

ORIGINAL



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2016 JAN 19 P 3:30

AZ CORP COMMISSION
DOCKET CONTROL

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 **COMMISSIONERS**

10 DOUG LITTLE, CHAIRMAN
11 BOB STUMP
12 BOB BURNS
13 TOM FORESE

Arizona Corporation Commission
DOCKETED

JAN 19 2016

DOCKETED BY:

14 **IN THE MATTER OF THE**
15 **APPLICATION OF CHAPARRAL**
16 **WATER PROPERTIES, INC. FOR AN**
17 **INCREASE IN RATES**

DOCKET NO. W-02393A-15-0349
COMMENTS TO STAFF REPORT

18
19 Chaparral Water Properties, Inc. ("Chaparral" or "Company") hereby files its
20 comments to the Staff Report. As noted below, Chaparral and Staff generally agree on
21 most material issues.

22
23 **Rate Base**

24 Staff and Chaparral agree the test year end Rate Base is \$133,002. See Staff
25 Report Schedule TDP-2, p. 1.

26
27 **Operating Expenses**

28 Similarly, Chaparral and Staff agree on nearly all operating expenses. The

1 Company has adopted Staff adjustments 1, 2, and 3 described in Staff Report Schedule
2 TDP-3, p. 1. Company Schedule 1 set forth in Attachment 1 incorporates these
3 adjustments. Chaparral and Staff now agree on all operating expenses except property
4 taxes and income taxes. These two accounts differ because the Company urges slightly
5 more metered water revenue than proposed by Staff. Chaparral has revised its property
6 and income tax calculations to match all rates used by Staff. *See* Attachment 2,
7
8 Schedules 2 and Schedule 3.
9

10 **Revenue Requirement and Operating Income**

11
12 By adopting Staff's adjustments to operating expenses, Chaparral has reduced its
13 proposed operating revenue to \$188,470, leaving an operating income to \$34,737 and an
14 operating margin is 18.43%. Meanwhile, Staff recommends an operating revenue of
15 \$180,176 and operating income of \$28,170, resulting in an operating margin of 15.63%.
16
17 The difference between Staff's recommended revenue and that proposed by the
18 Company is now \$8,294. While this difference may not seem substantial, when you
19 consider the small size of the Company (298 customers) and the small amount of
20 operating income being proposed, \$8,294 is significant to the Company.
21

22 **Rate Design**

23
24 While the operating income issue is significant, the most important issue
25 presented by the Staff Report is the rate design. The Company is proposing a rate design
26 that affords more revenue stability, retains the link to water consumption and expense,
27 and keeps residential rates affordable. Chaparral proposes 48% of the annual revenue be
28 generated from the monthly minimum and 52% from the commodity rates. This will

1 make it more likely that the Company will have revenue stability. The average customer
2 using 10,293 gallons per month will see their bill increase from \$34.52 to \$45.30, or
3 \$10.78 per month. A customer's bill with median monthly usage of 6,697 will increase
4 from \$26.04 to \$36.11, or \$10.07. Clearly, the rates proposed by Chaparral are
5 reasonable and should be adopted.
6

7
8 Meanwhile, Staff's rate design results in this revenue split being 42% and 58%.
9 The problem here is that a 42/58 split shifts much of the rate increase burden on the high
10 volume water customers. As we all know, the problem with this approach is that it will
11 cause conservation, leaving the Company with less revenue than what is projected.
12 Recently, the Commission has held that a rate design allowing a company to generate
13 50% of its revenue from the monthly minimum and 50% from commodity charges
14 "provides a steady, reliable revenue stream, but yet still allows customers to lower their
15 water bills through conservation." *See* Decision No. 75046, Park Water at p. 8 (Apr. 27,
16 2015). This policy statement is even more applicable here because Chaparral's
17 customers use a high volume of water on average, and their conservation could devastate
18 Chaparral's ability to meet its revenue requirement.
19

20
21
22 The Company believes the requested additional revenue beyond what Staff is
23 recommending as well as the alternative rate design proposed by Chaparral will help
24 alleviate some of the impacts of future conservation by customers. As a result, the
25 Company requests the Commission approve the rates and charges as reflected on
26 Schedule 4. *See* Attachment 3. Page 1 contains the metered water rates and charges
27 proposed by Chaparral, while page 2 reflects the service line and meter installation
28

1 charges as well as the service charges and fire sprinkler charges as recommended by
2 Staff and adopted by the Company. The only exception to this is the omission by Staff
3 of a late payment charge of 1.5% per month that is part of current rates and was included
4 in the original application. The Company proposed this rate stay the same and that
5 request is unchanged.
6

