

ORIGINAL

MEMORANDUM



0000172579

TO: Docket Control

FROM: Thomas M. Broderick
Director
Utilities Division *T. M. Broderick*

DATE: August 12, 2016

RE: STAFF REPORT FOR GOLDEN SHORES WATER COMPANY, INC.'S APPLICATIONS FOR AN INCREASE IN ITS RATES AND TO INCUR LONG-TERM DEBT (DOCKET NOS. W-01815A-14-0173 AND W-01815A-16-0142)

Attached is the Staff Report for Golden Shores Water Company, Inc.'s applications for an increase in its rates and to incur long-term debt. 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.

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 August 22, 2016.

TMB:CSB:nr\BH

Originator: Crystal Brown

Attachments

Arizona Corporation Commission

DOCKETED

AUG 12 2016

DOCKETED BY *TH*

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL
2016 AUG 12 P 3:40

Service List for: Golden Shores Water Company, Inc.
Docket Nos. W-01815A-14-0173 and W-01815A-16-0142

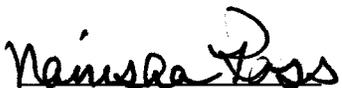
On this 12th day of August, 2016, the foregoing document was filed with Docket Control as a Staff Report, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

Mr. Mark Sparks
Golden Shores Water Company
Post Office Box 37
Topock, Arizona 86436

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

By: 
Nanisha Ross
Administrative Support Specialist

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**GOLDEN SHORES WATER COMPANY, INC.
DOCKET NOS. W-01815A-14-0173 and W-01815A-16-0142**

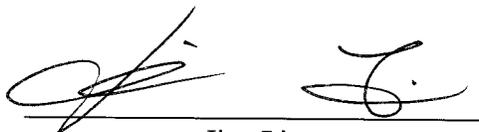
**APPLICATIONS
FOR A
PERMANENT RATE INCREASE
AND FINANCING APPROVAL**

AUGUST 12, 2016

STAFF ACKNOWLEDGMENT

The Staff Report for Golden Shores Water Company, Inc. ("Golden Shores" or "Company") Docket Nos. W-01815A-14-0173 and W-01815A-16-0142 was the responsibility of the Staff members listed below. Crystal Brown was responsible for the review and analysis of the Company's applications for a permanent rate increase and financing approval. Jian Liu was responsible for the engineering and technical analysis. Mary Mee was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.


Crystal Brown
Executive Consultant III


Jian Liu
Utilities Engineer


Mary Mee
Consumer Analyst I

EXECUTIVE SUMMARY
GOLDEN SHORES WATER COMPANY, INC.
DOCKET NOS. W-01815A-14-0173 AND W-01815A-16-0142

In Decision No. 74168, dated October 25, 2013, the Arizona Corporation Commission (“Commission”) authorized interim emergency rates for Golden Shores Water Company, Inc. (“Golden Shores” or “Company”) and ordered the Company to file an application for a permanent rate increase no later than May 30, 2014, using a 2013 test year. On June 2, 2014, in compliance with Decision No. 74168, Golden Shores filed an application with the Commission for a permanent rate increase. On April 29, 2016, the Company filed a financing application. On July 19, 2016, the two applications were consolidated by Procedural Order.

Golden Shores is a certificated Class D utility located in Mohave County, Arizona. The Company’s current permanent rates and charges were authorized in Decision No. 61832, dated July 20, 1999, and its interim emergency rates were authorized in Decision No. 74168, dated October 25, 2013. During the test year ending December 31, 2014, Golden Shores provided water service to approximately 1,528 metered customers.

Golden Shores proposed a \$129,929 or a 23.71 percent revenue increase from test year revenue of \$548,007 to \$677,936. The proposed revenue increase would produce an operating income of \$80,814 for a 60.15 percent rate of return on an original cost rate base (“OCRB”) of a \$134,352 and an 11.92 percent operating margin. The Company’s proposed rates would increase the typical residential bill with a median usage of 3,116 gallons from \$24.74 to \$30.82, for an increase of \$6.08, or 24.6 percent.

