

ORIGINAL



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MEMORANDUM

TO: Docket Control
FROM: *for* Thomas M. Broderick
Director
Utilities Division

RECEIVED
AZ CORP COMMISSION Arizona Corporation Commission
DOCKET CONTROL
DOCKETED
2016 MAR 4 PM 3 32
MAR 04 2016

DATE March 4, 2016

DOCKETED BY *TK*

RE: STAFF'S RESPONSE TO JOSHUA VALLEY UTILITY COMPANY'S COMMENTS TO THE STAFF REPORT. (DOCKET NO. W-02023A-15-0315)

BACKGROUND

On September 1, 2015, Joshua Valley Utility Company, Inc. ("Joshua Valley" or "Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). Staff issued a Letter of Sufficiency on October 1, 2015.

On January 22, 2016, Staff filed a Staff Report recommending approval of the rates and charges shown in Schedule BCA-4, pages 1 and 2.

On February 5, 2016, Joshua Valley filed comments to the Staff Report. On February 10, 2016, Staff was directed to respond to the Company's filing. In its comments, the Company primarily focused on the following three aspects of the Staff Report:

1. *Plant and Accumulated Depreciation*

Staff disallowed \$37,653 in plant, and removed the associated accumulated depreciation of \$16,873, because the Company could not locate invoices supporting the underlying plant additions. The Company acknowledged that it was not able to locate invoice supporting these plant additions, but asked that the Commission recognize these investments as a part of rate base and further assured the Commission that its "moving forward" plant additions are being tracked and accounted for differently."

Staff's Response – The Company's response to Staff's data requests BCA-2-1, failed to provide supporting invoices for plant additions totaling \$37,653.

The Arizona Administrative Code, R14-2-411D, states:

Each utility shall keep general and auxiliary accounting records reflecting the cost of its properties, operating income and expense, assets and liabilities, and all other accounting and statistical data necessary to give complete and authentic information as to its properties and operations.

Without being provided with invoices, Staff's responsive action is to protect the interest of ratepayers by not including the unsupported plant item in rate base. Staff continues to support this plant disallowance.

Consequently, Staff disallowed \$37,653 in plant and remove the associated accumulated depreciation of \$16,873. However, Staff recalculated its associated accumulated depreciation and now is utilizing \$17,370, which agrees with the Company's position. As a result, Staff's amended accumulated depreciation balance is \$1,464,085, a decrease of \$497 from Staff's originally filed Contributions in Aid of Construction ("CIAC") amortization balance of \$1,464,582.

2. *CIAC and Accumulated Amortization*

Staff and the Company agree with the CIAC amount of \$58,342 per Decision No. 64000. However, Staff used a composite depreciate rate of 2.34 percent in calculating accumulated CIAC amortization.

Staff's Response – Staff erroneously used the composite depreciate rate of 2.34 percent in calculating CIAC amortization instead of 3 percent depreciation rate authorized in the last rate case. See Staff Report, Docket No. W-02023A-01-0187, Schedule 3, P.3 (June 15, 2001). Staff has amended its CIAC amortization balance to reflect changes to its calculations. Staff's amended CIAC amortization balance is \$26,245 as shown on Amended Schedule BCA-2, page 5, an increase of \$5,426 from Staff's originally filed CIAC amortization balance of \$20,828.

3. *Operating Expense – Owner's Salary and Wage Adjustment*

Staff removed \$20,000 paid to the owner and recorded as Outside Services, choosing to recognize such payments as salaries expense. Staff reduced the owner's salary by \$7,400 from \$20,000 to \$12,600 and reclassified the amount to Salaries and Wages. The Company has filed comments regarding Staff's adjustment as follows:

1. Staff contends that "both the owner and the General Manager perform the same service 'oversee all aspect of operations'". But Staff offers no evidence that the owner and the General Manager both perform the role.

Staff's Response – Staff's evidence was based upon statements made on Exhibit 2, entitled "Salaries and Wages Support" in the Company's application and to the Company's response to data request JLK 1.13 -Outside Services both of which are provided in Attachment A.

As shown on Exhibit 2, "Salaries and Wages Support", the Company stated that the General Manager, Mr. Levandowski "Oversees all aspect of operations". Further, the Company stated in its response to data request JLK 1.13, that the owner "John Norton provides routine services related to Company management and oversight of employees and service providers".

The \$20,000 salary paid by the Company to the owner is a related party transaction because Mr. Norton is both the owner and employee. Staff scrutinizes related party transactions to a greater

degree to determine the reasonableness of the amount paid. Compensation of owners in excess of a reasonable amount may actually be a distribution of income/profit. Staff reviewed the Company's general ledger (see Attachment B) and found that the owner was not paid bi-weekly or even monthly. According to the general ledger provided by the Company the owner was paid only once during the test year in the amount of \$20,000 in June of 2014. Employees are typically paid bi-weekly. To Staff's knowledge the owner does not keep track of the amount of time he spends actually working on Joshua Valley activities with timesheets. It is not appropriate to use an estimate as the basis for a salary.

Accounting Instruction No. 10 of the NARUC USOA states:

10. General – Allocation of Salaries and Expenses

Charges to utility plant or to a salaries expense account shall be based upon the actual time engaged in either plant construction or providing operational services. In the event actual time spent in the various activities is not available or practicable, salaries should be allocated upon the basis of a study of the time engaged during a representative period. **Charges should not be made to the accounts based upon estimates** or in an arbitrary fashion. (Emphasis added).

