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MEMORANDUM

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TO: Docket Control

FROM: Thomas M. Broderick
Director
Utilities Division

2016 JUL 11 P 4:10

AZ CORP COMMISSION
DOCKET CONTROL

DATE: July 11, 2016

RE: STAFF REPORT FOR EAGLETAIL WATER COMPANY, LLC'S APPLICATION FOR A PERMANENT RATE INCREASE AND FOR FINANCING APPROVAL (DOCKET NO W-03936A-16-0095 AND W-03936A-16-0096)

Attached is the Staff Report for Eagletail Water Company, LLC's ("Eagletail" or "Company") application for an increase in its rates and requested financing. Staff recommends approval of the rate application using Staff's recommended rates and charges. Staff recommends approval of the requested financing and the associated surcharge mechanism with conditions.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 21, 2016.

TMB:BES:nr/BES

Originator: Brian Smith

Arizona Corporation Commission
DOCKETED

JUL 11 2016

| | |
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| DOCKETED BY | |
| RT | |

Service List for: Eagletail Water Co., LLC
Docket No. W-03936A-16-0095 & W-03936A-16-0096

Ms. Susan Haas
c/o Eagletail Water Co., LLC
Post Office Box 157
Tonopah, Arizona 85354

Ms. Michelle Sharp – Consultant
Post Office Box 157
Tonopah, Arizona 85354

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

Ms. Janice M. Alward
Chief, 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

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**EAGLETAIL WATER COMPANY, LLC
DOCKET NOS. W-03936A-16-0095
AND W-03936A-16-0096**

**APPLICATION FOR A
PERMANENT RATE INCREASE
AND FINANCING APPROVAL**

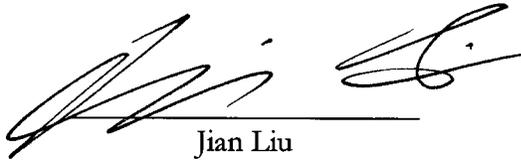
JULY 11, 2016

STAFF ACKNOWLEDGMENT

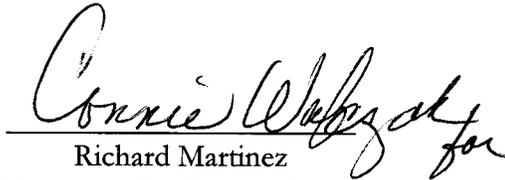
The Staff Report for Eagletail Water Company, LLC ("Company"), Docket Nos. W-03936A-16-0095 and W-03936A-16-0096, was the responsibility of the Staff members listed below. Brian Smith was responsible for the review and analysis of the Company's application for a permanent rate increase and requested financing. Jian Liu was responsible for the engineering and technical analysis. Richard Martinez was responsible for reviewing the Arizona Corporation Commission's ("Commission") records on the Company and reviewing customer complaints filed with the Commission.



Brian Smith
Public Utilities Analyst IV



Jian Liu
Utilities Engineer



Richard Martinez
Consumer Services Analyst II

EXECUTIVE SUMMARY
EAGLETAIL WATER COMPANY, LLC
DOCKET NOS. W-03936A-16-0095 & W-03936A-16-0096

Eagletail Water Company, LLC (“Eagletail” or “Company”) is a class E utility that provides potable water service to approximately 53 customers. The Company’s service area is located approximately 65 miles west of downtown Phoenix and 16 miles south of Interstate 10 in Harquahala Valley.

On March 16, 2016, the Company filed an application for a permanent rate increase. On the same day, the Company also filed an application for financing approval.

Eagletail proposed a \$34,485 or an 83.83 percent revenue increase from test year revenue of \$41,137 to \$75,622. The proposed revenue increase would produce an operating income of \$27,406 resulting in a 36.24 percent operating margin. The Company’s proposed original cost rate base (“OCRB”) is \$70,626. The Company’s requested rates would generate 46.7 percent of the Company’s revenue from the first tier commodity charge and monthly minimum charges. The Company’s requested rates would also increase the typical 3/4-inch meter residential bill with a median usage of 2,534 gallons from \$36.88 to \$63.27, for an increase of \$26.39, or 71.5 percent.

Staff recommends a \$27,313 or a 74.16 percent revenue increase from Staff adjusted test year revenue of \$36,832 to \$64,145. Staff’s recommended revenue would produce an operating income of \$12,656, resulting in a 19.73 percent operating margin. Staff’s recommended OCRB is \$88,183. Staff’s recommended rates would generate 53.3 percent of the Company’s revenue from the first tier commodity charge and monthly minimum charges. Staff’s recommended rates would also increase the typical 3/4-inch meter residential bill with a median usage of 2,534 gallons from \$36.88 to \$46.66, for an increase of \$9.77, or 26.5 percent.

The Company’s financing application seeks financing approval to obtain a loan from the Water Infrastructure Finance Authority of Arizona (“WIFA”) in an amount not to exceed \$174,450 to replace an existing 500,000 gallon water storage tank with a new 250,000 gallon tank.

With regards to the WIFA Loan, Staff is recommending approval of a WIFA loan surcharge that would generate estimated revenue of \$18,282, for a total revenue of \$82,427 as shown on schedule BES-1 and BES-6. Once the WIFA loan surcharge is implemented, the typical 3/4-inch meter residential bill of \$46.66, inclusive of Staff’s recommended base rate increase, would further increase by the amount of the surcharge \$30.47 to \$77.13 for an overall increase of \$40.24, or 109.1 percent.

Staff recommends:

- Approval of the Staff recommended rates and charges as shown on Schedule BES-4.
- That the current WIFA surcharge cease when the rates in this case are effective.
- That the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

- Approval of the Company's requested financing to issue long-term debt from WIFA in an amount not to exceed \$174,450.
- Approval of the associated surcharge mechanism that may result in a monthly surcharge up to the amount per customer as follows:

| Meter Size | Monthly Surcharge |
|-------------------|-------------------|
| 5/8" x 3/4" Meter | \$20.31 |
| 3/4" Meter | \$30.47 |
| 1" Meter | \$50.78 |
| 1½" Meter | \$101.57 |
| 2" Meter | \$162.51 |
| 3" Meter | \$304.70 |
| 4" Meter | \$507.84 |
| 6" Meter | \$1,015.67 |

- That the actual amount of the WIFA loan surcharge be calculated based upon the actual terms of the WIFA loan and actual number of customers at the time of loan closing.
- The Company file, as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorization herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.
- The Company provide to Staff, upon request, a copy of any loan documents executed pursuant to the authorizations granted herein.
- Upon filing of the loan closing notice, the Company may file in this Docket an application requesting implementation of the associated surcharge.
- Within 30 days of the filing of a surcharge implementation request, Staff shall calculate the appropriate WIFA surcharge and prepare and file a recommended order for expedited Commission consideration and approval.
- Approval of the loan and surcharge be rescinded if the Company has not started drawing funds from the loan within two years of the date of the Decision resulting from this proceeding.
- Upon approval of the WIFA surcharge, the Company shall open a separate interest-bearing account in which all surcharge monies collected from customers will be deposited. The only disbursement of funds from this account will be to make debt service and WIFA reserve payments to WIFA.
- That the Company be directed to record the customer-provided WIFA reserve funding in National Association of Regulatory Utility Commissioners ("NARUC") Account No. 253, "Other Deferred Credits" as soon as it begins collecting revenue

from the surcharge. That the deferred credit be clearly noted as "Customer Provided Funding for WIFA Reserve Fund" on the Company's books and records, and that the net balance in this account continue to be shown as a regulatory liability until the balance is fully amortized or otherwise credited back to ratepayers. In addition, the deferred credit balance be recognized as a reduction to the Company's rate base in future rate change filings and the balance be used to reduce the rate base only to the extent that it does not result in a negative rate base amount.

- That amortization of the deferred credit begin once the plant is placed in service, that the deferred credit be amortized for five years, and that the amortization expense be used to offset depreciation expense.
- That the Company, as a compliance item in this case, notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and file copies with Docket Control within 30 days of the date notice is sent to customers.
- Staff recommends the annual water testing expense of \$692 be used for purposes of this application.
- In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual NARUC category.
- Staff recommends that the Company shall file with Docket Control, as a compliance item in this Docket, a report each January and July covering the previous six months that contains all activities regarding its major leaks and leak repairs until such time as Eagletail has a water loss of 10 percent or less for a period of 12 consecutive months. The report must include gallons pumped and gallons sold for the reporting time period, and explain in detail all activities related to the water loss issue. Staff further recommends the elimination of the requirement to file quarterly water loss reports going forward.
- Staff recommends acceptance of the Company proposed Service Line and Meter Installation charges in Table C of the engineering report.
- Staff recommends that the Company docket as a compliance item in this docket and within one year of the effective date of an order in this proceeding, a copy of the ADEQ's Approval of Construction ("AOC") for its new water storage tank.

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ATTACHMENTS

| | |
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| Engineering Report..... | Attachment A |
|-------------------------|--------------|

FACT SHEET

Company: Eagletail Water Company, LLC

Type of Ownership: Arizona Limited Liability Company (“LLC”)

Location: Harquahala Valley, approximately 64 miles west of downtown Phoenix and 15 miles south of Interstate 10.

Permanent rate increase application filed Rates: March 16, 2016.

Current Rates: Decision No. 73161, dated May 18, 2012.

Current Test Year Ended: June 30, 2015.

| | Company Current <u>Rates</u> | Company Proposed <u>Rates</u> | Staff Recommended <u>Rates</u> |
|---|------------------------------------|-------------------------------------|--------------------------------------|
| Monthly Minimum Charge | | | |
| 3/4 - inch meter | \$30.00 | \$47.00 | \$52.50 |
| Gallons in minimum | 0 | 0 | 0 |
| Commodity Charge (per 1,000 gallons) | | | |
| 0 to 3,000 gallons | \$3.90 | N/A | N/A |
| 3,001 to 15,000 gallons | \$5.85 | N/A | N/A |
| Over 15,000 gallons | \$7.10 | N/A | N/A |
| 0 to 3,000 gallons | N/A | \$7.90 | \$4.60 |
| 3,001 to 9,000 gallons | N/A | \$13.35 | \$6.55 |
| Over 9,000 gallons | N/A | \$16.64 | \$7.80 |
| Typical residential bill (2,534 gallons) | | | |
| Without new loan surcharge | \$36.88 | \$63.27 | \$46.66 |
| With new loan surcharge | N/A | N/A | \$77.13 |

Customers:

| | |
|---|----|
| Number of customers in the prior test year ending December 31, 2010 | 56 |
| Average number of customers in the current test year | 53 |

Current test year customers by meter size:

| | |
|----------------|----|
| 5/8 x 3/4-inch | 8 |
| 3/4-inch | 41 |
| 1-inch | 4 |
| 1 1/2-inch | 0 |
| 2-inch | 0 |
| 3-inch | 0 |
| 4-inch | 0 |
| 6-inch | 0 |

Seasonal customers: N/A

Customer notification for rate application filed: March 16, 2016

Number of customer complaints concerning rate application filed: 0

Percentage of complaints to customer base: 0.00 percent

SUMMARY OF RATE FILING

On March 16, 2016, Eagletail Water Company, LLC (“Eagletail” or “Company”) filed an application for a permanent rate increase. On the same day, the Company also filed an application for financing approval. On May 11, 2016, the rate application was deemed sufficient by Staff.

Operating revenue as adjusted by Staff was \$36,832 resulting in an operating loss of \$10,261, as shown on Schedule BES-1. The original cost rate base (“OCRB”) as adjusted by Staff is \$88,183.

The Company proposed a \$34,485 or 83.83 percent increase over test year revenue of \$41,137 to \$75,622. The Company proposed revenue would result in an operating income of \$27,406 for an operating margin of 36.24 percent. The Company has proposed an OCRB of \$70,626. The Company’s proposed rates would generate 46.7 percent of the Company’s revenue from the first tier commodity charge and monthly minimum charges. The Company’s requested rates would also increase the typical 3/4-inch meter residential bill, with a median usage of 2,534 gallons, from \$36.88 to \$63.27, an increase of \$26.39 or 71.5 percent.