The Company’s finance application requested approval of a \$550,345 loan. Staff reviewed the plant cost estimates and found that the amounts actually totaled \$514,700. Therefore, Staff recommends approval of a loan in the amount of \$514,700. The Company is in agreement. The purpose of the loan is to replace meters and valves that are over 30 years old, to purchase a back-up generator and to upgrade infrastructure. The Company did not include a request for a Water Infrastructure Finance Authority of Arizona (“WIFA”) loan surcharge. However, Staff recommends that a WIFA loan surcharge mechanism be approved that results in a surcharge estimated to be \$2.65 per month per customer.

Staff recommends a revenue increase of \$33,296 or 6.08 percent over the test year revenue of \$548,007 to \$581,303 as shown on CSB-1, Pages 1 and 2. Staff’s recommended base rates revenue increase would produce an operating income of \$31,064 for a 9.40 percent rate of return on an OCRB of \$330,470 and a 5.34 percent operating margin. In addition, Staff is recommending a WIFA loan surcharge that would generate estimated revenue of \$48,914, for total revenue of approximately \$630,217, as shown on Schedules CSB-1 and CSB-19. The base rates revenue is intended to support all operations. The debt service of the loan (i.e., principal, interest, and reserve payments) will be made with revenues generated from the WIFA loan surcharge. The Staff recommended operating margin including the WIFA surcharge revenue is 12.69 percent.

Staff’s recommended rates (excluding the WIFA loan surcharge) would increase the typical residential bill with a median usage of 3,116 gallons from \$24.74 to \$25.76, for an increase of \$1.02, or 4.1 percent as shown on Schedule CSB-21. Once the WIFA loan surcharge is implemented, the typical 5/8 x 3/4 inch meter residential bill of \$25.76 would increase by the amount of the surcharge, \$2.65 to \$28.41. The combined base rate and surcharge revenue components would

increase the typical 5/8 x 3/4 inch meter residential bill with a median usage of 3,116 gallons from \$24.74 to \$28.41, an increase of \$3.67, or 14.8 percent as shown on Schedule CSB-21.

Staff's Recommendations

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Schedule CSB-20.
2. The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. That Golden Shores, 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 regularly scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
4. 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.
5. The Commission approve the Company's application for authorization to issue long-term debt to the WIFA in an amount not to exceed \$514,700. Staff further recommends that the Company be authorized to use a portion of the loan proceeds to be reimbursed for previous funds spent on the meters and meter installations costs that were incurred beginning July 29, 2016.
6. The Commission approve the associated surcharge mechanism that may result in a surcharge of \$2.65 per month per customer.
7. 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.
8. 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.
9. The Company provide to Staff, upon request, a copy of any loan documents executed pursuant to the authorizations granted herein.
10. Upon filing of the loan closing notice, the Company file in this Docket an application requesting implementation of the associated surcharge.

11. 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 Commission consideration.
12. Approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding.
13. 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.
14. The only disbursement of funds from this account will be to make debt service and WIFA reserve payments to WIFA.
15. That the Company be directed to record the loan principal portion of the surcharge in its books and records as CIAC.
16. The surcharge automatically expire at the end of the loan term, usually 240 months or upon full payment of the loan, whichever occurs first.
17. Staff further recommends that Golden Shores use the Staff recommended depreciation rates listed in Table F of the attached Engineering Report.

