 bladder tank	1	20	3

³ The information listed was based on one, or a combination of, the following sources: 1) Company's Application, 2) Commission Annual Reports, 3) Arizona Department of Water Resources Records, 4) Information contained in the Company's Response to a Staff Data Request and, 5) Information collected during Staff's site visit.

Table A. Southland Plant Facilities Summary (cont.)

Distribution Mains

Size (inches)	Material	Length (feet)
2	Steel	1,000
4	AC	18,122
4	PVC	526
6	AC	28,260
6	PVC	2,711

Meters

Size (inches)	Quantity
5/8 x 3/4	632
3/4	2
2	3
3 (turbine)	1
4 (turbine)	1

Other Items

Location	Item Description
Site 1	Chlorinator
Site 2	Chlorinator
Site 2	10' x 12' storage structure (brick construction)
Site 3	backup generator
	operations building (mobile home)
	554 feet of 5 foot chain link fence
	46 standard hydrants

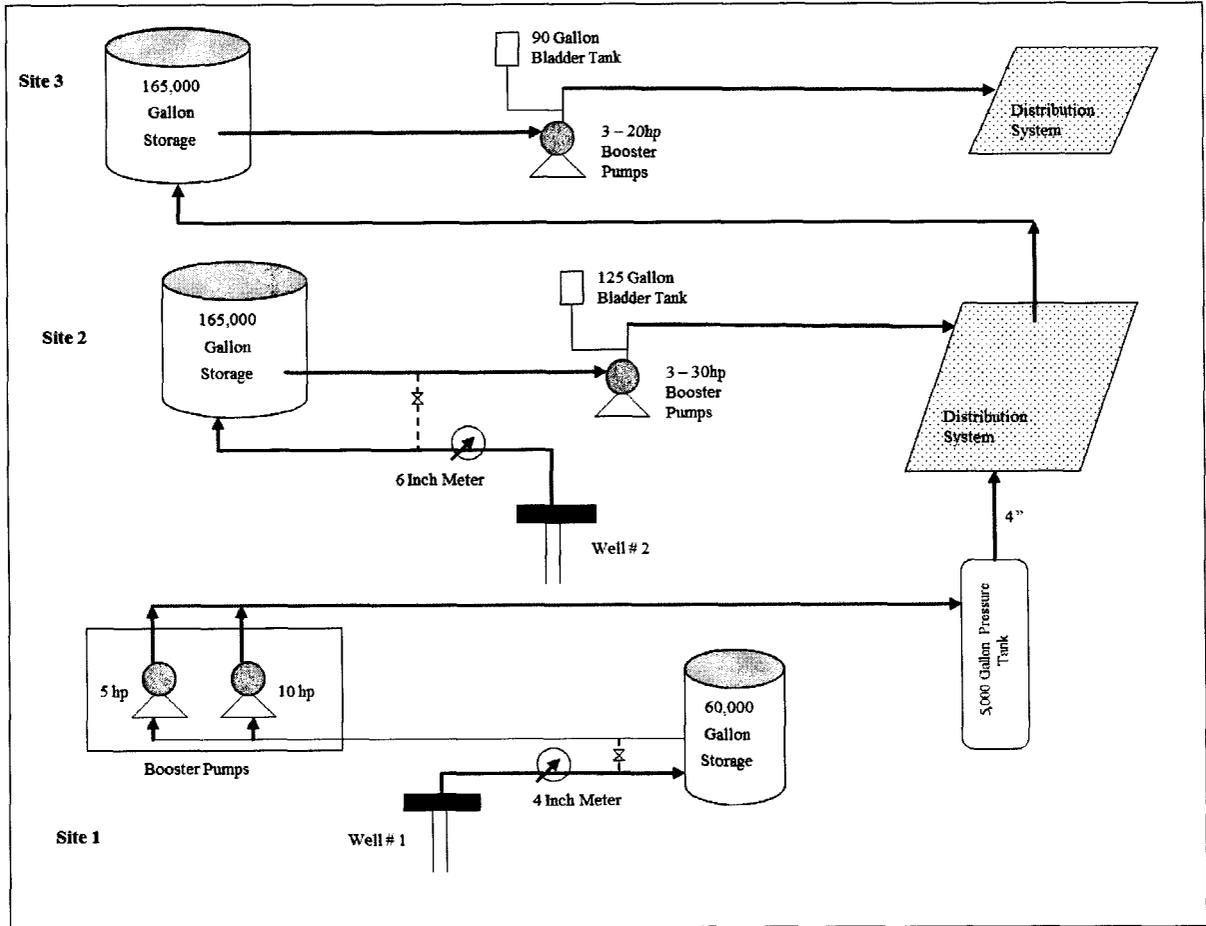


Figure 3. Southland Water System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the test year ending December 31, 2014. Customer consumption included a high monthly water use of 241 gallons per day (“GPD”) per connection in June, and the low water use was 126 GPD per connection in December. The average use for the twelve-month period was 168 GPD per connection. The Company reported 34,583,000⁴ gallons of water sold during the test year.

⁴ Total water sold during the test year based on the Water Use Data Sheet on page 18 of the Rate Application.

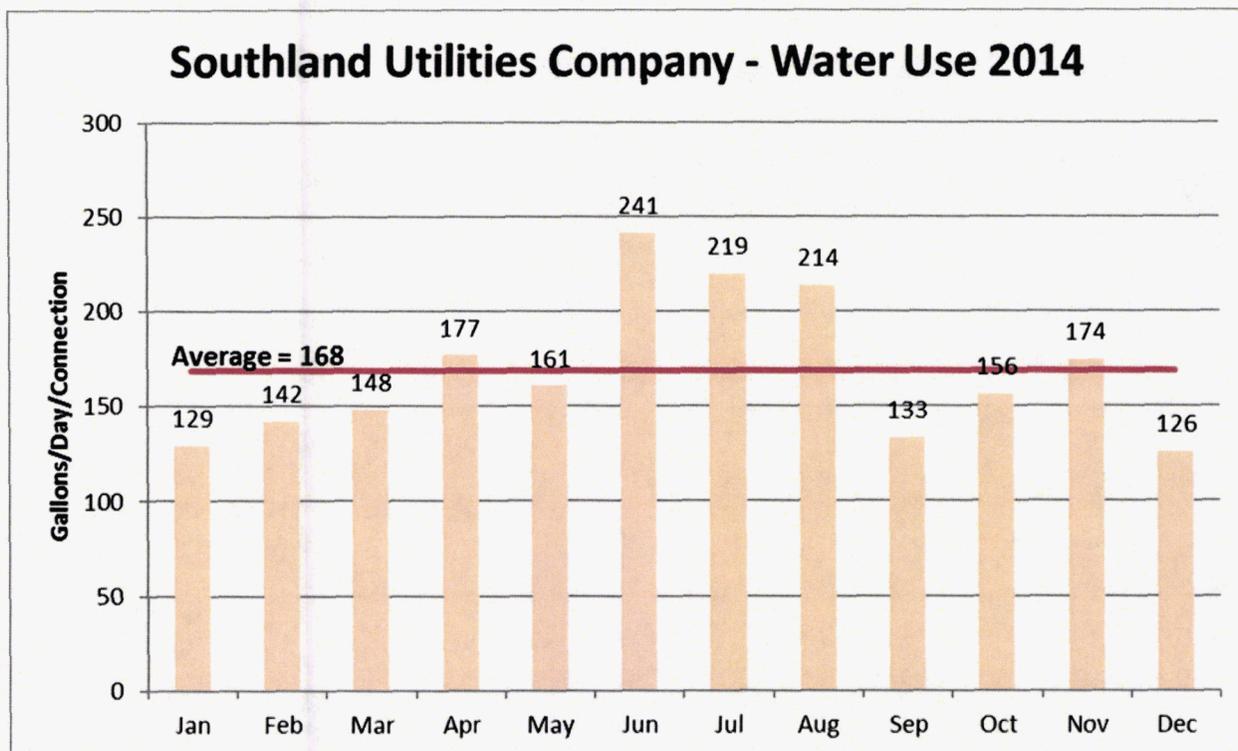


Figure 4. Southland Water Use

Non-Account Water

Non-account water should be 10 percent or less, and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing.