Staff recommends a \$27,313 or 74.16 percent increase over the Staff adjusted test year revenue of \$36,832 to \$64,145. Staff’s recommended revenue would result in an operating income of \$12,656 for an operating margin of 19.73 percent. Staff recommends an OCRB of \$88,183. In addition, Staff is recommending approval of a Water Infrastructure Finance Authority of Arizona (“WIFA”) loan surcharge that would generate estimated revenue of \$18,282, for total revenue of \$82,427 as shown on schedule BES-1 and BES-6. Staff’s recommended rates would generate 53.3 percent of the Company’s revenue from the first tier commodity charge and monthly minimum charges. Staff’s recommended rates would also increase the typical 3/4-inch meter residential bill, with a median usage of 2,534 gallons from \$36.88 to \$46.66, an increase of \$9.77 or 26.5 percent, without a loan surcharge. Once the WIFA loan surcharge is implemented, the typical 3/4-inch meter residential bill of \$46.66 would increase by the amount of the surcharge, \$30.47, to \$77.13. Staff’s recommended rates with surcharge would increase the typical bill with a median usage of 2,534 gallons from \$46.66 to \$77.13, an increase of \$30.47, or 65.3 percent. Overall, the increase is \$40.24 or 109.1 percent, from \$36.88 to \$77.13 as shown on Schedule BES-5.

BACKGROUND

Eagletail is a class E utility that provides potable water service to approximately 53 customers. The Company’s service area is located about 65 miles west of downtown Phoenix, and 16 miles south of the I-10 Salome Road Exit 81 in the Harquahalla Valley. The current rates and charges were authorized in Decision No. 73161, dated May 18, 2012.

During the test year ended June 30, 2015, Eagletail provided water service to an average of 53 metered customers, 8 of which are served by 5/8 x 3/4-inch meters, 41 of which are served by 3/4-inch meters, and four of which are served by 1-inch meters.

On March 16, 2016, Eagletail filed an application for a permanent rate increase. On May 11, 2016, Staff issued a Letter of Sufficiency.

CONSUMER SERVICES

Staff's review of the Arizona Corporation Commission's ("Commission") records for the period January 1, 2013 through June 20, 2016, reflects that 8 complaints were filed.

2016 - 1 Complaint - Quality of Service Issues (Outage/Interruptions)
2015 - 3 Complaints - 1 Billing Issue, 1 Quality of Service (Outage/Interruptions), 1 Service (Defective Equipment)
2014 - 4 Complaints - 2 Billing Issues, 2 Quality of Service (Customer Service Contact & Outage/Interruptions)
2013 - 0 Complaints

All complaints have been resolved and closed.

COMPLIANCE

The Utilities Division Compliance Section shows no outstanding compliance issues.

Eagletail is in good standing with the Corporations Division of the Commission.

Eagletail's bill format is in compliance with Arizona Administrative Code.

ENGINEERING ANALYSIS

Staff inspected the Company's plant facilities on May 26, 2016. 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 increased the Company's rate base by \$17,557, from \$70,626 to \$88,183, as shown on Schedule BES-2, pages 1 through 3. Details of Staff's adjustments are discussed below.

Plant in Service

Staff's adjustments increased the Company's Plant in Service amount by \$25,000, from \$141,246 to \$166,246, as shown in Schedule BES-2 pages 1 and 2. Details of Staff's adjustments are discussed below.

Electric Pumping Equipment – Adjustment A increases this account by \$25,000, from \$51,818 to \$76,818, as shown on Schedule BES 2, pages 1 and 2. The Company acknowledged in Data Request BES 1.4 that they did not add a \$25,000 down payment for Electric Pumping Equipment to their books. This amount was placed in service in 2012.

Accumulated Depreciation

Staff increased accumulated depreciation by \$11,231, from \$66,430 to \$77,661, as shown on schedule BES-2, pages 1 and 3. The increase is based upon the adjustments Staff made to plant in service.

Working Capital

Eagletail did not propose a working capital allowance. Staff's adjustments C and D resulted in a net increase to working capital of \$3,788, from \$0 to \$3,788, as shown on Schedule BES 2, pages 1 and 4.

OPERATING INCOME STATEMENT

Operating Revenue

Staff concurs with the Company's metered water revenue as shown in the Company's exhibit on Schedule BES-1.

Surcharge Revenue – Staff has removed surcharge revenue of \$4,305 indicated as adjustment A on Schedule BES 3, page 1. In the Company's prior rate case, the Company was authorized to obtain a WIFA loan not to exceed \$60,000 to make repairs on one of the Company's well pumps. The Company executed the loan and, in Decision 73926, the Company was authorized to collect a surcharge to pay for the well pump repairs loan. These surcharges were collected in addition to the rates the Company charged its consumers. However, Staff included the well pump repair costs in this rate case's rate design. As a result, the surcharge for the past financing is no longer required as the recommended rates herein account for the additional plant and debt. Staff recommends that the current WIFA surcharge cease when the rates in this case are effective.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net increase of \$395, from \$46,716 to \$47,111, as shown on Schedule BES-3, page 1. Details of Staff's adjustments are discussed next.

Water Testing Expense – Adjustment B increases this expense by \$547, from \$145 to \$692 as shown on Schedule BES 3, page 1. For further information on this adjustment, see Engineering Report (Attachment A).

Depreciation Expense – Adjustment C reduces this expense by \$590, from \$10,995 to \$10,405 as shown on Schedule BES-3, pages 1 and 3. This adjustment results mainly from the Company including an amount of future depreciation and the Company's not recording depreciation on plant additions it failed to record.

The first part of the adjustment relates to the Company's inclusion of future depreciation expense. This case was consolidated with a request by the Company for financing a water tank purchase. The Company estimated the amount of depreciation associated with the potential water tank

to be \$3,875 and included it in their depreciation expense. Staff excluded this amount from the depreciation since it is neither known nor measurable at this time.

The second part of this adjustment is associated with the Company omitting depreciation expense associated with the \$25,000 of plant addition the Company did not account for. Staff calculated this amount to be \$3,125.

Property Tax Expense – Adjustment D increases this expense by \$438, from \$1,099 to \$1,537 as shown on Schedule BES 3, pages 1 and 4. Staff adjusted property tax expense based on Staff's adjustments and calculations.

Rate Case Expense – Staff reviewed the Company's proposed rate case expense and the proposed three year amortization period. While Staff concluded that the Company's proposed rate case expense level is reasonable, Staff is addressing the issue related to the Company's proposal to "amortize" rate case expense. The Company has proposed to amortize rather than normalize rate case expense. However, only long-term assets, CIAC, and Commission-authorized regulatory assets are "amortized." Under regulatory accounting, the level of rate case expense recoverable annually through rates is more appropriately based upon a "normalized" level of such expense.

Staff Accepted Company adjustments

The Company made adjustments to repairs and maintenance and outside services expenses totaling \$9,000 for expenses the company anticipates in the future. As explained below, Staff recommends accepting the Company adjustments

Repairs and Maintenance Expense – The Company adjusted this expense by \$4,000 to account for future well repairs. Normally, Staff does not accept future expenses that are not known and measurable. However, based on the attached Engineering Report (see Attachment A), Staff agrees with the Company's need for additional repairs and has therefore increased this expense and incorporated the increase into the Company's repairs and maintenance expense as filed on schedule BES-3, page 1.

Outside Services – The Company adjusted this expense by \$5,000 to pay for anticipated contract labor. The Company indicated in its response to a Staff data request that it had been using over 500 volunteer hours for repairs and other office tasks. However, the Company also indicated that the individuals who provided the volunteer hours were no longer willing to be as involved as they had been previously. Normally, Staff does not accept future expenses that are not known and measurable. However, Staff agrees that the Company would have difficulty operating without labor for repairs and office work. Therefore, as the prior number of volunteer labor hours will no longer be available for the Company going forward, Staff agrees with the Company's increase to this expense and incorporated the increase into the Company's outside services expense as filed on schedule BES-3, page 1.

REVENUE REQUIREMENT

Staff typically develops a utility's revenue requirement using the rate of return on rate base approach. However, based on the Company's low level of investment in rate base, use of the rate base approach to calculate the revenue requirement would not produce sufficient operating margin to allow

for possible contingencies. As a result, Staff calculated the Company's revenue requirement by focusing on the Company's cash flow needs.

Staff's review of the Company's cash flow results in Staff recommending total annual revenue of \$64,000, an increase of \$27,313, or 74.16 percent, over Staff adjusted revenue of \$36,832. This increase, based on Staff recommended rates, yields a cash flow¹ of \$8,830 (after debt service), as shown on Schedule BES-6, column [B] line 41. Additionally, this increase also results in an operating margin of 19.73 percent, as shown on Schedule BES-1.

Staff's total revenue requirement of \$64,000 provides the Company with sufficient cash flow to pay operating expenses, contingencies, and principal, interest, and loan reserve on its existing WIFA loan. Staff's revenue requirement will allow the Company to comfortably meet the minimum 1.2 debt service coverage ("DSC") ratio required by WIFA and allow for contingencies. The new WIFA surcharge recommended by Staff will cover the debt service of the new loan.

RATE DESIGN

Schedule BES-4, pages 1 through 3 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company proposed a rate structure that includes a monthly minimum charge that increases by meter size and inverted three-tier commodity rates with break-over points at 3,000 gallons and 9,000 gallons for 5/8-inch x 3/4-inch and 3/4-inch meter sizes. The Company also proposed the same inverted three tier commodity rates with break-over points at 3,000 and 9,000 gallons for 1-inch meter sizes. Lastly, the Company proposed inverted two-tier commodity rates for 1 1/2-inch meter sizes and larger with break-over points set at half the current gallon break-over points. The Company's proposed rates would generate 46.7 percent of the Company's revenue from the first tier commodity charge and monthly minimum charges. The Company's requested rates would also increase the typical residential 3/4-inch meter bill with a median usage of 2,534 gallons from \$36.88 to \$63.27, for an increase of \$26.39, or 71.50 percent.

Staff recommends accepting the Company's approach to structure rates that increase by meter size and inverted three-tier commodity rates with break-over points at 3,000 gallons and 9,000 gallons for 5/8-inch x 3/4-inch, 3/4-inch, and 1-inch meter sizes. Staff's recommended rates would generate 53.3 percent of the Company's revenue from the first tier commodity charge and monthly minimum charges. Staff's recommended rates (excluding the WIFA loan surcharge) would also increase the typical residential 3/4-inch meter bill with a median usage of 2,534 gallons from \$36.88 to \$46.66, for an increase of \$9.77, or 26.5 percent. Once the WIFA loan surcharge is implemented, the typical 3/4-inch meter residential bill of \$46.66 would increase by the amount of the surcharge, \$30.47, to \$77.13 or 65.3 percent. Overall, the increase is \$40.24 or 109.1 percent from \$36.88 to \$77.13.

¹ Cash flow = operating income plus depreciation expense less principal and interest on loans.

RECOMMENDATIONS FOR SERVICE CHARGES

Establishment - The Company has proposed no change in its current \$40 Establishment Charge. Staff agrees.

Meter Test (if correct) – The Company’s current approved Meter Test (if correct) is \$30. The Company proposes to increase the Meter Test (if correct) from \$30 to \$35. Company was advised that the Utilities Division tests 5/8 x 3/4” and 3/4” meters at no charge to the utility. Fed-Ex Ground costs are covered by meter test charge. Staff agrees with \$35.

Meter Re-read (if correct) – The Company has proposed no change in its \$20 Meter Re-read charge. Staff agrees.

Deposit – The Company has proposed no change to its Deposit Charge per Commission Rule A.A.C. R-14-2-403 (B). Staff agrees.

Deposit Interest (per year) – The Company’s current approved Deposit Interest is 6 percent per Commission Rule, Arizona Administrative Code (“A.A.C.”) R-14-2-403 (B). The Company proposed to change the Deposit Interest to 4 percent. Staff agrees. Staff realizes that due to continued lower interest rates Companies may request a lower rate. Other Companies have also requested a reduction of their Deposit Interest.

Re-Establishment (within 12 months) – The Company has proposed no change in its Re-Establishment (within 12 months) charge. Staff agrees.

Reconnection (delinquent) – The Company’s current approved Reconnection (delinquent) is \$35. The Company proposes to increase the Reconnection (delinquent) from \$35 to \$40. Staff agrees.