TABLE OF CONTENTS

	PAGE
STAFF'S RECOMMENDATIONS	6
FACT SHEET	1
SUMMARY OF FILING	3
COMPANY BACKGROUND	3
CONSUMER SERVICES	4
COMPLIANCE	4
ENGINEERING ANALYSIS	4
RATE BASE	4
<i>Plant Adjustments</i>	<i>4</i>
<i>Accumulated Depreciation Adjustment</i>	<i>5</i>
<i>Contributions in Aid of Construction ("CLAC") and Amortization of CLAC</i>	<i>6</i>
OPERATING INCOME STATEMENT	6
<i>Operating Revenue</i>	<i>6</i>
<i>Operating Expenses</i>	<i>6</i>
<i>Rate Case Expense – Staff made no adjustment to rate case expense as the amount proposed by the Company represents a reasonable normalized amount.</i>	<i>8</i>
REVENUE REQUIREMENT	8
RATE DESIGN	9
<i>Miscellaneous Service Charges</i>	<i>9</i>
SERVICE LINE AND METER INSTALLATION CHARGES	11
FINANCING APPLICATION AND SURCHARGE MECHANISM	11
<i>Purpose and Terms of the Proposed Financing</i>	<i>11</i>
<i>Use of the \$514,700 Loan Proceeds for Reimbursement of Previous Funds Spent On Meters and Meter Installation Costs</i>	<i>11</i>
<i>Surcharge Mechanism</i>	<i>12</i>
<i>WIFA Loan Debt Reserve</i>	<i>12</i>
<i>Times Interest Earned Ratio ("TIER") and Debt Service Coverage Ratio ("DSC")</i>	<i>12</i>
STAFF RECOMMENDATIONS:	13

SCHEDULES

Summary of Filing	CSB-1
Gross Revenue Conversion Factor.....	CSB-2
Rate Base – Original Cost	CSB-3
Rate Base – Summary of Original Cost Rate Base Adjustments	CSB-4
Rate Base Adjustment No. 1 – Reclassification of 2008 Plant Addition	CSB-5
Rate Base Adjustment No. 2 – Retirement of 1998 Plant	CSB-6
Rate Base Adjustment No. 3 – Inactive Wells	CSB-7
Rate Base Adjustment No. 4 – Accumulated Depreciation.....	CSB-8
Rate Base Adjustment No. 5 – CIAC & Amortization of CIAC	CSB-9
Operating Income Statement – Test Year and Staff Recommended	CSB-10
Summary of Operating Income Adjustments – Test Year.....	CSB-11

Operating Income Adjustment No. 1 – Salaries of Officers	CSB-12
Operating Income Adjustment No. 2 – Water Testing Expense.....	CSB-13
Operating Income Adjustment No. 3 – Depreciation Expense.....	CSB-14
Operating Income Adjustment No. 4 – Property Tax Expense	CSB-15
Operating Income Adjustment No. 5 – Test Year Income Tax Expense.....	CSB-16
Operating Income Adjustment No. 6 – Interest on Customer Deposits	CSB-17
WIFA Loan Surcharge Calculation.....	CSB-18
Financial Analysis	CSB-19
Rate Design	CSB-20
Typical Bill Analysis	CSB-21

ATTACHMENT

Engineering Report.....	A
-------------------------	---

FACT SHEET

Company Statistics:

Current rates: Decision No. 61832, dated July 20, 1999 (Permanent Rates) and Decision No. 74168, dated October 25, 2013 (Interim Emergency Rates)

Type of ownership: Corporation

Location: Golden Shores' central business address is 12812 Highway 66, in Topock, Arizona. Golden Shores' service area is located approximately 30 miles south of Bullhead City, Arizona, in Mohave County.

Rates:

Permanent rate increase application filed: June 2, 2014 (Original); July 9, 2015 (Amended)

Current test year ended: December 31, 2013 (Original); December 31, 2014 (Amended).

Application found Sufficient: August 14, 2014 (Original); March 31, 2016 (Amended).

Prior test year ended: May 31, 1998.

Monthly Charges:

	Current (Interim Emergency)	Company Proposed	Staff Recommended With Surcharge
Minimum monthly charge: 5/8 x 3/4 inch meter	<u>Rates</u> \$20.00	<u>Rates</u> \$25.00	<u>Rates</u> \$21.00
Commodity charge (per 1,000 gallons): Per 1,000 gallons for all usage	\$1.52	N/A	N/A
From 0 to 3,000 gallons	N/A	\$1.86	\$1.52
From 3,001 to 10,000 gallons	N/A	\$2.10	1.72
Over 10,000 gallons	N/A	\$2.65	1.90
Typical 5/8 x 3/4 inch meter residential bill:			
Average use (5,738 gallons)	\$28.72	\$36.33	\$32.92
Median use (3,116 gallons)	24.74	30.82	28.41

Customers:

Number of customers in prior test year (5/31/98): 1,148

Average number of customers in the current test year (12/31/14): 1,528

Current Test Year customers by meter size:

5/8 X 3/4-inch	1,525
3/4-inch	0
1-inch	2
1 1/2-inch	0
2-inch	1
4-inch	0
6-inch	0

Seasonal customers: 0

Customer notification:

Customer notification: For the rate application, Golden Shores filed an Affidavit of Mailing on October 9, 2014. For the financing application, the Company's proof of mailing the customer notice was included with its financing application filed on April 29, 2016.