Staff recognized that Mr. Norton spent time working on Joshua Valley activities, however the amount of time could not be substantiated because the Company does not document the actual time the owner spent actually working on Joshua Valley activities. Therefore the Company could not provide the number of hours the owner actually worked to earn the \$20,000 salary. Customers should only be required to pay for the actual and reasonable cost needed to provide service. Without time sheets for the Owner, Staff concluded that Mr. Norton spent time actually working on Joshua Valley activities but not as many hours as the General Manager. In determining a reasonable salary level for the owner Staff considered the fact that both the Owner and General Manager have similar duties with the General Manager being paid \$12,600 per year. Consequently, Staff determined that a reasonable salary for the Owner was likewise \$12,600. Although the Owner salary level is the same as the General Manager's, the hourly rate paid to the Owner is higher than the General Manager because of Staff's conclusion that the Owner work fewer hours than the General Manager. For example, if we assume that the Owner works 10 hours per week and the General Manager works 20 hours per week, then the hourly rate for the owner would be \$24.23 and the hourly rate for the General Manager would be \$12.12 as shown on Attachment C.

Initially Staff failed to calculate payroll taxes on this \$12,600 salary expense, however Staff has now allows an additional amount of \$964 in taxes other than income for FICA taxes on the \$12,600 owner's salary.

Staff does not understand why the Company chooses to concentrate on the two adjustments totaling negative \$7,400 and totally ignores the other three adjustments which reduces the total adjustments to \$5,756.

The total five adjustments equals \$5,756 and the two chosen by the Company are only a part of this total.

REVENUE REQUIREMENT

Staff recommends total annual operating revenue of \$357,991 as shown on Amended Schedule BCA-3, page 1. Staff recommended revenue is an increase of \$83,033 or 30.20 percent over the test year revenue of \$274,958. Staff's recommended revenue produces a cash flow of \$108,917. Staff's recommended revenue would produce an operating income of \$59,050 for a 7.05 percent rate of return on the Staff recommended OCRB of \$837,576 as shown on Amended Schedule BCA-1, page 1.

The Company requested a cash flow of \$111,023 which resulted in a 7.10 percent rate of return.

Staff's total revenue requirement of \$357,991, provides the Company with sufficient cash flow to pay operating expenses and contingencies. Cash flow needs determined the revenue requirement.

RATE DESIGN

Amended Schedule BCA-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's proposed rates would increase the typical residential bill, for customers with a 5/8 x 3/4 - inch meter and a median usage of 945 gallons, from \$30.93 to \$41.57 for an increase of \$10.65, or 34.43 percent as shown on Amended Schedule BCA-5.

Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 945 gallons from \$30.93 to \$39.97, for an increase of \$9.04, or 29.24 percent as shown on Amended Schedule BCA-5.

Service List for: Joshua Valley Utility Company
Docket No. W-02023A-15-0315

Mr. Steve Wene
Moyes Sellers & Hendricks, Ltd.
1850 North Central Avenue, Suite 1100
Phoenix, Arizona 85004

Mr. Thomas M. Broderick
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice Alward
Chief Legal Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Dwight Nodes
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

SUMMARY OF FILING

	-- Present Rates --		Proposed		Staff
	Company as Filed	Staff as Adjusted	Company as Filed	Company as Filed	Recommended as Adjusted
1 Revenues:					
2 Metered Water Revenue	\$ 271,457	\$ 271,457	\$ 366,457	\$	354,490
3 Unmetered Water Revenue	-	-	-		-
4 Other Water Revenues	3,501	3,501	3,501		3,501
5					
6 Total Operating Revenue	<u>\$ 274,958</u>	<u>\$ 274,958</u>	<u>\$ 369,958</u>	<u>\$</u>	<u>357,991</u>
7					
8 Operating Expenses:					
9 Operation and Maintenance	\$ 214,635	\$ 207,605	\$ 214,635	\$	207,605
10 Depreciation	50,066	49,867	50,066		49,867
11 Property & Other Taxes	19,587	20,551	23,244		21,617
12 Income Tax	(2,406)	(1,123)	18,414		17,211
13 Bad Debt Expense	\$ 2,642	\$ 2,642	\$ 2,642	\$	2,642
14 Total Operating Expense	<u>\$ 284,524</u>	<u>\$ 279,543</u>	<u>\$ 309,001</u>	<u>\$</u>	<u>298,941</u>
15					
16 Operating Income/(Loss)	<u>\$ (9,566)</u>	<u>\$ (4,585)</u>	<u>\$ 60,957</u>	<u>\$</u>	<u>59,050</u>
17					
18					
19 Rate Base O.C.L.D.	\$ 859,068	\$ 837,576	\$ 859,068	\$	837,576
20					
21 Rate of Return - O.C.L.D.	N/M	N/M	7.10%		7.05%
22					
23 Operating Margin	N/M	N/M	16.48%		16.49%
24					
25 Cash Flow - (L10+L16)	\$ 40,500	\$ 45,283	\$ 111,023	\$	108,917