The Company reported 36,487,000 gallons of water pumped and 34,583,000 gallons of water sold during the test year ending December 31, 2014, resulting in a water loss of 5.22 percent, which is within acceptable limits. Water loss for the past five years is depicted in Figure 5.⁵

⁵ Water use data obtained from the Company's Annual Reports on file with the ACC.

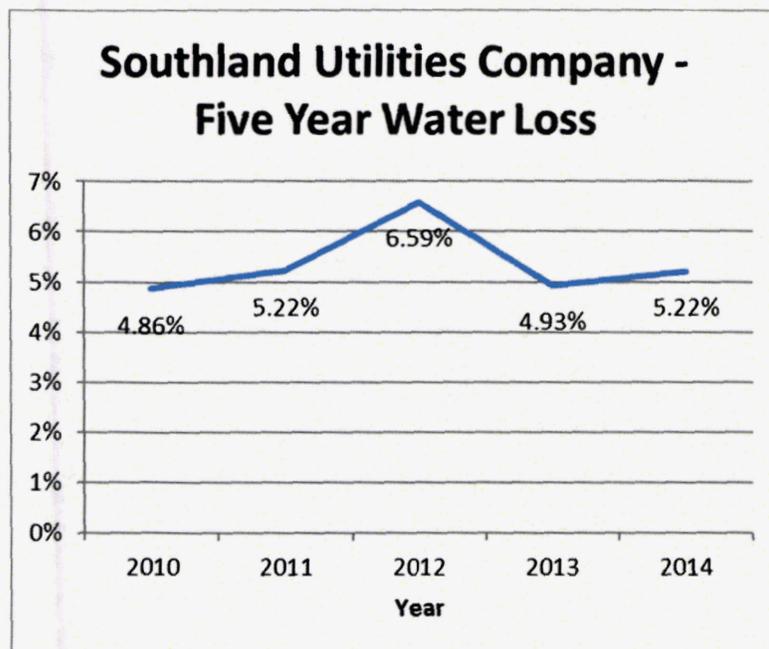


Figure 5. Southland Five Year Water Loss

System Analysis

Based on the water use data provided by the Company for the Test Year, Staff concludes that the system's total well production capacity of 320 GPM and total storage capacity of 392,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

Based on customer data obtained from the Company's Annual Reports, it is projected that Southland will not experience any growth over the next 5 years. Figure 6 depicts the actual number of customers from 2010 to 2014 and projects an estimated growth for the next five years using linear regression analysis.

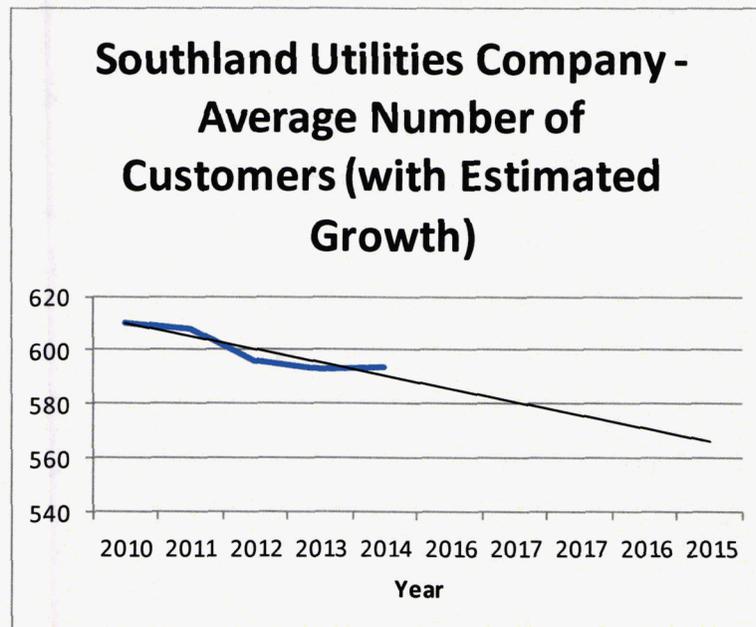


Figure 6. Southland Customer Growth Projection

E. ADEQ COMPLIANCE

Compliance

The ADEQ regulates the Southland water system under ADEQ Public Water System (“PWS”) No. 02-029. According to the ADEQ Drinking Water Compliance Status Report (“CSR”), dated August 14, 2015, ADEQ has determined that the Southland PWS is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program (“MAP”) is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$5,109 during the test year.⁶ In addition to Total Coliform, DBP, and MAP, the Southland water system is required to perform tests for Lead and Copper every third year. There were no invoices submitted in the application for the Lead and Copper tests, however the Company informed Staff that they were recently performed, and provided the invoice, dated July, 17, 2015. Lead and Copper testing costs shown in this invoice are included in Staff’s analysis of annual testing expenses.