Complaints and Opinions:

Customer Complaints Concerning Rate Application: 0

Typical Bill Analysis:

		Company	Staff
		<u>Proposed</u>	<u>Recommended</u>
<u>Typical Residential Bill Analysis (Without Surcharge)</u>	<u>Present</u>		
Based on median usage of 3,116 gallons	\$24.74	\$30.82	\$25.76
<u>Typical Residential Bill Analysis (With Surcharge)</u>	<u>Present</u>	Company	Staff
Based on median usage of 3,116 gallons	\$24.74	<u>Proposed</u>	<u>Recommended</u>
		N/A	\$28.41

SUMMARY OF FILING

The test year results, as adjusted by Utilities Division Staff ("Staff"), for Golden Shores Water Company, Inc. ("Golden Shores" or "Company") shows total operating revenue of \$548,007 and operating income of \$4,996 on an original cost rate base ("OCRB") of \$330,470 for a 1.51 percent rate of return as shown on Schedule CSB-1, Page 1.

Golden Shores proposed a \$129,929 or a 23.71 percent revenue increase from test year revenue of \$548,007 to \$677,936 as shown on CSB-1. The proposed revenue increase would produce an operating income of \$80,814 for a 60.15 percent rate of return on an original cost rate base ("OCRB") of a \$134,352 and an 11.92 percent operating margin. The Company's proposed rates would increase the typical residential bill with a median usage of 3,116 gallons from \$24.74 to \$30.82, for an increase of \$6.08, or 24.6 percent.

Staff recommends a base rate revenue increase of \$33,296 or 6.08 percent over the test year revenue of \$548,007 to \$581,303 as shown on CSB-1, Pages 1 and 2. Staff's recommended base rates revenue increase would produce an operating income of \$31,064 for a 9.40 percent rate of return on an OCRB of \$330,470 and a 5.34 percent operating margin. In addition, Staff is recommending a WIFA loan surcharge that would generate estimated revenue of \$48,914, for total revenue of approximately \$630,217, as shown on Schedules CSB-1 and CSB-19. The base rates revenue is intended to support all operations. The debt service of the loan (i.e., principal, interest, and reserve payments) will be made with revenues generated from the WIFA loan surcharge. The Staff recommended operating margin, including the WIFA surcharge revenue is 12.69 percent.

Staff's recommended rates (including the WIFA loan surcharge) would increase the typical 5/8 x 3/4 inch meter residential bill with a median usage of 3,116 gallons from \$24.74 to \$28.41, an increase of \$3.67, or 14.8 percent as shown on Schedule CSB-19.

COMPANY BACKGROUND

In Decision No. 74168, dated October 25, 2013, the Commission authorized interim emergency rates for Golden Shores and ordered the Company to file an application for a permanent rate increase no later than May 30, 2014, using a 2013 test year. On June 2, 2015, in compliance with Decision No. 74168, Golden Shores filed an application with the Arizona Corporation Commission ("Commission") for a permanent rate increase. On August 14, 2014, Staff filed a letter of Sufficiency. On December 16, 2014, the time-clock was suspended to allow the Company to file a financing application and an amended rate application reflecting a 2014 test year. On May 26, 2015, the Company filed a financing application (Docket No. W-01815A-15-0166). On July 9, 2016, the Company filed an amended rate application that updated the test year to December 31, 2014. On November 30, 2015, the Company withdrew its financing application (Docket No. W-01815A-15-0166). On April 8, 2016, Staff made corrections to its Letter of Sufficiency to reflect the Staff report filing date stated in the Procedural Order dated October 28, 2015. On April 29, 2016, the Company filed a financing application. On July 19, 2016, the two applications were consolidated by Procedural Order.