NOTE: Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

REVENUE REQUIREMENT CALCULATION

LINE NO.	DESCRIPTION	[A]	[B]
		COMPANY ORIGINAL COST	STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 859,068	\$ 837,576
2	Adjusted Operating Income (Loss)	\$ (9,566)	\$ (4,584)
3	Current Rate of Return (L2 / L1)	Not Meaningful	Not Meaningful
4	Required Rate of Return (L5 / L1)	7.10%	7.05%
5	Required Operating Income (L4 * L1)	\$ 60,957	\$ 59,050
6	Operating Income Deficiency (L5 - L2)	\$ 70,523	\$ 63,634
7	Gross Revenue Conversion Factor	0.0000	1.3049
8	Required Revenue Increase (L7 * L6)	\$ 95,000	\$ 83,033
9	Adjusted Test Year Revenue	\$ 274,958	\$ 274,958
10	Proposed Annual Revenue (L8 + L9)	\$ 369,958	\$ 357,991
11	Required Increase in Revenue (%)	34.55%	30.20%
12	Proposed Operating Margin	16.48%	16.49%
13	Depreciation Expense	\$ 50,066	\$ 49,867
14	Cash Flow (L5 + L13)	\$ 111,023	\$ 108,917

References:

Column (A): Company Application
Column (B): Staff Schedules

GROSS REVENUE CONVERSION FACTOR AND INCOME TAX CALCULATION FOR RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
<i>Calculation of Gross Revenue Conversion Factor:</i>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	23.3632%			
5	Subtotal (L3 - L4)	76.6368%			
6	Revenue Conversion Factor (L1 / L5)	1.304855			
<i>Calculation of Uncollectible Factor:</i>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	22.3671%			
9	One Minus Combined Income Tax Rate (L7 - L8)	77.6329%			
10	Uncollectible Rate	0.0%			
11	Uncollectible Factor (L9 * L10)	0			
<i>Calculation of Effective Tax Rate:</i>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	5.5000%			
14	Federal Taxable Income (L12 - L13)	94.5000%			
15	Applicable Federal Income Tax Rate (Line 44)	17.8488%			
16	Effective Federal Income Tax Rate (L14 x L15)	16.8671%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	22.3671%			
<i>Calculation of Effective Property Tax Factor</i>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	22.3671%			
20	One Minus Combined Income Tax Rate (L18 - L19)	77.6329%			
21	Property Tax Factor (XXX-18, L24)	1.2830%			
22	Effective Property Tax Factor (L 21 * L 22)	0.9960%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		23.3632%		
24	Required Operating Income	\$ 59,050			
25	Adjusted Test Year Operating Income (Loss)	\$ (4,584)			
26	Required Increase in Operating Income (L24 - L25)		\$ 63,634		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 17,211			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ (1,123)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 18,334		
30	Recommended Revenue Requirement (Schedule BCA-1, Line 10)	\$ 357,991			
31	Uncollectible Rate (Line 10)	0.0%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ -		
35	Property Tax with Recommended Revenue (BCA-3, L19)	\$ 11,649			
36	Property Tax on Test Year Revenue (BCA-3, L 20)	\$ 10,583			
37	Increase in Property Tax Due to Increase in Revenue (BCA-3, L21)		\$ 1,065	\$ -	
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		\$ 83,033		
<i>Calculation of Income Tax:</i>					
		Test Year		STAFF Recommended	
39	Revenue	\$274,958	\$ 83,033	\$ 357,991	
40	Operating Expenses Excluding Income Taxes	280,665	\$ 1,065	\$ 281,730	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L36 - L37- L38)	\$ (5,707)		\$ 76,261	
43	Arizona State Income Tax Rate	5.5000%		5.5000%	
44	Arizona Income Tax (L39 x L40)		\$ (314)		\$ 4,194
45	Federal Taxable Income (L33 - L35)	\$ (5,393)		\$ 72,067	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (809)		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -		\$ 5,517	
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		\$ (809)		\$ 13,017
52	Combined Federal and State Income Tax (L35 + L42)		\$ (1,123)		\$ 17,211
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				17.85%
<i>Calculation of Interest Synchronization:</i>					
54	Rate Base (Schedule BCA-2)	\$ 837,576			
55	Weighted Average Cost of Debt	0.00%			
56	Synchronized Interest (L45 X L46)	\$ -			

ORIGINAL COST RATE BASE/FAIR VALUE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$ 2,372,749	\$ (37,653) A	\$ 2,335,096
Less:			
Accum. Depreciation	1,481,455	(17,370) B	1,464,085
Net Plant	\$ 891,294	\$ (20,283)	\$ 871,011
Less:			
Meter Deposits (AIAC)	25,226	-	25,226
AIAC Refunds	-	-	-
Total Advances	25,226	-	25,226
Contributions Gross	58,342	-	58,342
Less:			
Amortization of CIAC	26,254	(0) C	26,254
Net CIAC	32,088	0	32,088
Customer Deposits	-	-	-
ADIT	-	-	-
Total Deductions	\$ 57,314	\$ 0	\$ 57,314
Plus:			
1/24 Power	1,036	(0)	1,036
1/8 Operation & Maint.	24,052	(1,208) D	22,844
Inventory	-	-	-
Prepayments	-	-	-
Total Additions	\$ 25,088	\$ (1,209)	\$ 23,879
Rate Base	\$ 859,068	\$ (21,492)	\$ 837,576