NSF Check Charge – The Company has proposed no change in its \$30 NSF Check Charge. Staff agrees.

Deferred Payment (per month) – The Company has proposed no change in its Deferred Payment of 1.5 percent per month charge. Staff agrees.

Late Fee – The Company proposed no change in its Late Fee Charge of 1.5 percent per month. Staff agrees.

Charge for Moving Meter – The Company has proposed no change to Cost, the Charge for Moving meters. Staff agrees.

After Hours Service Charge – The Company’s current approved After Hours Service Charge is \$25. The Company proposes to increase the After Hours Service Charge from \$25 to \$30. Staff agrees.

SERVICE LINE AND METER INSTALLATION CHARGES

The Company proposed changes to its current service line and meter installation charges. Staff concurs with the Company's proposed service charges as shown on Schedule BES-4, page 3.

FINANCING APPLICATION AND SURCHARGE MECHANISM

Purpose of the Requested Financing

The purpose of the application is to provide financing for Eagletail to replace an existing 500,000 gallon water storage tank with a new 250,000 gallon tank. The estimated cost is \$174,450.

Engineering Analysis

Staff verified that the storage tank was in poor condition and leaking during Staff's inspection on May 26, 2016. Based on its review of the Financing Application and information provided by the Company, Staff concludes that Eagletail's proposed plant addition and costs are appropriate and reasonable.

Financial Analysis

The proposed \$174,450 financing is a 20-year amortizing loan with an anticipated 5.95 percent interest rate. The payments are estimated to be \$1,244 per month, or \$14,937 annually, as shown on schedule BES-7, page 3. Because the final details of the WIFA loan will not be known until after the loan is closed, Staff is recommending that a surcharge mechanism be approved and the actual amount determined and notice thereof docketed as a compliance item after closure of the loan.

Surcharge Mechanism

Schedule BES-7, pages 1 and 2, presents a calculation of the additional annual revenue needed by the Company to service a \$174,450 loan over 20 years at 5.95 percent interest rate. Based on Staff's calculation, \$174,450 of WIFA debt will require the Company to generate an annual cash flow of \$18,282 through the surcharge. Staff's calculation shows that a residential customer on a 3/4-inch meter will be required to pay a monthly surcharge of \$30.47.

The surcharge mechanism establishes the methodology for calculating the surcharge amount to be applied to the rates established in this rate application. Once the Company has closed on the loan, it would submit an application in this Docket requesting implementation of the surcharge. Staff would then calculate the appropriate surcharge and prepare and file a recommended order for expedited Commission consideration and approval.

WIFA Loan Debt Reserve

Staff has included a provision for the loan reserve fund in the WIFA loan surcharge that customers will pay as shown on Schedule 7. The loan reserve fund is a fund that the Company pays into for five years. After the five years, the balance will equal one year of principal and interest payments for the loan. When the reserve fund is included in the WIFA loan surcharge, as Staff has

done, ratepayers will effectively “prepay” \$14,937 in funding that Eagletail will eventually use either to make loan payments, pay for future maintenance, or this balance will be refunded to the Company. Ratepayers should be given credit for making these prepayments. Therefore, Staff recommends the following:

1. That the Company be directed to record the customer-provided WIFA reserve funding in National Association of Regulatory Utility Commissioners (“NARUC”) Account No. 253, “Other Deferred Credits” as soon as it begins collecting revenue from the surcharge. That the deferred credit be clearly noted as “Customer Provided Funding for WIFA Reserve Fund” on the Company’s books and records, and that the net balance in this account continue to be shown as a regulatory liability until the balance is fully amortized or otherwise credited back to ratepayers.
2. That the deferred credit balance be recognized as a reduction to the Company’s rate base in future rate change filings and that the deferred credit balance will only be used to reduce rate base to the extent that it does not result in a negative rate base amount.
3. That the amortization of the deferred credit begin once the plant is placed in service, that the deferred credit be amortized for five years, and that the amortization expense be used to offset depreciation expense.

Interest and Debt Service Coverage

Staff also examined the effects of the proposed financing on the Company’s DSC.

DSC represents the number of times internally generated cash (i.e., earnings before interest, income tax, depreciation and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

Under Staff’s recommended rates, fully drawing the Staff recommended \$174,450 loan, Eagletail’s DSC is 1.36. The DSC shows that Eagletail has adequate cash flow to meet all obligations on the Staff recommended loan and exceeds the WIFA 1.2 after tax DSC ratio requirement.

CONCLUSION

In consideration of Eagletail’s excess water loss as outlined in the attached Engineering Report (Attachment A), Staff concludes that the Company’s proposal to replace its 500,000 gallon water tank with a new 250,000 gallon water tank is appropriate and its estimated cost of \$174,450 is reasonable.

Staff concludes that Eagletail would have adequate cash flow to meet all obligations on the proposed \$174,450 debt.

Staff concludes that the proposed financing is for lawful purposes, within Eagletail’s powers as a corporation, compatible with the public interest, consistent with sound financial practices and will not impair its ability to provide public service.

Staff recommends approval of the Company’s requested financing to WIFA in amount not to exceed \$174,450.

STAFF RECOMMENDATIONS

Staff recommends:

- Approval of the Staff recommended rates and charges as shown on Schedule BES-4.
- That the current WIFA surcharge cease when the rates in this case are effective.
- That the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- Approval of the Company's requested financing to issue long-term debt from WIFA in an amount not to exceed \$174,450.
- Approval of the associated surcharge mechanism that may result in a monthly surcharge up to the amount per customer as follows:

| Meter Size | Monthly Surcharge |
|-------------------|-------------------|
| 5/8" x 3/4" Meter | \$20.31 |
| 3/4" Meter | \$30.47 |
| 1" Meter | \$50.78 |
| 1½" Meter | \$101.57 |
| 2" Meter | \$162.51 |
| 3" Meter | \$304.70 |
| 4" Meter | \$507.84 |
| 6" Meter | \$1,015.67 |

- That the actual amount of the WIFA loan surcharge be calculated based upon the actual terms of the WIFA loan and actual number of customers at the time of loan closing.
- The Company file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorization herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.
- The Company provide to Staff, upon request, a copy of any loan documents executed pursuant to the authorizations granted herein.
- Upon filing of the loan closing notice, the Company may file in this Docket an application requesting implementation of the associated surcharge.

- Within 30 days of the filing of a surcharge implementation request, Staff shall calculate the appropriate WIFA surcharge and prepare and file a recommended order for expedited Commission consideration and approval.
- Approval of the loan and surcharge be rescinded if the Company has not started drawing funds from the loan within two years of the date of the Decision resulting from this proceeding.
- Upon approval of the WIFA surcharge, the Company shall open a separate interest-bearing account in which all surcharge monies collected from customers will be deposited. The only disbursement of funds from this account will be to make debt service and WIFA reserve payments to WIFA.
- That the Company be directed to record the customer-provided WIFA reserve funding in NARUC Account No. 253, "Other Deferred Credits" as soon as it begins collecting revenue from the surcharge. That the deferred credit be clearly noted as "Customer Provided Funding for WIFA Reserve Fund" on the Company's books and records, and that the net balance in this account continue to be shown as a regulatory liability until the balance is fully amortized or otherwise credited back to ratepayers. In addition, the deferred credit balance be recognized as a reduction to the Company's rate base in future rate change filings and the balance be used to reduce the rate base only to the extent that it does not result in a negative rate base amount.
- That amortization of the deferred credit begin once the plant is placed in service, that the deferred credit be amortized for five years, and that the amortization expense be used to offset depreciation expense.
- That the Company, as a compliance item in this case, notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and file copies with Docket Control within 30 days of the date notice is sent to customers.
- That an annual water testing expense of \$692 be used for purposes of this application.
- In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual NARUC category.
- That the Company shall file with Docket Control, as a compliance item in this Docket, a report each January and July covering the previous six months that contains all activities regarding its major leaks and leak repairs until such time as Eagletail has a water loss of 10 percent or less, for a period of 12 consecutive months. The report must include gallons pumped and gallons sold for the reporting time period, and explain in detail all activities related to the water loss issue. Staff further recommends the elimination of the requirement to file quarterly water loss reports going forward.

- Acceptance of the Company proposed Service Line and Meter Installation charges in Table C of the engineering report.
- Staff recommends that the Company docket as a compliance item in this docket and within one year of the effective date of an order in this proceeding, a copy of the ADEQ's Approval of Construction ("AOC") for its new water storage tank.

SUMMARY OF FILING

| | -- Present Rates -- | | Company Proposed as Filed | Staff Recommended | |
|--------------------------------|---------------------|----------------------|---------------------------------|----------------------|-----------------|
| | Company as Filed | Staff as Adjusted | | Without Surcharge | With Surcharge |
| Revenues: | | | | | |
| Metered Water Revenue | \$36,687 | \$36,687 | \$70,074 | \$64,000 | \$64,000 |
| Unmetered Water Revenue | 0 | 0 | 0 | 0 | |
| Surcharge Revenue ¹ | 4,305 | 0 | 5,403 | 0 \$ | 18,282 |
| Other Water Revenues | 145 | 145 | 145 | 145 | 145 |
| Total Operating Revenue | \$41,137 | \$36,832 | \$75,622 | \$64,145 | \$82,427 |
| Operating Expenses: | | | | | |
| Operation and Maintenance | \$34,604 | \$35,151 | \$34,604 | \$35,151 | \$35,151 |
| Depreciation | 10,995 | 10,405 | 10,995 | 10,405 | \$10,405 |
| Property & Other Taxes | 1,099 | 1,537 | 2,617 | 2,677 | \$2,677 |
| Income Tax | 0 | 0 | 0 | 3,256 | \$3,256 |
| Total Operating Expense | \$46,698 | \$47,093 | \$48,216 | \$51,489 | \$51,489 |
| Operating Income/(Loss) | (\$5,561) | (\$10,261) | \$27,406 | \$12,656 | \$30,938 |
| | | | | | |
| Rate Base O.C.R.B. | \$70,626 | \$88,183 | \$70,626 | \$88,183 | \$88,183 |
| | | | | | |
| Operating Margin ² | N/M | N/M | 36.24% | 19.73% | 37.53% |

1. Staff Recommended Surcharge is an estimate only.

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

ORIGINAL COST RATE BASE/FAIR VALUE

| | ----- Original Cost ----- | | Staff |
|-----------------------------------|---------------------------|-----------------|-----------------|
| | Company | Adjustment | |
| Plant in Service | \$141,246 | \$25,000 A | \$166,246 |
| Less: | | | |
| Accum. Depreciation | 66,430 | 11,231 B | 77,661 |
| Net Plant | \$74,816 | \$13,769 | \$88,585 |
| Less: | | | |
| Advances in Aid of Construction | \$4,190 | \$0 | \$4,190 |
| Accumulated Deferred Income Taxes | 0 | 0 | 0 |
| Total Advances | \$4,190 | \$0 | \$4,190 |
| Contributions Gross | \$0 | \$0 | \$0 |
| Less: | | | |
| Amortization of CIAC | 0 | 0 | 0 |
| Net CIAC | \$0 | \$0 | \$0 |
| Total Deductions | \$4,190 | \$0 | \$4,190 |
| Plus: | | | |
| 1/24 Power | \$0 | \$303 C | \$303 |
| 1/8 Operation & Maint. | \$0 | \$3,486 D | \$3,486 |
| Inventory | \$0 | \$0 | \$0 |
| Prepayments | \$0 | \$0 | \$0 |
| Total Additions | \$0 | \$3,788 | \$3,788 |
| Rate Base | \$70,626 | \$17,557 | \$88,183 |

Explanation of Adjustment:

RATE BASE ADJUSTMENT A - PLANT ADJUSTMENT

| Line No. | Acct. No. | Description | Company as Filed | Adjustment | Staff Adjusted |
|----------|-----------|--------------------------------------|------------------|-----------------|------------------|
| 1 | 301 | Organization Costs | \$0 | \$0 | \$0 |
| 2 | 302 | Franchise Costs | 0 | 0 | 0 |
| 3 | 303 | Land & Land Rights | 0 | 0 | 0 |
| 4 | 304 | Structures & Improvements | 3,088 | 0 | 3,088 |
| 5 | 307 | Wells & Springs | 37,176 | 0 | 37,176 |
| 6 | 310 | Power Generation Equipment | 0 | 0 | 0 |
| 7 | 311 | Electric Pumping Equipment | 51,818 | 25,000 A | 76,818 |
| 8 | 320 | Water Treatment Equipment | 0 | 0 | 0 |
| 9 | 320.1 | Water Treatment Plants | 5,100 | 0 | 5,100 |
| 10 | 320.2 | Solutions & Feeders | 0 | 0 | 0 |
| 11 | 320.3 | Point-of-Use Treatment Devices | 0 | 0 | 0 |
| 12 | 330 | Distribution Reservoirs & Standpipes | 0 | 0 | 0 |
| 13 | 330.1 | Storage Tank | 0 | 0 | 0 |
| 14 | 330.2 | Pressure Tanks | 0 | 0 | 0 |
| 15 | 331 | Transmission & Distribution Mains | 40,000 | 0 | 40,000 |
| 16 | 333 | Services | 0 | 0 | 0 |
| 17 | 334 | Meters & Meter Installations | 4,064 | 0 | 4,064 |
| 18 | 335 | Hydrants | 0 | 0 | 0 |
| 19 | 336 | Backflow Prevention Devices | 0 | 0 | 0 |
| 20 | 339 | Other Plant & Misc. Equip. | 0 | 0 | 0 |
| 21 | 340 | Office Furniture & Fixtures | 0 | 0 | 0 |
| 22 | 340.1 | Computer & Software | 0 | 0 | 0 |
| 23 | 341 | Transportation Equipment | 0 | 0 | 0 |
| 24 | 342 | Store Equipment | 0 | 0 | 0 |
| 25 | 343 | Tools & Work Equipment | 0 | 0 | 0 |
| 26 | 344 | Laboratory Equipment | 0 | 0 | 0 |
| 27 | 345 | Power Operated Equipment | 0 | 0 | 0 |
| 28 | 346 | Communications Equipment | 0 | 0 | 0 |
| 29 | 347 | Miscellaneous Equipment | 0 | 0 | 0 |
| 30 | 348 | Other Intangibles | 0 | 0 | 0 |
| 31 | 105 | C.W.I.P. | 0 | 0 | 0 |
| 32 | | TOTALS | \$141,246 | \$25,000 | \$166,246 |

Explanation of Adjustment:

- A Per DR #BES1.4, the Company inadvertently omitted a \$25,000 down payment for well repairs performed in 2012. This adjustment by Staff adds this omission back.

RATE BASE ADJUSTMENT B - ACCUMULATED DEPRECIATION

| LINE NO. | ACCT. NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] ADJUSTMENT | [C] STAFF ADJUSTED |
|----------|-----------|--------------------------------------|----------------------------|-------------------|--------------------------|
| 1 | 301 | Organization Costs | | \$0 | \$0 |
| 2 | 302 | Franchise Costs | | 0 | \$0 |
| 3 | 303 | Land & Land Rights | | 0 | \$0 |
| 4 | 304 | Structures & Improvements | 1,031 | (0) | \$1,031 |
| 5 | 307 | Wells & Springs | 19,292 | (0) | \$19,292 |
| 6 | 310 | Power Generation Equipment | | 0 | \$0 |
| 7 | 311 | Electric Pumping Equipment | 25,835 | 11,231 | \$37,066 |
| 8 | 320 | Water Treatment Equipment | | 0 | \$0 |
| 9 | 320.1 | Water Treatment Plants | 2,608 | 0 | \$2,608 |
| 10 | 320.2 | Solutions & Feeders | | 0 | \$0 |
| 11 | 320.3 | Point-of-Use Treatment Devices | | 0 | \$0 |
| 12 | 330 | Distribution Reservoirs & Standpipes | | 0 | \$0 |
| 13 | 330.1 | Storage Tank | | 0 | \$0 |
| 14 | 330.2 | Pressure Tanks | | 0 | \$0 |
| 15 | 331 | Transmission & Distribution Mains | 13,600 | 0 | \$13,600 |
| 16 | 333 | Services | | 0 | \$0 |
| 17 | 334 | Meters & Meter Installations | 4,064 | 0 | \$4,064 |
| 18 | 335 | Hydrants | | 0 | \$0 |
| 19 | 336 | Backflow Prevention Devices | | 0 | \$0 |
| 20 | 339 | Other Plant & Misc. Equip. | | 0 | \$0 |
| 21 | 340 | Office Furniture & Fixtures | | 0 | \$0 |
| 22 | 340.1 | Computer & Software | | 0 | \$0 |
| 23 | 341 | Transportation Equipment | | 0 | \$0 |
| 24 | 342 | Store Equipment | | 0 | \$0 |
| 25 | 343 | Tools & Work Equipment | | 0 | \$0 |
| 26 | 344 | Laboratory Equipment | | 0 | \$0 |
| 27 | 345 | Power Operated Equipment | | 0 | \$0 |
| 28 | 346 | Communications Equipment | | 0 | \$0 |
| 29 | 347 | Miscellaneous Equipment | | 0 | \$0 |
| 30 | 348 | Other Intangibles | | 0 | \$0 |
| 31 | 105 | C.W.I.P. | | 0 | \$0 |
| 32 | | Accumulated Depreciation | \$66,430 | \$11,231 | \$77,661 |

| |
|-------------------------------------|
| STAFF RATE BASE ADJUSTEMENTS |
|-------------------------------------|

| | | | |
|---|--|------------|--------------|
| C | - WORKING CAPITAL (1/24 Purchased PWR & WTR) - per Company | \$0 | |
| | Per Staff | <u>303</u> | <u>\$303</u> |

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

| | | | |
|---|---|--------------|----------------|
| D | - WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - per Company | \$0 | |
| | Per Staff | <u>3,486</u> | <u>\$3,486</u> |

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

STATEMENT OF OPERATING INCOME

| Line No. | Acct. No. | Description | [A] Company as Filed | [B] Staff Adjustments | [C] Staff Adjusted | [D] Staff Adjustments | [E] Staff Recommended |
|----------|-----------|---|----------------------------|-----------------------------|--------------------------|-----------------------------|-----------------------------|
| 1 | | Revenues: | | | | | |
| 2 | 461 | Metered Water Revenue | \$36,687 | \$0 | \$36,687 | \$27,313 | \$64,000 |
| 3 | 460 | Unmetered Water Revenue | 0 | 0 | 0 | 0 | 0 |
| 4 | 474 | Surcharge Revenue | 4,305 | (4,305) A | 0 | 0 | 0 |
| 5 | 474 | Other Water Revenues | 145 | 0 | 145 | 0 | 145 |
| 6 | | Total Operating Revenue | \$41,137 | (\$4,305) | \$36,832 | \$27,313 | \$64,145 |
| 7 | | | | | | | |
| 8 | | Operating Expenses: | | | | | |
| 9 | 601 | Salaries and Wages | \$0 | \$0 | \$0 | | \$0 |
| 10 | 610 | Purchased Water | 0 | 0 | 0 | | 0 |
| 11 | 615 | Purchased Power | 7,267 | 0 | 7,267 | | 7,267 |
| 12 | 618 | Chemicals | 322 | 0 | 322 | | 322 |
| 13 | 620 | Repairs and Maintenance | 8,129 | 0 | 8,129 | | 8,129 |
| 14 | 621 | Office Supplies and Expense | 1,158 | 0 | 1,158 | | 1,158 |
| 15 | 630 | Outside Services | 13,630 | 0 | 13,630 | | 13,630 |
| 16 | 635 | Water Testing | 145 | 547 B | 692 | | 692 |
| 17 | 641 | Rents | 0 | 0 | 0 | | 0 |
| 18 | 650 | Transportation Expenses | 513 | 0 | 513 | | 513 |
| 19 | 657 | Insurance - General Liability | 1,442 | 0 | 1,442 | | 1,442 |
| 20 | 659 | Insurance - Health and Life | 0 | 0 | 0 | | 0 |
| 21 | 666 | Regulatory Commission Expense - Rate Case | 867 | 0 | 867 | | 867 |
| 22 | 675 | Miscellaneous Expense | 1,131 | 0 | 1,131 | | 1,131 |
| 23 | 403 | Depreciation Expense | 10,995 | (590) C | 10,405 | | 10,405 |
| 24 | 408 | Taxes Other Than Income | 0 | 0 | 0 | | 0 |
| 25 | 408.11 | Property Taxes | 1,099 | 438 D | 1,537 | 1,140 | 2,677 |
| 26 | 670 | Bad Debt Expense | 0 | 0 | 0 | 0 | 0 |
| 27 | 409 | Income Tax | 0 | 0 | 0 | 3,256 | 3,256 |
| 28 | 427.2 | Customer Security Deposit Interest | 18 | | 18 | | 18 |
| 29 | | Total Operating Expenses | \$46,716 | \$395 | \$47,111 | \$4,396 | \$51,507 |
| 30 | | | | | | | |
| 31 | | | | | | | |
| 32 | | OPERATING INCOME/(LOSS) | (\$5,579) | (\$4,700) | (\$10,279) | \$22,917 | \$12,638 |
| 33 | | | | | | | |
| 34 | | Other Income/(Expense): | | | | | |
| 35 | 419 | Interest and Dividend Income | \$3 | \$0 | \$3 | | \$3 |
| 36 | 421 | Non-Utility Income | 0 | 0 | 0 | | 0 |
| 37 | 427 | Interest Expense | 4,269 | 0 | 4,269 | | 4,269 |
| 38 | 4XX | Reserve/Replacement Fund Deposit | 0 | 0 | 0 | | 0 |
| 39 | 426 | Miscellaneous Non-Utility Expense | 0 | 0 | 0 | | 0 |
| 40 | | Total Other Income/(Expense) | (\$4,266) | \$0 | (\$4,266) | \$0 | (\$4,266) |
| 41 | | | | | | | |
| 42 | | NET INCOME/(LOSS) | (\$9,845) | (\$4,700) | (\$14,545) | \$22,917 | \$8,372 |

| |
|-------------------|
| STAFF ADJUSTMENTS |
|-------------------|

| | | | |
|-----|-----------------------------|------------|--------------|
| B - | WATER TESTING - Per Company | \$145 | |
| | Per Staff | <u>692</u> | <u>\$547</u> |

See Attachment A - Engineering Report.

| | | | |
|-----|------------------------------|--------------|--------------|
| C - | PROPERTY TAXES - Per Company | \$1,099 | |
| | Per Staff | <u>1,537</u> | <u>\$438</u> |

See Schedule BES 3 page 4

| | | | |
|-----|--------------------------|----------|------------|
| D - | INCOME TAX - Per Company | \$0 | |
| | Per Staff | <u>0</u> | <u>\$0</u> |