7
8 In the event the Commission decides Staff's metered water revenue requirement
9 of \$176,097 is sufficient for Chaparral, an alternative rate design to Staff's is proposed
10 on Schedule 5 that reflects a monthly minimum and commodity rate revenue split of
11 48% to 52%. See Attachment 4. Note the miscellaneous charges reflected on page 2 of
12 Schedule 4 will remain in agreement with those recommended by Staff as mentioned
13 above.
14

15 In conclusion, Chaparral believes this rate design is more beneficial in the long
16 run as it meets the slightly larger revenue requirement proposed by the Company as well
17 as a more stable split of revenue between the monthly minimum and commodity rates.
18

19 DATED this 19th day of January, 2016.
20

21 **MOYES SELLERS & HENDRICKS LTD.**
22

23
24 
25 Steve Wene
26

27 **Original and 13 copies filed this**
28 **19th day of January, 2016, with:**

1 Docket Control
2 Arizona Corporation Commission
3 1200 West Washington
4 Phoenix, Arizona 85007

5 *Donnelly Herbert*
6 _____
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ATTACHMENT 1

STATEMENT OF OPERATING INCOME

Acct. No.	OPERATING REVENUES	TEST YEAR	PROFORMA ADJUSTMENTS	REF #	ADJUSTED TEST YEAR	PROPOSED ADJUSTMENTS	REF #	PROPOSED RATES
461	Metered Water Revenue	\$ 134,391			\$ 134,391	\$ 50,000	6	\$ 184,391
474	Other Water Revenues	4,079			4,079			4,079
	TOTAL OPERATING REVENUES	\$ 138,470	\$ -	*	\$ 138,470	\$ 50,000		\$ 188,470
	OPERATING EXPENSES							
601	Salaries and Wages	\$ -			\$ -			\$ -
610	Purchased Water				-			-
615	Purchased Power	25,425			25,425			25,425
618	Chemicals	2,351			2,351			2,351
620	Repairs and Maintenance	23,340	925	1	24,265			24,265
621	Office Supplies & Expense	2,662			2,662			2,662
630	Outside Services	56,547	(925)	1	55,622			55,622
635	Water Testing	3,767	(1,024)	2	2,743	61	S1	2,804
641	Rents				-			-
650	Transportation Expenses				-			-
657	Insurance - General Liability	2,569			2,569			2,569
659	Insurance - Health and Life				-			-
666	Regulatory Commission Exp-Rate Case		7,500	3	7,500	(1,875)	S2	5,625
675	Miscellaneous Expense	5,199			5,199			5,199
403	Depreciation Expense	14,722			14,722	(2,724)	S3	11,998
408	Taxes Other Than Income				-			-
408.11	Property Taxes	1,081	4,772	4a	5,853	704	4b	6,557
409	Income Tax	-	(2,083)	5a	(2,083)	10,592	5b	8,509
427	Customer Security Deposit Interest	147			147			147
	TOTAL OPERATING EXPENSES	\$ 137,810	\$ 9,165		\$ 146,975	\$ 6,758		\$ 153,733
	OPERATING INCOME/(LOSS)	\$ 660	\$ (9,165)		\$ (8,505)	\$ 43,242		\$ 34,737

Notes: Adjustments 1, 2 and 3 were part of the original application and accepted by Staff.
Adjustments 4a and 4b are on Schedule 2.
Adjustments 5a and 5b are on Schedule 3.
Adjustment 6 is the revised increase to metered water revenue.
Adjustments S1, S2 and S3 are Staff adjustments from Schedule TDP-3, Page 1 of 4, adopted by the Company.

ATTACHMENT 2

DETAIL OF PROPERTY TAX EXPENSE ADJUSTMENTS 4a and 4b

Line	Test Year as Adjusted	Company at Proposed Rates
1 Adjusted 2014 Test Year Revenue	\$ 138,470	\$ 138,470
2 Weight Factor	2	2
3 Subtotal	\$ 276,940	\$ 276,940
4 Company Recommended Revenue	138,470	188,470
5 Subtotal	\$ 415,410	\$ 465,410
6 Number of Years	3	3
7 Three Year Revenue Average	\$ 138,470	\$ 155,137
8 AZ Department of Revenue Multiplier	2	2
9 Revenue Base Value	\$ 276,940	\$ 310,273
10 Plus 10% of CWIP	-	-
11 Less: Net Book Value of Licensed Vehicles	-	-
12 Full Cash Value	\$ 276,940	\$ 310,273
13 Assessment Ratio	18.00%	18.00%
14 Assessment Value	\$ 49,849	\$ 55,849
15 Composite Property Tax Rate *	11.7408%	11.7408%
16 Adjusted Test Year Property Tax Expense	\$ 5,853	
17 Actual Test Year Property Tax Expense	1,081	
18 Total Adjustment 4a	\$ 4,772	
19 Projected Property Tax Expense		\$ 6,557
20 Adjusted Test Year Property Tax Expense		5,853
21 Total Adjustment 4b		\$ 704
22 * <i>Property tax composite rate calculation:</i>		
23 Assessed Value per 2014 Property Tax Notices	\$ 62,326	
24 Property Tax due per 2014 Notices	7,318	
25 Composite Property Tax Rate	11.7408%	

CALCULATION OF INCOME TAX ADJUSTMENTS 5a and 5b

Line
No.