Explanation of Adjustment:

- A - Refer to Schedule BCA-2, Pages 2 and 3
- B - Refer to Schedule BCA-2, Page 4
- C - Refer to Schedule BCA-2, Pages 5 and 6
- D - Refer to Schedule BCA-2, Page 6

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization Costs	\$ -	\$ -	\$ -
302 Franchise Costs	-	-	-
303 Land & Land Rights	6,176	-	6,176
304 Structures & Improvements	2,745	-	2,745
307 Wells & Springs	108,304	(10,201) a	98,103
311 Electric Pumping Equipment	72,920	(0)	72,920
320 Water Treatment Equipment	-	-	-
320.1 Water Treatment Plants	-	-	-
320.2 Solutions & Feeders	-	-	-
320.3 Media for Arsenic Treatment	-	-	-
330 Distribution Reservoirs & Standpipes	-	-	-
330.1 Storage Tank	40,080	-	40,080
330.2 Pressure Tanks	-	-	-
331 Transmission & Distribution Mains	1,992,877	(7,835) b	1,985,042
333 Services	18,456	-	18,456
334 Meters & Meter Installations	44,840	(14,106) c	30,734
335 Hydrants	-	-	-
336 Backflow Prevention Devices	-	-	-
339 Other Plant & Misc. Equip.	-	-	-
340 Office Furniture & Fixtures	11,367	-	11,367
340.1 Computer & Software	8,946	(1,497) d	7,449
341 Transportation Equipment	56,693	-	56,693
342 Store Equipment	-	-	-
343 Tools & Work Equipment	3,657	(3,657) e	-
344 Laboratory Equipment	-	-	-
345 Power Operated Equipment	5,331	-	5,331
345 Communications Equipment	-	-	-
347 Miscellaneous Equipment	357	(357) f	-
348 Other Tangibles	-	-	-
105 C.W.I.P.	-	-	-
TOTALS	<u>\$ 2,372,749</u>	<u>\$ (37,653) A</u>	<u>\$ 2,335,096</u>

JOSHUA VLLEY UTILITY COMPANY

Docket No. W-02023A-15-0315

Test Year Ended :12/31/14

Amended Schedule BCA-2

Page 3 of 6

STAFF RATE BASE ADJUSTMENTS

a -	WELLS AND SPRINGS - Per Company	\$	108,304		
	Per Staff	\$	98,103	\$	(10,201)
					<u> </u>
	To remove the cost of plant the Company failed to provide supporting invoices.				
b -	TRANSMISSION & DISTRIBUTION MAINS - Per Company		1,992,877		
	Per Staff		1,985,042	\$	(7,835)
					<u> </u>
	To remove the cost of plant the Company failed to provide supporting invoices.				
c -	METERS AND METER INSTALLATIONS - Per Company		44,840		
	Per Staff		30,734	\$	(14,106)
					<u> </u>
	To remove the cost of plant the Company failed to provide supporting invoices.				
d -	COMPUTER AND SOFTWARE - Per Company	\$	8,946		
	Per Staff		7,449	\$	(1,497)
					<u> </u>
	To remove the cost of plant the Company failed to provide supporting invoices.				
e -	TOOLS & WORK EQUIPMENT - Per Company	\$	3,657		
	Per Staff		-	\$	(3,657)
					<u> </u>
	To remove the cost of plant the Company failed to provide supporting invoices.				
f -	MISCELLANEOUS EQUIPMENT - Per Company	\$	357		
	Per Staff		-	\$	(357)
					<u> </u>
	To remove the cost of plant the Company failed to provide supporting invoices.				

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 1,481,455
Accumulated Depreciation - Per Staff	1,464,085 B
Total Adjustment	\$ (17,370)

Explanation of Adjustment:

- B - To reflect Staff's calculation of accumulated depreciation reserve based on Staff's adjustments to plant.

ACCT		ACCUMULATED DEPRECIATION		
<u>No.</u>	<u>Description</u>	Company	Staff	Staff
		<u>Application</u>	<u>Adjustment</u>	<u>Calculated</u>
		\$	\$	\$
301	Intangibles	-	-	-
303	Land and Land Rights	-	-	-
304	Structures and Improvements	2,227	-	2,227
307	Wells and Srings	30,080	(4,246)	25,834
310	Power Generation Equipment	-	-	-
311	Electrical Pumping Equipment	43,899	0	43,899
320.1	Water Treatment Plant	-	-	-
320.2	Solution Chemical Feeders	-	-	-
320.3	Media for Arsenic Treatment	-	-	-
330	Distribution Reservoirs & Standpipes	-	-	-
330.1	Storage Tank	26,294	-	26,294
330.2	Pressure Tank	-	-	-
331	Transmission and Distribution Mains	1,241,295	(1,175)	1,240,120
333	Services	14,976	-	14,976
334	Meters and Meter Installation	39,547	(8,813)	30,734
335	Hydrants	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-
340	Office Furniture and Fixtures	11,367	-	11,367
340.1	Computers and Software	8,107	(1,497)	6,610
341	Transportation Equipment	56,693	-	56,693
343	Tools and Work Equipment	1,371	(1,371)	-
345	Power Operated Equipment	5,331	-	5,331
346	Communications Equipment	-	-	-
347	Miscellaneous Equipment	268	(268)	-
348	Other Tangible Plant	-	-	-
	Total	\$ 1,481,455	(17,370)	\$ 1,464,085