See Schedule BES 3 page 5

OPERATING INCOME ADJUSTMENT B - DEPRECIATION EXPENSE

| Line No. | Acct. No. | Description | [A] Utility Plant in Service Balances | [B] Fully/Non Depreciable Plant Balances | [C] Depreciable Plant In Service | [D] Deprec. Rate | [E] Depreciation Expense |
|-------------------------|-----------|--|---|--|--|------------------------|--------------------------------|
| Plant In Service | | | | | | | |
| 1 | 301 | Organization Costs | \$0 | \$0 | \$0 | 0.00% | \$0 |
| 2 | 302 | Franchise Costs | 0 | 0 | 0 | 0.00% | 0 |
| 3 | 303 | Land & Land Rights | 0 | 0 | 0 | 0.00% | 0 |
| 4 | 304 | Structures & Improvements | 3,088 | 0 | 3,088 | 3.33% | 103 |
| 5 | 307 | Wells & Springs | 37,176 | 0 | 37,176 | 3.33% | 1,238 |
| 6 | 310 | Power Generation Equipment | 0 | 0 | 0 | 5.00% | 0 |
| 7 | 311 | Electric Pumping Equipment | 76,818 | 12,188 | 64,630 | 12.50% | 8,079 |
| 8 | 320 | Water Treatment Equipment | 0 | 0 | 0 | 0.00% | 0 |
| 9 | 320.1 | Water Treatment Plants | 5,100 | 0 | 5,100 | 3.33% | 170 |
| 10 | 320.2 | Solutions & Feeders | 0 | 0 | 0 | 20.00% | 0 |
| 11 | 320.3 | Point-of-Use Treatment Devices | 0 | 0 | 0 | 10.00% | 0 |
| 12 | 330 | Distribution Reservoirs & Standpipes | 0 | 0 | 0 | 0.00% | 0 |
| 13 | 330.1 | Storage Tank | 0 | 0 | 0 | 2.22% | 0 |
| 14 | 330.2 | Pressure Tanks | 0 | 0 | 0 | 5.00% | 0 |
| 15 | 331 | Transmission & Distribution Mains | 40,000 | 0 | 40,000 | 2.00% | 800 |
| 16 | 333 | Services | 0 | 0 | 0 | 3.33% | 0 |
| 17 | 334 | Meters & Meter Installations | 4,064 | 3,872 | 192 | 8.33% | 16 |
| 18 | 335 | Hydrants | 0 | 0 | 0 | 2.00% | 0 |
| 19 | 336 | Backflow Prevention Devices | 0 | 0 | 0 | 6.67% | 0 |
| 20 | 339 | Other Plant & Misc. Equip. | 0 | 0 | 0 | 6.67% | 0 |
| 21 | 340 | Office Furniture & Fixtures | 0 | 0 | 0 | 6.67% | 0 |
| 22 | 340.1 | Computer & Software | 0 | 0 | 0 | 20.00% | 0 |
| 23 | 341 | Transportation Equipment | 0 | 0 | 0 | 20.00% | 0 |
| 24 | 342 | Store Equipment | 0 | 0 | 0 | 4.00% | 0 |
| 25 | 343 | Tools & Work Equipment | 0 | 0 | 0 | 5.00% | 0 |
| 26 | 344 | Laboratory Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 27 | 345 | Power Operated Equipment | 0 | 0 | 0 | 5.00% | 0 |
| 28 | 346 | Communications Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 29 | 347 | Miscellaneous Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 30 | 348 | Other Intangibles | 0 | 0 | 0 | 0.00% | 0 |
| 31 | | | | | | | |
| 32 | | | | | | | |
| 33 | | Subtotal General | \$166,246 | \$16,060 | \$150,186 | | \$10,405 |
| 34 | | | | | | | |
| 35 | | | | | | | |
| 36 | | Contribution(s) in Aid of Construction (Gross) | \$0 | | | | |
| 37 | | Less: Non Amortizable Contribution(s) | 0 | | | | |
| 38 | | Fully Amortized Contribution(s) | 0 | | | | |
| 39 | | Amortizable Contribution(s) | \$0 | | | | |
| 40 | | Times: Staff Proposed Amortization Rate | 6.26% | | | | |
| 41 | | Amortization of CIAC | \$0 | | | | \$0 |
| 42 | | Less: Amortization of Contributions | | | | | \$10,405 |
| 43 | | | | | | | |
| 44 | | | | | | | |
| 45 | | Reconciliation | | | | | |
| 46 | | Company Proposed Depreciation Expense | | \$10,995 | | | |
| 47 | | less Disallowed future loan depreciation | 3875 | | | | |
| 48 | | plus omitted depreciation expense | 3125 | | | | |
| 49 | | plus other Company adjustments | 160 | | | | |
| 49 | | Staff Recommended Depreciation Expense | | \$10,405 | | | |
| 50 | | | | | | | |
| 51 | | Increase/(Decrease) to Depreciation Expense | | \$590.00 | | | |

OPERATING INCOME ADJUSTMENT C - PROPERTY TAXES

| Line No. | Description | [A] | [B] |
|----------|---|-------------------|-------------------|
| | | Staff As Adjusted | Staff Recommended |
| 1 | Staff Adjusted Test Year Revenues | \$36,832 | \$64,145 |
| 2 | Weight Factor | 2 | 2 |
| 3 | Subtotal (Line 1 * Line 2) | \$73,664 | \$128,290 |
| 4 | Staff Recommended Revenue | 36,832 | 64,145 |
| 5 | Subtotal (L4 + L5) | \$110,496 | \$192,435 |
| 6 | Number of Years | 3 | 3 |
| 7 | Three Year Average (L5 / L6) | \$36,832 | \$64,145 |
| 8 | Department of Revenue Multiplier | 2 | 2 |
| 9 | Revenue Base Value (L7 * L8) | \$73,664 | \$128,290 |
| 10 | Plus: 10% of CWIP | 0 | 0 |
| 11 | Less: Net Book Value of Licensed Vehicles | 0 | 0 |
| 12 | Full Cash Value (L9 + L10 - L11) | \$73,664 | \$128,290 |
| 13 | Assessment Ratio | 18.00% | 18.00% |
| 14 | Assessment Value (L12 * L13) | \$13,260 | \$23,092 |
| 15 | Composite Property Tax Rate - Obtained from ADOR | 11.59220% | 11.59220% |
| 16 | Staff Test Year Adjusted Property Tax Expense (L14 * L15) | \$1,537 | |
| 17 | Company Test Year Property Tax | 1,099 | |
| 18 | Staff Test Year Adjustment (L16 - L17) | \$438 | |
| 19 | Property Tax - Staff Recommended Revenue (L14 * L15) | | \$2,677 |
| 20 | Staff Test Year Adjusted Property Tax Expense (L16) | | 1,537 |
| 21 | Increase in Property Tax Due to Increase in Revenue Requirement | | \$1,140 |
| 22 | Increase in Property Tax Due to Increase in Revenue Requirement (L21) | | \$1,140 |
| 23 | Increase in Revenue Requirement | | \$27,313 |
| 24 | Increase in Property Tax Per Dollar Increase in Revenue (L22 / L23) | | 4.173192% |

RATE DESIGN

| Monthly Usage Charge | Present Rates | Company Proposed Rates | Staff Recommended Rates |
|--|---------------|------------------------|-------------------------|
| 5/8" x 3/4" Meter | \$27.00 | \$43.25 | \$35.00 |
| 3/4" Meter | 30.00 | 47.00 | 52.50 |
| 1" Meter | 45.00 | 66.00 | 87.50 |
| 1½" Meter | 150.00 | 225.00 | 175.00 |
| 2" Meter | 240.00 | 360.00 | 280.00 |
| 3" Meter | 480.00 | 720.00 | 560.00 |
| 4" Meter | 750.00 | 1,125.00 | 875.00 |
| 6" Meter | 1,500.00 | 2,250.00 | 1,750.00 |
| Commodity Rates | | | |
| <u>5/8 x 3/4" & 3/4" Meter - Residential</u> | | | |
| Gallons Included in Minimum | 0 | 0 | 0 |
| Excess of Minimum - per 1,000 Gallons | | | |
| First 3,000 Gallons | \$3.90 | | |
| From 3,001 to 15,000 Gallons | 5.85 | | |
| Over 15,000 Gallons | 7.10 | | |
| First 3,000 Gallons | | \$7.90 | \$4.60 |
| From 3,001 to 9,000 Gallons | | 13.35 | 6.55 |
| Over 9,000 Gallons | | 16.64 | 7.80 |
| <u>3/4" Meter - Residential</u> | | | |
| Gallons Included in Minimum | 0 | 0 | 0 |
| Excess of Minimum - per 1,000 Gallons | | | |
| First 3000 Gallons | \$3.90 | | |
| From 3001 to 15000 Gallons | 5.85 | | |
| Over 15000 Gallons | 7.10 | | |
| First 3000 Gallons | | \$7.90 | \$4.60 |
| From 3001 to 9000 Gallons | | 13.35 | 6.55 |
| Over 9000 Gallons | | 16.64 | 7.80 |
| <u>1" - Residential, Commercial & Industrial</u> | | | |
| Gallons Included in Minimum | 0 | 0 | 0 |
| Excess of Minimum - per 1,000 Gallons | | | |
| First 14,000 Gallons | \$5.85 | | |
| Over 14,000 Gallons | 7.10 | | |
| First 3,000 Gallons | | \$7.90 | \$4.60 |
| From 3,001 to 9,000 Gallons | | 13.35 | 6.55 |
| Over 9,000 Gallons | | 16.64 | 7.8 |

RATE DESIGN

| Monthly Usage Charge | Present Rates | Company Proposed Rates | Staff Recommended Rates |
|---|---------------|------------------------|-------------------------|
| <u>1½" - Residential, Commercial & Industrial</u> | | | |
| Gallons Included in Minimum | 0 | 0 | 0 |
| Excess of Minimum - per 1,000 Gallons | | | |
| First 28,000 Gallons | \$5.85 | | \$4.60 |
| Over 28,000 Gallons | 7.10 | | 6.55 |
| First 14,000 Gallons | | \$13.35 | |
| Over 14,000 Gallons | | 16.64 | |
| <u>2" - Residential, Commercial & Industrial</u> | | | |
| Gallons Included in Minimum | 0 | 0 | 0 |
| Excess of Minimum - per 1,000 Gallons | | | |
| First 56,000 Gallons | \$5.85 | | \$4.60 |
| Over 56,000 Gallons | 7.10 | | 6.55 |
| First 28,000 Gallons | | \$13.35 | |
| Over 28,000 Gallons | | 16.64 | |
| <u>3" - Residential, Commercial & Industrial</u> | | | |
| Gallons Included in Minimum | 0 | 0 | 0 |
| Excess of Minimum - per 1,000 Gallons | | | |
| First 120,000 Gallons | \$5.85 | | \$4.60 |
| Over 120,000 Gallons | 7.10 | | 6.55 |
| First 60,000 Gallons | | \$13.35 | |
| Over 60,000 Gallons | | 16.64 | |
| <u>4" - Residential, Commercial & Industrial</u> | | | |
| Gallons Included in Minimum | 0 | 0 | 0 |
| Excess of Minimum - per 1,000 Gallons | | | |
| First 285,000 Gallons | \$5.85 | | \$4.60 |
| Over 285,000 Gallons | 7.10 | | 6.55 |
| First 142,000 Gallons | | \$13.35 | |
| Over 142,000 Gallons | | 16.64 | |
| <u>6" - Residential, Commercial & Industrial</u> | | | |
| Gallons Included in Minimum | 0 | 0 | 0 |
| Excess of Minimum - per 1,000 Gallons | | | |
| First 640,000 Gallons | \$5.85 | | \$4.60 |
| Over 640,000 Gallons | 7.10 | | 6.55 |
| First 320,000 Gallons | | \$13.35 | |
| Over 320,000 Gallons | | 16.64 | |
| <u>Standpipe/Bulk</u> | | | |
| Gallons Included in Minimum | 0 | 0 | 0 |
| per 1,000 Gallons | | | |
| All Gallons | \$7.10 | \$16.64 | \$7.95 |