Description	Total		Company	
	Test Year	Test Year	Proposed	Proposed
Calculation of Income Tax:				
1 Revenue	\$ 138,470		\$ 188,470	
2 Operating Expenses Excluding Income Taxes	(149,058)		(145,224)	
3 Arizona Taxable Income (L1 - L2- L3)	\$ (10,588)		\$ 43,246	
4 Arizona State Income Tax Rate	5.5000%		5.5000%	
5 Arizona Income Tax (L4 x L5)		\$ (582)		\$ 2,379
6 Federal Taxable Income (L4- L6)	\$ (10,005)		\$ 40,867	
7 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	(1,501)		6,130	
8 Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%				
9 Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%				
10 Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%				
11 Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%				
12 Total Federal Income Tax		(1,501)		6,130
13 Combined Federal and State Income Tax (L6 + L13)		\$ (2,083)		\$ 8,509
14 Test Year Income Tax Expense		-		
15 Adjustment 5a to Test Year Income Tax Expense		\$ (2,083)		
16 Adjusted Test Year Income Tax Expense				(2,083)
17 Adjustment 5b to Proposed Income Tax Expense				\$ 10,592

ATTACHMENT 3

RATES AND CHARGES
(Chaparral Proposed Revenue)

PRESENT RATES

Meter Size	Monthly Usage Charge	Commodity Rates	Rate	Gallons
5/8" x 3/4" Meter	\$ 13.25	All Meter Sizes	\$ 1.91	0 - 7,000 gallons
3/4" Meter	19.28			
1" Meter	32.50			
1-1/2" Meter	64.25	Second Tier	2.40	7,001 - 15,000 gallons
2" Meter	103.50	Third Tier	3.00	Over 15,000 gallons
3" Meter	205.60	Standpipe Gallons Included in Minimum	\$ 3.00	All gallons/per 1,000 0
4" Meter	321.25			
6" Meter	642.50			
8" Meter	N/A			

PROPOSED RATES

Meter Size	Monthly Usage Charge	<i>* No gallons included in the monthly minimum</i>
5/8" x 3/4" Meter	\$ 23.75	
3/4" Meter	36.00	
1" Meter	59.38	
1-1/2" Meter	120.00	
2" Meter	190.00	
3" Meter	384.00	
4" Meter	600.00	
6" Meter	1,200.00	
8" Meter	2,400.00	

Commodity Rates	Range	Amount per 1,000 gallons
5/8" x 3/4" and 3/4" Residential Meters	0-3,000 gallons	\$ 1.10
	3,001 - 10,000 gallons	2.45
	Over 10,000 gallons	3.75
5/8" x 3/4" and 3/4" Commercial and Industrial	0-10,000 gallons	\$ 2.45
	Over 10,000 gallons	3.75
1" Residential, Commercial and Industrial	0-20,000 gallons	\$ 2.45
	Over 20,000 gallons	3.75
1 1/2" Residential, Commercial and Industrial	0-30,000 gallons	\$ 2.45
	Over 30,000 gallons	3.75
2" Residential, Commercial and Industrial	0-50,000 gallons	\$ 2.45
	Over 50,000 gallons	3.75
3" Residential, Commercial and Industrial	0-75,000 gallons	\$ 2.45
	Over 75,000 gallons	3.75
4" Residential, Commercial and Industrial	0-90,000 gallons	\$ 2.45
	Over 90,000 gallons	3.75
6" Residential, Commercial and Industrial	0-125,000 gallons	\$ 2.45
	Over 125,000 gallons	3.75
8" Residential, Commercial and Industrial	0-200,000 gallons	\$ 2.45
	Over 200,000 gallons	3.75
Standpipe Service (Per 1,000 gallons)	All gallons	\$ 3.75