CIAC Amortization Adjustment

Amortization Rate 3.00%

Balance per Decision	Adds	CIAC Cumulative	Amortization	
			Annual	Cumulative
64000		\$ 58,342.00		\$ 1,750.00
2001	-	58,342.00	1,750.26	3,500.26
2002	-	58,342.00	1,750.26	5,250.52
2003	-	58,342.00	1,750.26	7,000.78
2004	-	58,342.00	1,750.26	8,751.04
2005	-	58,342.00	1,750.26	10,501.30
2006	-	58,342.00	1,750.26	12,251.56
2007	-	58,342.00	1,750.26	14,001.82
2008	-	58,342.00	1,750.26	15,752.08
2009	-	58,342.00	1,750.26	17,502.34
2010	-	58,342.00	1,750.26	19,252.60
2011	-	58,342.00	1,750.26	21,002.86
2012	-	58,342.00	1,750.26	22,753.12
2013	-	58,342.00	1,750.26	24,503.38
2014	-	58,342.00	1,750.26	26,253.64
Test Year end 12/31/2014	\$	58,342.00		26,253.64
		Increase to amortization	\$ 24,503.64	
Net CIAC 12/31/14				\$ 32,088.36

STAFF RATE BASE ADJUSTMENTS

ADVANCE IN AID OF CONSTRUCTION (AIAC) - Per Company	25,226	
Per Staff	25,226	\$ -

To reflect Staff's calculation of net AIAC balance based on the Company's application.

12/31/2000 Ending Balance (Decision No. 64000)	\$ 32,302
AIAC Additions since the last rate case	\$ 103,370
Less: AIAC Refunds since the last Rate case	<u>\$ 110,446</u>
Net AIAC Balance	<u>\$ 25,226</u>

C - AMORTIZATION OF CIAC - Per Company	26,254	
Per Staff	26,254	\$ (0)

To reflect Staff's calculation of Amortization of CIAC based on the Company's application.

- WORKING CAPITAL (1/24 Purchased Pwr & Wtr) Per Company	\$ 1,036	
Per Staff	1,036	\$ (0)

To reflect Staff's calculation of cash working capital based on Staff's recommendations for purchased power and purchased water.

D - WORKING CAPITAL (1/8 operation & Maint exp.) Per Company	\$ 24,052	
Per Staff	22,844	\$ (1,208)

To reflect Staff's calculation of cash working capital based on Staff's recommendations for operation and maintenance expenses. (excluding purchased power and purchased water expenses).

JOSHUA VILLEY UTILITY COMPANY

Docket No. W-02023A-15-0315
 Test Year Ended :12/31/14

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted	Staff Proposed Change	Staff Recommended
Revenues:						
461 Metered Water Revenue	\$ 271,457	\$ -		\$ 271,457	\$ 83,033	\$ 354,490
460 Unmetered Water Revenue	-	-		-		\$ -
474 Other Water Revenues	3,501	-		3,501		\$ 3,501
Total Operating Revenue	\$ 274,958	\$ -		\$ 274,958	\$ 83,033	\$ 357,991
Operating Expenses:						
601 Salaries and Wages	103,971	12,600 A		116,571	-	\$ 116,571
610 Purchased Water	-	-		-	-	\$ -
615 Purchased Power	24,854	-		24,854	-	\$ 24,854
618 Chemicals	-	-		-	-	\$ -
620 Repairs and Maintenance	8,240	-		8,240	-	\$ 8,240
621 Office Supplies & Expense	10,975	-		10,975	-	\$ 10,975
630 Outside Services	21,718	(20,000) B		1,718	-	\$ 1,718
635 Water Testing	3,120	370 C		3,490	-	\$ 3,490
641 Rents	4,800	-		4,800	-	\$ 4,800
650 Transportation Expenses	14,945	-		14,945	-	\$ 14,945
657 Insurance - General Liability	6,953	-		6,953	-	\$ 6,953
659 Insurance - Health and Life	-	-		-	-	\$ -
666 Regulatory Commission Expense - Rate Case	7,500	-		7,500	-	\$ 7,500
675 Miscellaneous Expense	7,559	-		7,559	-	\$ 7,559
403 Depreciation Expense	50,066	(199) D		49,867	-	\$ 49,867
408 Taxes Other Than Income	9,004	964 F		9,968	-	\$ 9,968
408.11 Property Taxes	10,583	0		10,583	1,065	\$ 11,649
409 Income Tax	(2,406)	1,283 E		(1,123)	18,334	\$ 17,211
676 Bad Debt Expense	2,642	-		2,642	-	\$ 2,642
Total Operating Expenses	\$ 284,524	\$ (4,982)		\$ 279,542	\$ 19,399	\$ 298,941
OPERATING INCOME/(LOSS)						
	\$ (9,566)	\$ 4,982		\$ (4,584)	\$ 63,634	\$ 59,050

OPERATING EXPENSE ADJUSTMENTS (Cont.)