| RATE DESIGN | | | | | | | | | |
|---|---------------|--------------|--------------|------------------------|--------------|--------------|-------------------------|--------------|--------------|
| Service Line and Meter Installation Charges | Present Rates | | | Company Proposed Rates | | | Staff Recommended Rates | | |
| | Service Line | Meter Charge | Total Charge | Service Line | Meter Charge | Total Charge | Service Line | Meter Charge | Total Charge |
| 5/8" x 3/4" Meter | \$350.00 | \$90.00 | \$440.00 | \$420.00 | \$175.00 | \$595.00 | \$420.00 | \$175.00 | \$595.00 |
| 3/4" Meter | 350.00 | 160.00 | 510.00 | 420.00 | 275.00 | 695.00 | 420.00 | 275.00 | 695.00 |
| 1" Meter | 380.00 | 210.00 | 590.00 | 470.00 | 340.00 | 810.00 | 470.00 | 340.00 | 810.00 |
| 1½" Meter | 430.00 | 395.00 | 825.00 | 550.00 | 520.00 | 1,070.00 | 550.00 | 520.00 | 1,070.00 |
| 2" Meter | 630.00 | 785.00 | 1,415.00 | 950.00 | 1,250.00 | 2,200.00 | 950.00 | 1,250.00 | 2,200.00 |
| 3" Meter | 810.00 | 1,295.00 | 2,105.00 | 1,300.00 | 1,900.00 | 3,200.00 | 1,300.00 | 1,900.00 | 3,200.00 |
| 4" Meter | 1,120.00 | 2,000.00 | 3,120.00 | 1,800.00 | 2,900.00 | 4,700.00 | 1,800.00 | 2,900.00 | 4,700.00 |
| 6" Meter | 1,740.00 | 3,975.00 | 5,715.00 | 2,800.00 | 5,440.00 | 8,240.00 | 2,800.00 | 5,440.00 | 8,240.00 |
| Over 6" | | N/A | | | At Cost | | | At Cost | |
| Service Charges | | | | | | | | | |
| Establishment | | | \$40.00 | | | \$40.00 | | | \$40.00 |
| Establishment (After Hours) | | | N/A | | | N/A | | | N/A |
| Reconnection (Delinquent) | | | 35.00 | | | 40.00 | | | 40.00 |
| After hours service charge (flat) | | | 25.00 | | | 30.00 | | | 30.00 |
| Meter Test (If Correct) | | | 30.00 | | | 35.00 | | | 35.00 |
| Deposit | | | * | | | * | | | * |
| Deposit Interest | | | * | | | 4% | | | 4% |
| Re-Establishment (Within 12 Months) | | | ** | | | ** | | | ** |
| NSF Check | | | 30.00 | | | 30.00 | | | 30.00 |
| Deferred Payment (per month) | | | *** | | | 1.5% | | | 1.5% |
| Meter Re-Read (If Correct) | | | 20.00 | | | 20.00 | | | 20.00 |
| Late Fee | | | 1.5% | | | 1.5% | | | 1.50 |
| Charge for Moving Meter | | | N/A | | | At Cost | | | At Cost |
| Monthly Service Charge for Fire Sprinkler | | | | | | | | | |
| 4" or Smaller | | | **** | | | **** | | | **** |
| 6" | | | **** | | | **** | | | **** |
| 8" | | | **** | | | **** | | | **** |
| 10" | | | **** | | | **** | | | **** |
| Larger than 10" | | | **** | | | **** | | | **** |
| <p>* Per Commission Rule A.A.C. R-14-2-403(B).</p> <p>** Month off system times the monthly minimum A.A.C. R14-2-403(D).</p> <p>*** Per Commission Rule A.A.C. R-14-2-409(G).</p> <p>**** 2% 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> | | | | | | | | | |
| <p>In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule A.A.C. 14-2-409D(5).</p> | | | | | | | | | |

| |
|--------------------------------|
| TYPICAL BILL ANALYSIS |
| General Service 3/4-Inch Meter |

Average Number of Customers: 41

| Company Proposed | Gallons | Present Rates | Proposed Rates | Dollar Increase | Percent Increase |
|--|---------|---------------|----------------|-----------------|------------------|
| Average Usage | 4,966 | \$ 50.20 | \$ 93.20 | \$ 43.00 | 85.6% |
| Median Usage | 2,534 | \$ 36.88 | \$ 63.27 | \$ 26.39 | 71.5% |
| <u>Staff Recommend w/out surcharge</u> | | | | | |
| Average Usage | 4,966 | \$ 50.20 | \$ 61.68 | \$ 11.48 | 22.9% |
| Median Usage | 2,534 | \$ 36.88 | \$ 46.66 | \$ 9.77 | 26.5% |
| <u>Staff Recommend with surcharge</u> | | | | | |
| Average Usage | 4,966 | \$ 50.20 | \$ 92.15 | \$ 41.95 | 83.6% |
| Median Usage | 2,534 | \$ 36.88 | \$ 77.13 | \$ 40.24 | 109.1% |

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

| Gallons | Present | Company Proposed | % | Staff Recommended | % |
|---------------------|--------------|------------------|-----------------|-------------------|-----------------|
| Minimum Charge | \$27.00 | \$43.25 | 60.2% | \$35.00 | 29.6% |
| 1st Tier Rate | \$3.90 | \$7.90 | 102.6% | \$4.60 | 17.9% |
| 1st Tier Break-over | 3,000 | 3,000 | 0.0% | 3,000 | 0.0% |
| 2nd Tier Rate | \$5.85 | \$13.35 | 128.2% | \$6.55 | 12.0% |
| 2nd Tier Break-over | 15,000 | 9,000 | -40.0% | 9,000 | -40.0% |
| 3rd Tier Rate | \$7.10 | \$16.64 | 134.4% | \$7.80 | 9.9% |
| <u>Consumption</u> | <u>Rates</u> | <u>Rates</u> | <u>Increase</u> | <u>Rates</u> | <u>Increase</u> |
| 0 | \$27.00 | \$43.25 | 60.2% | \$35.00 | 29.6% |
| 1,000 | 30.90 | 51.15 | 65.5% | 39.60 | 28.2% |
| 2,000 | 34.80 | 59.05 | 69.7% | 44.20 | 27.0% |
| 3,000 | 38.70 | 66.95 | 73.0% | 48.80 | 26.1% |
| 4,000 | 44.55 | 80.30 | 80.2% | 55.35 | 24.2% |
| 5,000 | 50.40 | 93.65 | 85.8% | 61.90 | 22.8% |
| 6,000 | 56.25 | 107.00 | 90.2% | 68.45 | 21.7% |
| 7,000 | 62.10 | 120.35 | 93.8% | 75.00 | 20.8% |
| 8,000 | 67.95 | 133.70 | 96.8% | 81.55 | 20.0% |
| 9,000 | 73.80 | 147.05 | 99.3% | 88.10 | 19.4% |
| 10,000 | 79.65 | 163.69 | 105.5% | 95.90 | 20.4% |
| 15,000 | 108.90 | 246.89 | 126.7% | 134.90 | 23.9% |
| 20,000 | 144.40 | 330.09 | 128.6% | 173.90 | 20.4% |
| 25,000 | 179.90 | 413.29 | 129.7% | 212.90 | 18.3% |
| 50,000 | 357.40 | 829.29 | 132.0% | 407.90 | 14.1% |
| 75,000 | 534.90 | 1,245.29 | 132.8% | 602.90 | 12.7% |
| 100,000 | 712.40 | 1,661.29 | 133.2% | 797.90 | 12.0% |
| 125,000 | 889.90 | 2,077.29 | 133.4% | 992.90 | 11.6% |
| 150,000 | 1,067.40 | 2,493.29 | 133.6% | 1,187.90 | 11.3% |
| 175,000 | 1,244.90 | 2,909.29 | 133.7% | 1,382.90 | 11.1% |
| 200,000 | 1,422.40 | 3,325.29 | 133.8% | 1,577.90 | 10.9% |

| FINANCIAL ANALYSIS | | | |
|--|--------------------------|--|---|
| Line No. | [A] Staff Adjusted | [B] Staff Recommended w/out Surcharge | [C] Staff Recommended with Surcharge |
| INCOME STATEMENT | | | |
| 1 Operating Revenue | | | |
| 2 461 | \$36,687 | \$64,000 | \$64,000 |
| 3 460 | \$0 | 0 | 0 |
| 4 474 | \$0 | | |
| 5 474 | \$145 | 145 | 18,427 |
| 6 Total Operating Rev: | <u>\$36,832</u> | <u>\$64,145</u> | <u>82,427</u> |
| 7 | | | |
| 8 Operating Expenses | | | |
| 9 601 | \$0 | 0 | 0 |
| 10 610 | \$0 | 0 | 0 |
| 11 615 | \$7,267 | 7,267 | 7,267 |
| 12 618 | \$322 | 322 | 322 |
| 13 620 | \$8,129 | 8,129 | 8,129 |
| 14 621 | \$1,158 | 1,158 | 1,158 |
| 15 630 | \$13,630 | 13,630 | 13,630 |
| 16 635 | \$692 | 692 | 692 |
| 17 641 | \$0 | 0 | 0 |
| 18 650 | \$513 | 513 | 513 |
| 19 657 | \$1,442 | 1,442 | 1,442 |
| 20 659 | \$0 | 0 | 0 |
| 21 666 | \$867 | 867 | 867 |
| 22 675 | \$1,131 | 1,131 | 1,131 |
| 23 403 | \$10,405 | 10,405 | 13,895 |
| 24 408 | \$0 | 0 | 0 |
| 25 408.11 | \$1,537 | 2,677 | 3,440 |
| 26 670 | \$0 | 0 | 0 |
| 27 409 | \$0 | 3,256 | 3,613 |
| 28 | \$18 | 18 | 18 |
| 29 | | | |
| 30 Total Operating Expense | <u>\$47,093</u> | <u>\$51,507</u> | <u>\$56,118</u> |
| 31 | | | |
| 32 Operating Income | (\$10,261) | \$12,638 | \$26,310 |
| 33 | | | |
| 34 Additions to Cash | | | |
| 35 | \$10,405 | \$10,405 | \$13,895 |
| 36 | | | |
| 37 Net Cash from Operations | <u>\$144</u> | <u>\$23,043</u> | <u>\$40,205</u> |
| 38 | | | |
| 39 Annual Debt Service Amount¹ | \$14,213 | \$14,213 | \$32,138 |
| 40 | | | |
| 41 Cash Available for Contingencies | <u>(\$14,069)</u> | <u>\$8,830</u> | <u>\$8,067</u> |
| 42 | | | |
| 43 DSC [L26 + L35] ÷ [L37] | 0.01 | 1.85 | 1.36 |

Footnote 1: Annual Debt Service Amount includes the principle, interest, and loan reserve required by WIFA for all WIFA loans.

WIFA LOAN SURCHARGE CALCULATION

Loan Amount: **\$174,450**
Term (In Years): **20.0**
WIFA Interest & Fee Rate **5.950%**

Step 1 - Find the Principal and Interest Components of the Annual Surcharge Revenue

\$4,684.04 Principal (From Loan Amortization Schedule)
\$10,253.41 Plus: Interest (From Loan Amortization Schedule)

\$14,937.45 Debt Service Component of the Annual Surcharge Revenue

Step 2 - Find the Gross Revenue Conversion Factor

1.299159 From workpapers

Step 3 - Find the Incremental Income Tax Factor

1.29916 minus 1 = **0.29916**

Step 4 - Find the Annual Income Tax Component of Surcharge Related To Principle

0.29916 Incremental Income Tax Factor (From Step 3)
\$4,684.04 Multiplied by: Annual Principal Payment on Loan from Step 1 (Note: Interest Expense is tax deductible)

\$1,401.27 Annual Income Tax Component Related to the Principle

Step 5 - Find the Annual Income Tax Component of Surcharge Related to Depreciation Expense

0.29916 Incremental Income Tax Factor (From Step 3)
\$3,490.00 Depreciation Expense on WIFA Loan Funded Plant (\$174,500 x 2.00%)

\$1,044.06 Annual Income Tax Component of Surcharge Related to Depreciation Expense

Step 6 - Find the Net Annual Income Tax Component of Surcharge

\$1,401.27 Annual Income Tax Component Related to the Principle (From Step 4)
(\$1,044.06) Less: Annual Income Tax Component of Surcharge Related to Depreciation Expense (From Step 5)

\$357.21 Net Annual Income Tax Component of Surcharge Revenue

Step 7 - Find the Debt Reserve Component of the Annual Surcharge Revenue

\$14,937.45 Annual Interest and Principal Payments on the Loan (From Step 1)
20% Multiplied by: One-fifth of Annual Principal and Interest Payment

\$2,987.49 Debt Reserve Component of the Annual Surcharge Revenue for first five years

Step 8 - Find the Annual Surcharge Revenue Requirement Needed for the Loan Including Reserve Fund

\$357.21 Net Annual Income Tax Component of the Annual Surcharge Revenue (From Step 6)
\$14,937.45 Plus: Debt Service Component of the Annual Surcharge Revenue (From Step 1)
\$2,987.49 Plus: Annual Reserve Fund Deposit (From Step 7)

\$18,282.14 Total Annual Surcharge Revenue Requirement for the Loan

Step 9 - Find the Equivalent Bills

| Col A | Col B | | Col C | | Col D | | Col E |
|------------------|------------------|---|----------------------------------|---|--------------------------|---|-----------------------------------|
| Meter Size | NARUC Multiplier | | Number of Customers ¹ | | Number of Months in Year | | Equivalent Bills Col B x C X D |
| 5/8"x 3/4" Meter | 1 | x | 6 | x | 12 | = | 72 |
| 3/4" Meter | 1.5 | x | 41 | x | 12 | = | 738 |
| 1" Meter | 2.5 | x | 3 | x | 12 | = | 90 |
| 1½" Meter | 5 | x | 0 | x | 12 | = | - |
| 2" Meter | 8 | x | 0 | x | 12 | = | - |
| 3" Meter | 15 | x | 0 | x | 12 | = | - |
| 4" Meter | 25 | x | 0 | x | 12 | = | - |
| 6" Meter | 50 | x | 0 | x | 12 | = | - |
| | | | 50 | | | | 900 |