CURRENT AND PROPOSED SERVICE CHARGES

SERVICE LINE AND METER INSTALLATION CHARGES (Refundable Pursuant to AAC R14-2-405)	CURRENT CHARGES			PROPOSED CHARGES		
	SERVICE LINE CHARGES	METER CHARGES	TOTAL CHARGES	SERVICE LINE CHARGES	METER CHARGES	TOTAL CHARGES
5/8" x 3/4" Meter	\$ 445.00	\$ 155.00	\$ 600.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4" Meter	445.00	255.00	700.00	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00	550.00	525.00	1,075.00
2" Turbine Meter	-	-	-	800.00	995.00	1,795.00
2" Meter	880.00	1,095.00	1,975.00	830.00	1,890.00	2,720.00
3" Turbine Meter	-	-	-	1,015.00	1,620.00	2,635.00
3" Meter	1,100.00	1,700.00	2,800.00	1,165.00	2,545.00	3,710.00
4" Turbine Meter	-	-	-	1,430.00	2,570.00	4,000.00
4" Meter	1,580.00	2,770.00	4,350.00	1,670.00	3,645.00	5,315.00
6" Turbine Meter	-	-	-	2,150.00	4,925.00	7,075.00
6" Meter	2,410.00	5,440.00	7,850.00	2,330.00	6,920.00	9,250.00
8" Meter and Larger	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost

SERVICE CHARGES	CURRENT CHARGES	PROPOSED CHARGES
Establishment	\$ 25.00	\$ 35.00
Establishment (After Hours)	50.00	N/A
After Hours Service Charge (at customers request)	N/A	\$ 35.00
Reconnection (Delinquent)	\$ 50.00	40.00
Meter Test (If Correct)	25.00	25.00
Deposit	*	*
Deposit Interest	**	*
Re-establishment (Within 12 Months)	***	**
NSF Check	\$ 15.00	\$ 15.00
Deferred Payment (Per R14-2-409.G.6)	1.50%	1.50%
Meter Re-Read (If Correct)	\$ 15.00	\$ 15.00
Late Payment Charge (Per Month)	1.50%	1.50%

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:	CURRENT CHARGES	PROPOSED CHARGES
4" or Smaller	****	****
6"	****	****
8"	****	****
10"	****	****
Larger than 10"	****	****

* Per Commission Rule A.A.C. R-14-2-403(B)(7).

** Per Commission Rule A.A.C. R-14-2-403(B)(3).

*** Number of months off system times the monthly minimum A.A.C. R14-2-403(D).

**** 2.0% of monthly minimum for a comparable size 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.

ATTACHMENT 4

RATES AND CHARGES
(Staff Recommended Revenue)

PRESENT RATES

Meter Size	Monthly Usage Charge	Commodity Rates	Rate	Gallons		
5/8" x 3/4" Meter	\$ 13.25	All Meter Sizes	\$	0 - 7,000 gallons		
3/4" Meter	19.28				First Tier	1.91
1" Meter	32.50				Second Tier	2.40
1-1/2" Meter	64.25	Third Tier	3.00	Over 15,000 gallons		
2" Meter	103.50	Standpipe Gallons Included in Minimum	\$ 3.00	All gallons/per 1,000 0		
3" Meter	205.60					
4" Meter	321.25					
6" Meter	642.50					
8" Meter	N/A					

PROPOSED RATES

Meter Size	Monthly Usage Charge	* No gallons included in the monthly minimum
5/8" x 3/4" Meter	\$ 23.00	
3/4" Meter	34.50	
1" Meter	57.50	
1-1/2" Meter	115.00	
2" Meter	184.00	
3" Meter	368.00	
4" Meter	575.00	
6" Meter	1,150.00	
8" Meter	2,400.00	

Commodity Rates	Range	Amount per 1,000 gallons
5/8" x 3/4" and 3/4" Residential Meters	0-3,000 gallons	\$ 1.10
	3,001 - 10,000 gallons	2.30
	Over 10,000 gallons	3.50
5/8" x 3/4" and 3/4" Commercial and Industrial	0-10,000 gallons	\$ 2.30
	Over 10,000 gallons	3.50
1" Residential, Commercial and Industrial	0-20,000 gallons	\$ 2.30
	Over 20,000 gallons	3.50
1 1/2" Residential, Commercial and Industrial	0-30,000 gallons	\$ 2.30
	Over 30,000 gallons	3.50
2" Residential, Commercial and Industrial	0-50,000 gallons	\$ 2.30
	Over 50,000 gallons	3.50
3" Residential, Commercial and Industrial	0-75,000 gallons	\$ 2.30
	Over 75,000 gallons	3.50
4" Residential, Commercial and Industrial	0-90,000 gallons	\$ 2.30
	Over 90,000 gallons	3.50
6" Residential, Commercial and Industrial	0-125,000 gallons	\$ 2.30
	Over 125,000 gallons	3.50
8" Residential, Commercial and Industrial	0-200,000 gallons	\$ 2.30
	Over 200,000 gallons	3.50
Standpipe Service (Per 1,000 gallons)	All gallons	\$ 3.50