⁶ See Exhibit 5 (Water Testing Invoices) in the rate application.

Some of the testing invoices submitted by the Company were excluded, as they were either for non-recurring tests (such as Total Coliform re-tests required by ADEQ) or duplicate (MAP invoices for both 2014 and 2015 were included). The monitoring and testing expenses that were reviewed, evaluated, and recalculated by Staff are represented in Table B. Staff recommends its annual water testing expense estimate of \$3,010 be used for this proceeding.

Table B. Water Testing Cost

Water Test	Cost per Test	Quantity of Tests per 3 years	3 Year Testing Costs	Annual Testing Cost
Total Coliform	\$20	72	\$1,440	\$480
MAP - IOCs, SOCs, VOCs, Nitrate, Nitrite, Asbestos, Radiochemicals	\$1,890	3	\$5,669	\$1,890
Stage 2 DBP	\$265	6	\$1,590	\$530
Lead & Copper	\$33	10	\$330	\$110
Total Cost			\$9,029	\$3,010

F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Southland service area is not located within any ADWR Active Management Area (“AMA”). ADWR’s Water Provider Compliance Report, dated July 8, 2015, indicates that the Company is currently compliant with departmental requirements governing water providers and/or community water systems.

G. ACC COMPLIANCE

A check of the Utilities Division Compliance Section database showed that there are no delinquent Commission compliance items for Southland.⁷

H. DEPRECIATION RATES

The following table lists the annual depreciation rates by NARUC plant category currently recommended by Staff. These rates represent typical and customary values within a range of anticipated equipment life. Staff recommends that the Company use the depreciation rates presented in Table C on a going forward basis.

⁷ Per Compliance Section email dated August 26, 2015.

Table C. Depreciation Rate Table for Water Companies

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.00
320.3	Point-of-Use Treatment Devices	10	10.00
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant ⁸	---	-----

⁸ Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

I. OTHER ISSUES

Service Line and Meter Installation Charges

Southland has not proposed changes to its existing service line and meter installation charges, with the exception of Over 6-inch, which it is proposing to charge At Cost.⁹ The proposed charges, listed in Table D, are refundable advances and are within Staff's current range of charges for service line and meter installations. Staff recommends continued use of the charges listed under "Company Proposed/Staff Recommended" in Table D.

Table D. Service Line and Meter Installation Charges

Meter Size	Company Proposed/Staff Recommended		
	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$445	\$155	\$600
3/4-inch	\$445	\$255	\$700
1-inch	\$495	\$315	\$810
1-1/2-inch	\$550	\$525	\$1,075
2-inch Turbine	\$830	\$1,045	\$1,875
2-inch Compound	\$830	\$1,890	\$2,720
3-inch Turbine	\$1,045	\$1,670	\$2,715
3-inch Compound	\$1,165	\$2,545	\$3,710
4-inch Turbine	\$1,490	\$2,670	\$4,160
4-inch Compound	\$1,670	\$3,645	\$5,315
6-inch Turbine	\$2,210	\$5,025	\$7,235
6-inch Compound	\$2,330	\$6,920	\$9,250
Over 6-inch	At Cost	At Cost	At Cost

Curtailement Tariff

Southland has an approved Curtailement Tariff on file with the Commission.¹⁰

Backflow Prevention Tariff

Southland has an approved Backflow Prevention Tariff on file with the Commission.¹¹

⁹ The Company's current charges were approved in Decision No. 72429.

¹⁰ See Docket W-02062A-09-0362.

¹¹ See Docket W-02062A-10-0301.

Best Management Practices ("BMP") Tariff

Staff recommends that Southland file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/Water/forms.asp>. Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.