Step 10 - Find the Monthly Surcharge for the 1-Inch Meter Size Customers

\$18,282.14 Total Annual Surcharge Revenue Requirement for the Loan (From Step 8)
900 Divided by: Total Number of Equivalent Bills (From Step 9)

\$20.31 Monthly Surcharge for 5/8"x 3/4" Customers

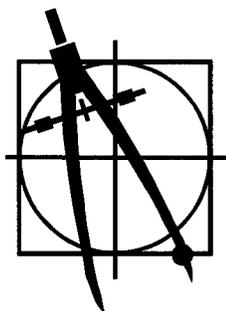
Step 11 - Find the Monthly Surcharge for the Remaining Meter Size Customers

| Col A | Col B | | Col C | | Col D |
|-------------------|------------------|---|---------------------------------------|---|---|
| Meter Size | NARUC Multiplier | | 5/8"x 3/4" Customers' Surcharge | = | Surcharge by Meter Size Col B x C |
| 5/8" x 3/4" Meter | 1 | x | \$20.31 | = | \$20.31 |
| 3/4" Meter | 1.5 | x | \$20.31 | = | \$30.47 |
| 1" Meter | 2.5 | x | \$20.31 | = | \$50.78 |
| 1½" Meter | 5 | x | \$20.31 | = | \$101.57 |
| 2" Meter | 8 | x | \$20.31 | = | \$162.51 |
| 3" Meter | 15 | x | \$20.31 | = | \$304.70 |
| 4" Meter | 25 | x | \$20.31 | = | \$507.84 |
| 6" Meter | 50 | x | \$20.31 | = | \$1,015.67 |

Note 1: While the number of customers in the test year was 53, the Company reported in it's application that the customer base had declined to 50. Therefore, Staff used the known amount of customers and their respective Meter size to consider the amount of the surcharge.

Step 12 - Recalculation of Annual Surcharge Revenue

| Col A | Col B | | Col C | | Col D | | Col E |
|-------------------|------------------------|---|--------------------------------|---|-------------------------------|---|--|
| Meter Size | Number of Customers | | Number of Months in Year | | Surcharge by Meter Size | = | Annual Surcharge Rev Col B x C X D |
| 5/8" x 3/4" Meter | 6 | x | 12 | x | \$20.31 | = | \$1,462.57 |
| 3/4" Meter | 41 | x | 12 | x | \$30.47 | = | \$14,991.36 |
| 1" Meter | 3 | x | 12 | x | \$50.78 | = | \$1,828.21 |
| 1½" Meter | 0 | x | 12 | x | \$101.57 | = | \$0.00 |
| 2" Meter | 0 | x | 12 | x | \$162.51 | = | \$0.00 |
| 3" Meter | 0 | x | 12 | x | \$304.70 | = | \$0.00 |
| 4" Meter | 0 | x | 12 | x | \$507.84 | = | \$0.00 |
| 6" Meter | 0 | x | 12 | x | \$1,015.67 | = | \$0.00 |
| | <u>50</u> | | | | <u>\$2,193.86</u> | | <u>\$18,282.14</u> (From Step 8) |



**ENGINEERING REPORT FOR
Eagletail Water Company L.L.C.
Docket Nos. W-03936A-16-0096 (Rates)
And W-03936A-16-0095 (Financing)**

By Jian W Liu

June 10, 2016

CONCLUSIONS

1. Arizona Department of Environmental Quality (“ADEQ”) or its formally delegated agent, the Maricopa County Environmental Services Department (“MCESD”), regulates the Eagletail Water Company L.L.C. (“Eagletail” or “Company”) water system under ADEQ Public Water System (“PWS”) No. 07-032. MCESD reported the Water System is in non-compliance (minor) because the storage tank is in poor condition and leaking (MCESD compliance status report dated April 18, 2016).
2. The Company is not located in any Active Management Area (“AMA”) and is not subject to Arizona Department of Water Resources (“ADWR”) AMA reporting and conservation requirements. ADWR reported that Eagletail is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated April 8, 2016).
3. A check with the Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Compliance Section showed no delinquent compliance items for the Company. (Compliance Section email dated April 6, 2016).
4. Staff concludes that the Eagletail has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.
5. Eagletail has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.
6. Eagletail has approved BMP tariffs on file with the Commission.
7. Staff concludes that the plant additions and costs included in the Company’s proposed Financing are appropriate and reasonable.
8. Staff concludes that the Company’s proposal to increase the allowance to cover Repairs and Maintenance expenses is appropriate and reasonable given the circumstances.

RECOMMENDATIONS

1. Staff recommends the annual water testing expense of \$692 be used for purposes of this application.
2. In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.
3. Staff recommends that the Company shall file with Docket Control, as a compliance item in this Docket, a report each January and July covering the previous six months that contains all activities regarding its major leaks and leak repairs until such time as Eagletail has a water loss of 10 percent or less, for a period of 12 consecutive months. The report must include gallons pumped and gallons sold for the reporting time period, and explain in detail all activities related to the water loss issue. Staff further recommends the elimination of the requirement to file quarterly water loss reports going forward.
4. Staff recommends acceptance of the Company proposed Service Line and Meter Installation charges in Table C.
5. Staff recommends that the Company docket as a compliance item in this docket and within one year of the effective date of an order in this proceeding, a copy of the ADEQ's Approval of Construction ("AOC") for its new water storage tank.

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A. INTRODUCTION AND LOCATION OF COMPANY

On March 16, 2016, Eagletail Water Company L.L.C. (“Eagletail” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) to increase its rates (Docket No. W-03936A-16-0096) and an application with the Commission requesting authorization to incur long term debt from the Water Infrastructure Finance Authority of Arizona (“WIFA”) in an amount of \$ \$174,500 (Docket No. W-03936A-16-0095). The stated purpose for the loan is to cover the estimated cost of a new 250,000 gallon storage tank including site preparation and interconnection with the existing water system. Per Procedural Order dated May 13, 2016, Docket Nos. W-03936A-16-0095 and W-03936A-16-0096 were consolidated. The ACC Utilities Division Staff (“Staff”) engineering review and analysis of the applications are presented in this report.

Eagletail is located about 65 miles west of downtown Phoenix and 16 miles south of the I-10 Salome Road (Exit 81) in the Harquahalla Valley. The certificated area covers approximately 8 square miles. Figure 1 shows the location of the Company within Maricopa County and Figure 2 shows the Certificate of Convenience and Necessity (“CC&N”).

B. DESCRIPTION OF THE WATER SYSTEM

The Eagletail water system was visited on May 26, 2016 by Jian Liu, Staff Utilities Engineer, in the accompaniment of Frank Haas, representing the Company.

The system served approximately 50 customers at the end of test year (June 30, 2015). The system consists of one well, one pressure tank, one storage tank, two booster pumps, chlorination equipment, and a distribution system. Table A includes a detailed plant facility listing.

Table A. Plant Facilities Summary

| | |
|----------------------|----------------|
| ADWR ID No. | 55-602826 |
| Casing Size | 8 inch |
| Casing Depth | 500 ft. |
| Meter Size | 6 inch |
| Pump Size | 125 hp Turbine |
| Pump Yield | 400 gpm |
| Date Drilled | 1970 |
| Storage Tank | 500,000 gallon |
| Pressure Tank | 5,000 gallons |
| Booster Pumps | 2- 25 hp |

Mains

| Diameter (inches) | Material | Length (feet) |
|--------------------------|-----------------|----------------------|
| 4 " | PVC | 91,080 |
| 6 " | PVC | 52,800 |
| 8" | PVC | 2,640 |

Eagletail Water Company
Docket Nos. W-03936A-16-0096 (Rates)
And W-03936A-16-0095 (Financing)
Page 2

Meters

| Size | Quantity |
|--------------|-----------------|
| 5/8 X 3/4" | 9 |
| 3/4" | 43 |
| 1" | 4 |
| | |
| Total | 56 |