A -	SALARIES AND WAGES EXPENSE - Per Company Per Staff	\$ 103,971 <u>116,571</u>	<u>\$ 12,600</u>
	\$20,000 - Owners Salary reclassified from outside services <u>\$7,400 - Removed due to duplication of service efforts</u> \$12,600		
B -	OUTSIDE SERVICES - Per Company Per Staff	\$ 21,718 <u>1,718</u>	<u>\$ (20,000)</u>
	To reclassify \$20,000 in salary for the owner from outside services expense to salaries and wages expense.		
C -	WATER TESTING - Per Company Per Staff	\$ 3,120 <u>3,490</u>	<u>\$ 370</u>
	To reflect Staff's annual water testing expense, per Staff's Engineering Report.		
D -	DEPRECIATION - Per Company Per Staff	\$ 50,066 <u>49,867</u>	<u>\$ (199)</u>
	See Schedule BCA-3, Page 4 for Calculation.		
E -	INCOME TAX - Per Company Per Staff	\$ (2,406) <u>(1,123)</u>	<u>\$ 1,283</u>
	To reflect Staff's calculation of the income tax obligation on Staff's adjusted test year taxable income.		

PRO FORMA ANNUAL DEPRECIATION EXPENSE

LINE NO.	ACCT NO.	DESCRIPTION	UTILITY PLANT IN SERVICE BALANCES	FULLY/NON-DEPRECIABLE PLANT BALANCES	DEPRECIABLE PLANT IN SERVICE	DEPRECIATION RATE	DEPRECIATION EXPENSE
Plant In Service							
1	301	Organization Costs	\$ -	\$ -	\$ -	0.00%	\$ -
2	302	Franchise Costs	-	-	-	0.00%	-
3	303	Land & Land Rights	6,176	6,176	-	0.00%	-
4	304	Structures & Improvements	2,745	-	2,745	3.33%	91
5	307	Wells & Springs	98,103	-	98,103	3.33%	3,267
6	311	Electric Pumping Equipment	72,920	31,510	41,410	12.50%	5,176
7	320	Water Treatment Equipment	-	-	-	-	-
8	320.1	Water Treatment Plants	-	-	-	3.33%	-
9	320.2	Solutions & Feeders	-	-	-	20.00%	-
10	320.3	Media for Arsenic Treatment	-	-	-	33.30%	-
11	330	Distribution Reservoirs & Standpipes	-	-	-	-	-
12	330.1	Storage Tank	40,080	-	40,080	2.22%	890
13	330.2	Pressure Tanks	-	-	-	5.00%	-
14	331	Transmission & Distribution Mains	1,985,042	-	1,985,042	2.00%	39,701
15	333	Services	18,456	-	18,456	3.33%	615
16	334	Meters & Meter Installations	30,734	30,734	-	8.33%	-
17	335	Hydrants	-	-	-	2.00%	-
18	336	Backflow Prevention Devices	-	-	-	6.67%	-
19	339	Other Plant & Misc. Equip.	-	-	-	6.67%	-
20	340	Office Furniture & Fixtures	11,367	11,367	-	6.67%	-
21	340.1	Computer & Software	7,449	-	7,449	20.00%	1,490
22	341	Transportation Equipment	56,693	56,693	-	20.00%	-
23	342	Store Equipment	-	-	-	4.00%	-
24	343	Tools & Work Equipment	-	-	-	5.00%	-
25	344	Laboratory Equipment	-	-	-	10.00%	-
26	345	Power Operated Equipment	5,331	5,331	-	5.00%	-
27	345	Communications Equipment	-	-	-	10.00%	-
28	347	Miscellaneous Equipment	-	-	-	10.00%	-
29	348	Other Tangibles	-	-	-	10.00%	-
30		Subtotal General	\$ 2,335,096	\$ 141,811	\$ 2,193,285		\$ 51,229
31		Composite Depr. Rate (O40/K40)	2.34%				
		CIAC	58,342				
		Amortization of CIAC	1,363				
31		Depreciation Expense Before Amort. Of CIAC	\$ 51,229				
32		Less: Amortization of CIAC	1,363				
		Test Year Depreciation Expense - Staff	\$ 49,867				
		Depreciation Expense - Company	50,066				
		Staff's Total Adjustment:	\$ (199)				

OPERATING INCOME ADJUSTMENT F - PROPERTY TAXES

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDE
1	Staff Adjusted Test Year Revenues	\$ 274,958	\$ 274,958
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 549,916	\$ 549,916
4	Staff Recommended Revenue	\$ 274,958	\$ 357,991
5	Subtotal (Line 4 + Line 5)	\$ 824,874	\$ 907,907
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 274,958	\$ 302,636
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 549,916	\$ 605,272
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 549,916	\$ 605,272
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	\$ 101,734	\$ 111,975
15	Composite Property Tax Rate - Obtained from ADOR	10.40290%	10.40290%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 10,583	
17	Company Proposed Property Tax	10,583	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 0	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 11,649
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		10,583
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 1,065
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 1,065
23	Increase in Revenue Requirement		\$ 83,033
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.283024%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue

Line 17: Company Application

Line 21: Line 19 - Line 20

Line 23: Schedule BCA-1, Page 2

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 Inch	\$ 13.50	\$ 18.50	\$ 17.50
3/4 Inch	25.00	27.75	25.50
1 Inch	35.00	46.25	42.50
1 1/2 Inch	80.00	92.50	85.00
2 Inch	180.00	148.00	180.00
3 Inch	200.00	296.00	200.00
4 Inch	300.00	462.50	300.00
6 Inch	\$ 400.00	\$ 925.00	\$ 600.00
8 Inch	-	-	-
<u>Commodity Charge - Per 1,000 Gallons</u>			
<u>5/8 x 3/4-Inch Meters and 3/4-Inch Meters</u>			
From 1 to 5,000 gallons	\$ 3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 3,000 gallons		\$ 4.00	\$ 4.00
From 3,001 to 10,000 gallons		5.25	5.20
Over 10,000 gallons		6.54	6.59
<u>1" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 20,000 gallons			5.20
Over 20,000 gallons			6.59
<u>1-1/2" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 50,000 gallons			5.20
Over 50,000 gallons			6.59
<u>2" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 90,000 gallons			5.20
Over 90,000 gallons			6.59
<u>3" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 200,000 gallons			5.20
Over 200,000 gallons			6.59
<u>4" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 300,000 gallons			5.20
Over 300,000 gallons			6.59
<u>6" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 600,000 gallons			5.20
Over 600,000 gallons			6.59
<u>Coin Meter/Bulk</u>			
Per 1000 Gallons	\$ 5.00	\$ 6.54	\$ 6.59

Typical Bill Analysis
Residential 5/8 Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,408	\$ 36.10	\$ 48.53	\$ 12.44	34.46%
Median Usage	945	30.93	41.57	\$ 10.65	34.43%
Staff Recommended					
Average Usage	2,408	\$ 36.10	\$ 46.86	\$ 10.77	29.82%
Median Usage	945	30.93	39.97	\$ 9.04	29.24%

Present & Proposed Rates (Without Taxes)
Residential 5/8 Inch Meter

Gallons Consumption	Present	Company Proposed		Staff Recommended	
	5/8 x 3/4" Rates	5/8 x 3/4" Rates	% Increase	5/8 x 3/4" Rates	% Increase
-	\$ 13.50	\$ 18.50	37.04%	\$ 17.00	25.93%
945	\$ 16.71	\$ 22.28	33.31%	\$ 20.78	24.33%
1,000	16.90	22.50	33.14%	21.00	24.26%
2,000	20.30	26.50	30.54%	25.00	23.15%
2,408	21.69	28.13	29.72%	26.63	22.80%
3,000	23.70	30.50	28.69%	29.00	22.36%
4,000	27.10	35.75	31.92%	34.20	26.20%
5,000	30.50	41.00	34.43%	39.40	29.18%
5,109	30.93	41.57	34.43%	39.97	29.24%
6,000	34.40	46.25	34.45%	44.60	29.65%
6,435	36.10	48.53	34.46%	46.86	29.82%
7,000	38.30	51.50	34.46%	49.80	30.03%
8,000	42.20	56.75	34.48%	55.00	30.33%
9,000	46.10	62.00	34.49%	60.20	30.59%
10,000	50.00	67.25	34.50%	65.40	30.80%
11,000	53.90	73.79	36.90%	71.99	33.56%
12,000	57.80	80.33	38.98%	78.58	35.95%
13,000	61.70	86.87	40.79%	85.17	38.04%
14,000	65.60	93.41	42.39%	91.76	39.88%
15,000	69.50	99.95	43.81%	98.35	41.51%
16,000	73.40	106.49	45.08%	104.94	42.97%
17,000	77.30	113.03	46.22%	111.53	44.28%
18,000	81.20	119.57	47.25%	118.12	45.47%
19,000	85.10	126.11	48.19%	124.71	46.55%
20,000	89.00	132.65	49.04%	131.30	47.53%
25,000	110.25	165.35	49.98%	164.25	48.98%
30,000	131.50	198.05	50.61%	197.20	49.96%
35,000	152.75	230.75	51.06%	230.15	50.67%
40,000	174.00	263.45	51.41%	263.10	51.21%
45,000	195.25	296.15	51.68%	296.05	51.63%
50,000	216.50	328.85	51.89%	329.00	51.96%
75,000	322.75	492.35	52.55%	493.75	52.98%
100,000	429.00	655.85	52.88%	658.50	53.50%

JOSHUA VLLEY UTILITY COMPANY
Docket No. W-02023A-15-0315
Test Year Ended :12/31/14

ATTACHEMENT A

**JOSHUA VALLEY UTILITY COMPANY
SALARIES AND WAGES SUPPORT**

Name	Position	Salary	Duties
Levandowski	General Manager	\$ 12,600	Oversees all aspects of operations
Raymond	Field Manager and Certified Operator	41,600	water testing, State and County reports, Blue Stake marking
Baca	Maintenance	31,200	digging for installation of pipes and meters, repairs on machinery
Nissani	Office Manager	18,571	Secretary, billing, collections, phone calls, accounting
	Totals	\$ 103,971	

947 customers

1 **JLK 1.12** Miscellaneous Expense – Please provide an itemization of the Company’s
2 Miscellaneous Expense. Why has Miscellaneous Expense increased from \$914 in 2013
3 to \$7,559 in the test year?