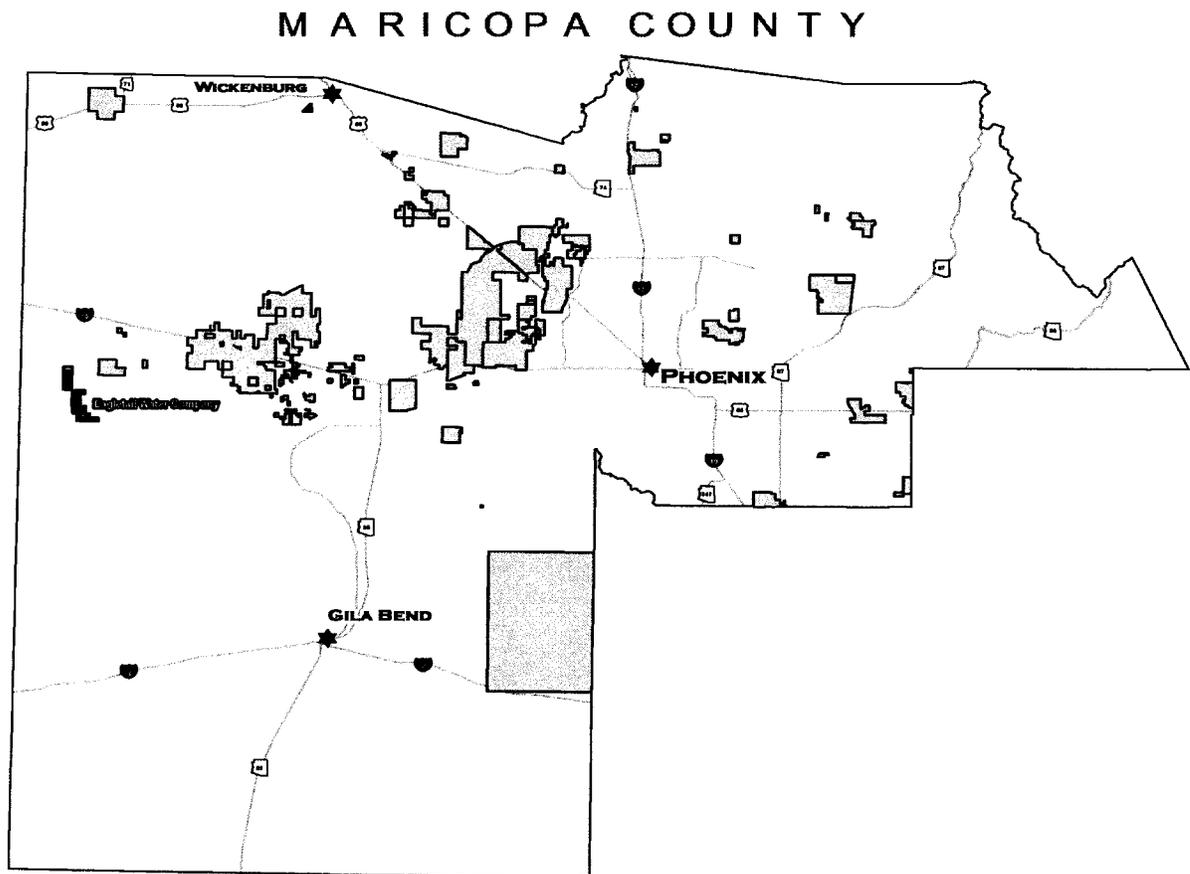


Figure 1. County Map

M A R I C O P A C O U N T Y

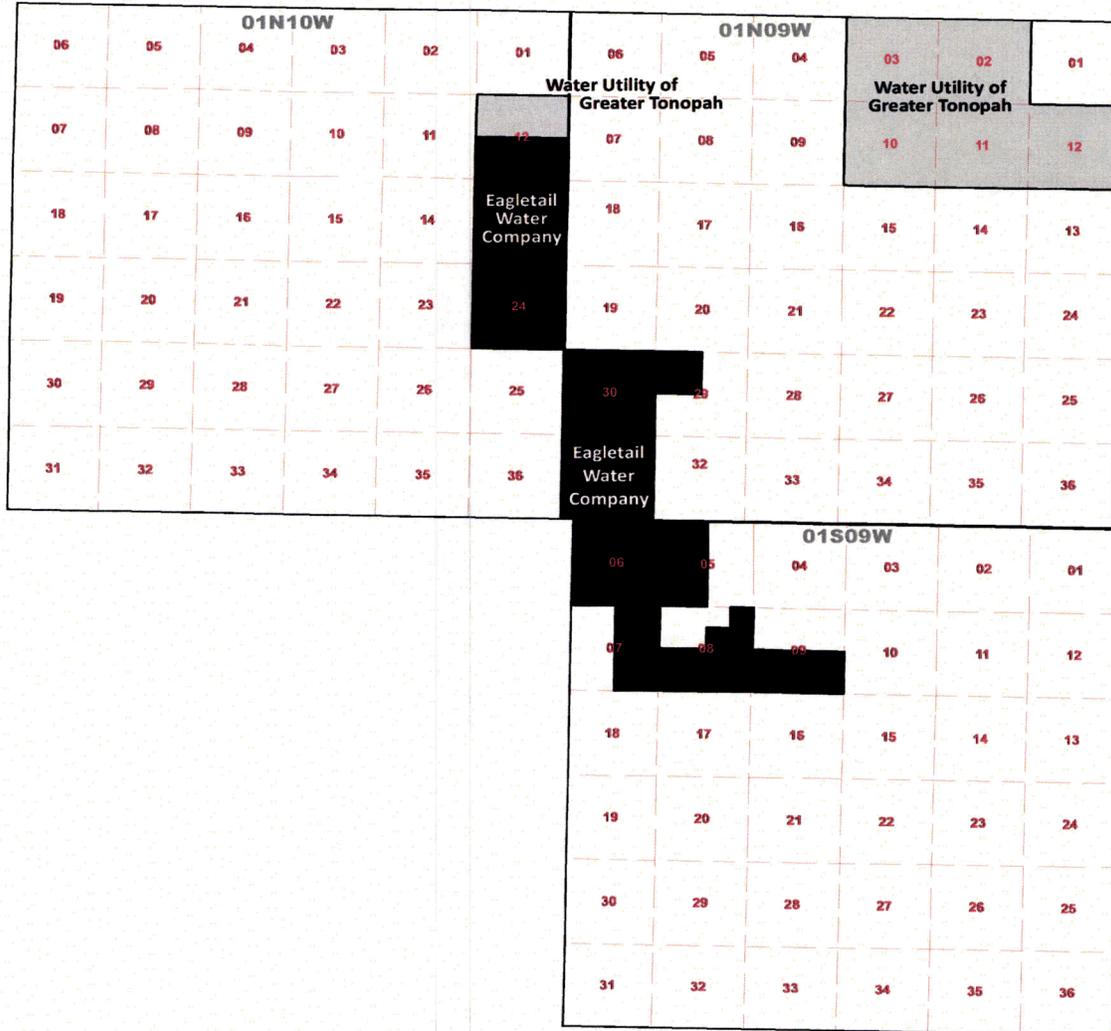


Figure 2. Certificated Area

C. WATER USE

Water Sold

Figure 3 presents the water consumption data provided by the Company for the test year from July 1, 2014 to June 30, 2015. Customer consumption included a high monthly water use of 299 gallons per day (“GPD”) per connection in July, and the low water use was 123 GPD per connection in January. The average annual use was 168 GPD per connection.

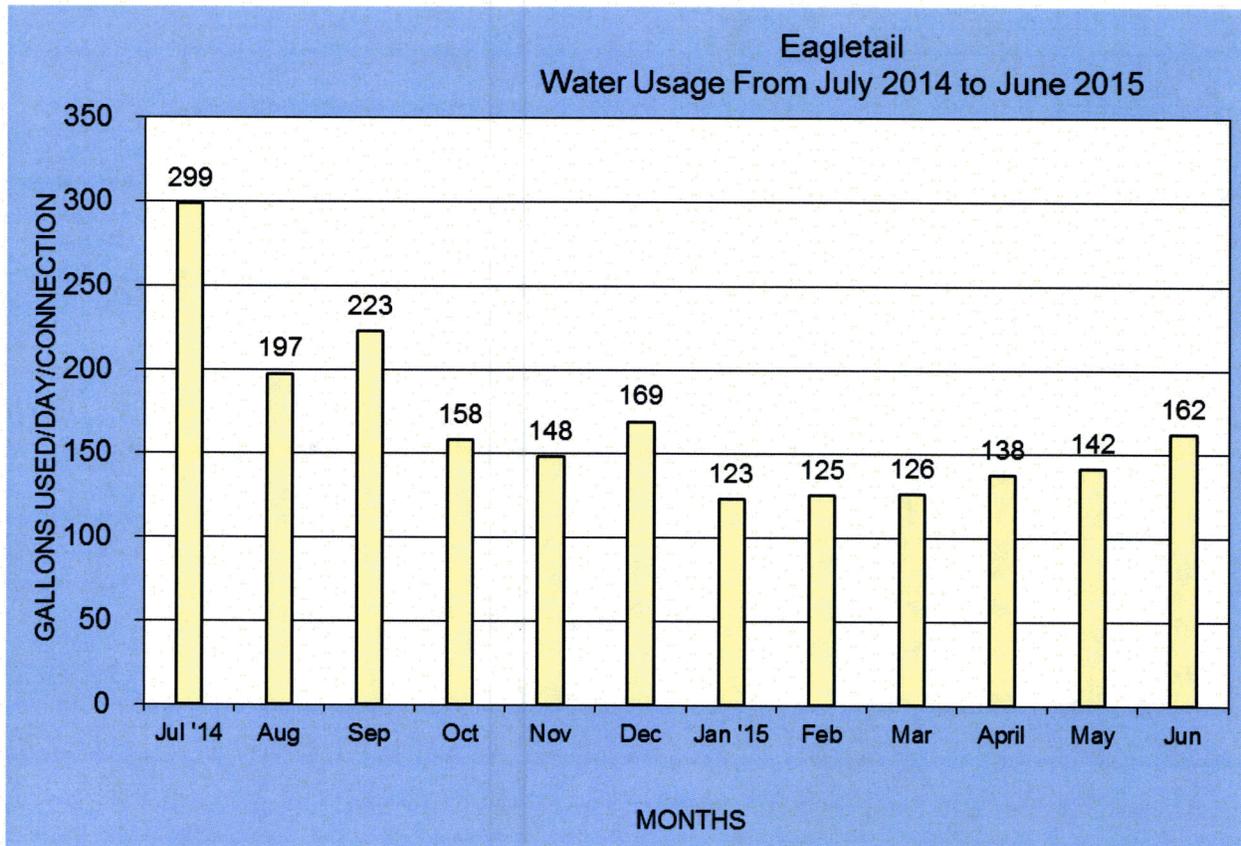


Figure 3. Water Use

Non-Account Water

Non-account water should be 10 percent or less. 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. Eagletail reported 6,177,000 gallons pumped and 3,218,000 gallons sold, resulting in a water loss of 47.90 percent for the test year.

The Company states that “[t]he water storage tank has been leaking for more than a year. The rate of the leak is unclear as it is leaking back into the ground under the tank. There were 6 major leaks in 2014 and 20 leaks have been repaired in 2015.”

Eagletail reported Repairs and Maintenance costs of \$4,129 during the test year, and proposed that an allowance to cover Repair and Maintenance expenses be increased to \$8,129. Based on the information provided by the Company, Staff concludes that the Company’s proposal to increase the allowance to cover Repairs and Maintenance expenses is appropriate and reasonable given the circumstances.

Staff recommends that the Company shall file with Docket Control, as a compliance item in this Docket, a report each January and July covering the previous six months that contains all activities regarding its major leaks and leak repairs until such time as Eagletail has a water loss of 10 percent or less, for a period of 12 consecutive months. The report must include gallons pumped and gallons sold for the reporting time period, and explain in detail all activities related to the water loss issue. Staff further recommends the elimination of the requirement to file quarterly water loss reports going forward.

D. GROWTH

Eagletail had 61 customers in 2000, 54 customers in 2004, 53 customers in December 2010, and 50 customers in June 2015. The Company has been losing customers and therefore predicts that little or no growth will occur in the next five years.

System Analysis

Staff concludes that the Eagletail has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

E. ADEQ COMPLIANCE

Compliance

ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department (“MCESD”), regulates the Eagletail water system under ADEQ Public Water System (“PWS”) No. 07-032. MCESD reported the Water System is in non-compliance (minor) because the storage tank is in poor condition and leaking (MCESD compliance status report dated April 18, 2016).

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program (“MAP”). Participation in the MAP program 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 \$145 during the test year. Staff has reviewed the Company's testing expense and has recalculated the testing costs to add the omitted monitoring requirements for lead & copper.

Table A. Water Testing Cost

| Monitoring | Cost per test | Quantity of tests per 3 years | Annual Cost |
|---|---------------|-------------------------------|--------------|
| Total coliform (one sample monthly) | \$20 | 36 | \$240 |
| MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs | MAP | MAP | \$384 |
| Lead & Copper | \$34 | 6 | \$68 |
| Total | | | \$692 |

Note: ADEQ's MAP invoice for the 2015 Calendar Year was \$383.64

Staff recommends an annual water testing expense of \$692 be used for purposes of this application.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is not located in any AMA and is not subject to ADWR AMA reporting and conservation requirements. ADWR reported that Eagletail is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated April 8, 2016)

G. ACC COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items for the Company. (Compliance Section email dated April 6, 2016)

H. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table B. 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 | 20.0 |
| 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 |
| | | | |

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has proposed changes to its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's recommended range for these charges. Staff recommends acceptance of the Company proposed charges in Table C.

Table C. Service Line and Meter Installation Charges

| Meter Sizes | Current Service Line Charges | Current Meter Charges | Current Total Charges | The Company proposed Service Line Charges | The Company proposed * Meter Charges | The Company proposed Total Charges |
|-------------|------------------------------|-----------------------|-----------------------|---|--------------------------------------|------------------------------------|
| 5/8" x 3/4" | 350 | 90 | 440 | 420 | 175 | 595 |
| 3/4" | 350 | 160 | 510 | 420 | 275 | 695 |
| 1" | 380 | 210 | 590 | 470 | 340 | 810 |
| 1-1/2" | 430 | 395 | 825 | 550 | 520 | 1070 |
| 2" | 630 | 785 | 1,415 | 950 | 1250 | 2200 |
| 3" | 810 | 1295 | 2,105 | 1300 | 1900 | 3200 |
| 4" | 1,120 | 2,000 | 3,120 | 1800 | 2900 | 4700 |
| 6" | 1,740 | 3,975 | 5,715 | 2800 | 5440 | 8240 |
| Over 6" | N/A | N/A | N/A | At Cost | At Cost | At Cost |

*Note: Meter charge includes meter box or vault.

2. Curtailment Plan and Backflow Prevention Tariffs

Eagletail has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

3. Best Management Practices ("BMPs")

Eagletail has approved BMP tariffs on file with the Commission.

4. Financing Application

Eagletail filed an application with the Commission requesting authorization to incur long term debt from the WIFA in an amount of \$174,500. The stated purpose for the loan is to cover the estimated cost of a new 250,000 gallon storage tank including site preparation and interconnection with the existing water system.

Eagletail's proposed plant additions and costs are as following:

| | | |
|----|--|-----------|
| 1. | New 250,000 gallon storage tank (Labor and Materials) | \$148,800 |
| 2. | Base Work (site preparation) | \$5,750 |
| 3. | Piping (interconnection with the well) | \$19,900 |
| | Total: | \$174,450 |

On May 26, 2016, Staff inspected and verified that the storage tank was in poor condition and leaking. Based on its review of the Financing Application and information provided by the Company, Staff concludes that Eagletail's proposed plant additions and costs are appropriate and reasonable. However, no "used and useful" determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

Staff recommends that the Company docket as a compliance item in this docket and within one year of the effective date of an order in this proceeding, a copy of the ADEQ's Approval of Construction ("AOC") for its new water storage tank.