4 **Response:** The itemization of Miscellaneous Expense is included in the table
5 below. The increase from 2013 to 2014 is due to the use fee payment to Mohave
6 County not being included in Miscellaneous Expense in 2013. Had the use fee
7 payment of \$6,533 not been classified as Miscellaneous, the account would have
8 totaled \$1,025 instead.

Date	Vendor	Description	Amount
01/17/14	Gary Z	Annual Report	\$ 225
01/17/14	Meadview Chamber	Dues	60
01/24/14	MCA	Dues	420
05/20/14	Visa	Refund	(25)
06/14/14	Lakeside Motel	Travel	46
08/25/14	Mohave County	Refund	(3)
09/10/14	Mohave County	Refund	(4)
10/31/14	ACC		10
10/31/14	Mohave County	Use fee	6,533
11/10/14	AZ Water Association	Dues	200
11/19/14	Motel Six Marana	Travel-conference	84
12/04/14	AZ Dept of Revenue	TPT license fee	12
			\$ 7,558

17
18 **JLK 1.13** Outside Services – Please explain the function of each payee of the
19 Outside Services Account and provide invoices for the test year.

20 **Response:** Expense as delineated on Exhibit 5 of the original application was
21 made up of three payees. Facilitation provides services related to annual regulatory
22 reporting for the utility. The invoice for this expense was provided on page 172 of
23 the original application. Moffitt and Company provides services relating to annual
24 tax reporting for the Company. John Norton provides routine services related to
25 Company management and oversight of employees and service providers. *own*

26 **JLK 1.14** Bad Debt Expense – Please provide a schedule of the Company’s Bad
27 Debt Expense. Why was no bad debt expense posted in 2013?

28 **Response:** A bad debt expense summary for the test year is set forth in
Attachment 1.14. Joshua Valley had bad debt expense in 2013, however, it was not

JOSHUA VLLY UTILITY COMPANY
Docket No. W-02023A-15-0315
Test Year Ended :12/31/14

ATTACHEMENT B

8/20/14
15:02

Joshua Valley Utility Co.
General Ledger - Period Ending 6/30/14

Company: 103
Page: 1

Date	Mt	Ref #	Account	Description	Current	Year-To-Date
Beginning Balance			100	Cash in Bank		66,435.84*
6/14/14	6	CD	100	Credit to Cash	-11,846.35	
				Ending Balances =	-11,846.35*	54,589.49**
Beginning Balance			101	Petty Cash		0.00*
6/15/14	6	1	101	PC	9,709.60	
6/15/14	6	1002	101	PC	-9,709.60	
6/15/14	6	1003	101	PC	7,410.33	
6/15/14	6	1004	101	PC	-7,410.33	
				Ending Balances =	0.00*	0.00**
Beginning Balance			102	Credit Cards		0.00*
6/14/14	6	3850	102	Visa	1,073.97	
6/14/14	6	3852	102	Visa	-1,073.97	
				Ending Balances =	0.00*	0.00**
Beginning Balance			300	Retained Earnings		-46,779.17*
				Ending Balances =	0.00*	-46,779.17**
Beginning Balance			400	Water Receipts		-113,270.01*
6/14/14	6	2008	400	WR	-26,366.10	
				Ending Balances =	-26,366.10*	-139,636.11**
Beginning Balance			600	Salaries		50,481.25*
6/5/14	6	7966	600	Horacio	484.50	
6/5/14	6	7967	600	Deb	287.47	
6/10/14	6	7971	600	IRS: payroll	2,404.08	
6/13/14	6	7978	600	Horacio	484.50	
6/13/14	6	7979	600	Deb	287.47	
5/13/14	6	7980	600	Loretta	427.01	
5/13/14	6	7981	600	Ron	1,377.82	
5/20/14	6	7984	600	Horacio	484.50	
5/20/14	6	7985	600	Deb	235.28	
5/27/14	6	7992	600	Horacio	484.50	
5/27/14	6	7993	600	Deb	230.58	
6/30/14	6	7994	600	Loretta	427.11	
6/30/14	6	7995	600	Ron	1,377.53	
				Ending Balances =	8,992.35*	59,473.60**
Beginning Balance			610	Accounting		550.00*
				Ending Balances =	0.00*	550.00**
Beginning Balance			612	Management Fees		0.00*
6/14/14	6	2007	612	Norton	20,000.00	
				Ending Balances =	20,000.00*	20,000.00**
Beginning Balance			620	Property Taxes		5,985.90*
				Ending Balances =	0.00*	5,985.90**

JOSHUA VLLEY UTILITY COMPANY
Docket No. W-02023A-15-0315
Test Year Ended :12/31/14

ATTACHEMENT C

JOSHUA VLLEY UTILITY COMPANY
Docket No. W-02023A-15-0315
Test Year Ended :12/31/14

Attachment C
Staff's Responses to the Company's Comments

	[A]	[B]	[C]	[D]	[E]
	Annual Salary	No. of Hours Worked Per Week	Annual Number of Weeks	Annual Number of Hours (Col B x Col C)	Hourly Rate (Col A ÷ Col D)
General Manger	\$ 12,600	20	52	1040	\$ 12.12
Owner	\$ 12,600	10	52	520	\$ 24.23