Golden Shores is a certificated Class D utility located in Mohave County, Arizona. The Company's current permanent rates and charges were authorized in Decision No. 61832, dated July 20, 1999, and its interim emergency rates were authorized in Decision No. 74168, dated October 25, 2013 (Interim Rates). During the test year ended December 31, 2014, Golden Shores provided water service to approximately 1,528 metered customers.

CONSUMER SERVICES

A review of Consumer Services database from January 1, 2013 to July 21, 2016, revealed the following:

2013 - 2016 - Zero Complaints

COMPLIANCE

A check of the Commission Compliance Database indicates that there are currently no delinquencies for Golden Shores.

ENGINEERING ANALYSIS

An inspection of the Company's water system was conducted by Mr. Jian Liu, Staff Engineer, accompanied by Company Representative, Mr. Mark A Sparks (Owner and Operator) on October 29, 2014. 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

The Company's proposed rate base is \$134,352. The Company did not propose a fair value rate base that differs from its original cost rate base. Staff's rate base adjustments result in a net increase of \$196,118 to the Company's proposed rate base from \$134,352 to \$330,470 as shown in Schedules CSB-3 and CSB-4. The increase was primarily due to Staff removing elements of the Company's plant that was fully depreciated, and removing the accumulated depreciation reserves associated with this fully depreciated plant. A discussion of Staff's adjustments is presented below.

Plant Adjustments

Adjustment No. 1, Reclassification of 2008 Plant Addition – In 2008, the Company reported a \$391,888 plant addition for Account No. 307, Wells and Springs. The plant addition was financed with a 10 year loan from Bank One that was authorized by the Commission in Decision No. 70171, dated February 27, 2008. Staff reclassified a portion of the plant to structures and improvements, electric pumping equipment, and storage tanks based upon the information provided by the Staff Engineer in the 2008 Staff Report as shown on Schedules CSB-4 and CSB-5.

This adjustment has no net effect on total plant. Nonetheless, the plant must be included in the correct plant account in order to calculate the correct amount of depreciation expense. Currently, the correct classification of plant does not impact the calculation of depreciation expense because the Company has a five percent depreciation rate that applies to all plant. However, Staff is recommending the prospective use of depreciation rates that vary based upon the estimated useful life of the plant. The use of Staff's recommended depreciation rates on a prospective basis will allow the cost of the plant to be properly depreciated over the plant's useful life and affect the amount of annual depreciation expense to be recovered through rates.

Adjustment No. 2, Retirement of 1998 Plant – This adjustment decreases plant in service by \$295,032 to reflect the retirement of plant that had reached the end of its estimated useful life.

The Company provided plant additions and retirements by year for the years 1999 to 2014 as shown in its application. The schedules showed that with the exception of transportation equipment and power operated equipment that were retired in 2005, no other retirements had been recorded from 1999 to 2013; a 15 year time span. Plant items such as pumping equipment, meters, office furniture and equipment, and computers and software all have estimated useful lives of less than 15 years as follows:

Acct. No.	Plant Description	Useful Life
311	Pumping Equipment	8 years
334	Meters	12 years
339	Other Plant	15 years
340	Office Furniture & Equip	15 years
343	Tools and Work Equipment	5 years
346	Communications Equipment	10 years

Staff identified \$295,032 in plant that was in service at the end of the test year of the last rate case (i.e. May 31, 1998) but had reached the end of its estimated useful life during the intervening 15 years (i.e. to December 31, 2013) as shown on Schedules CSB-4 and CSB-6. The Company acknowledges that replacement plant additions had been made for most of the items included in Staff's retirement adjustment.

Adjustment No. 3, Inactive Wells – This adjustment decreases Account No. 307, Wells and Springs by \$100,000 to remove the cost of three inactive wells as shown on Schedules CSB-4 and Schedule CSB-7. During the course of Staff's audit of the Company's proposed wells and springs plant balance, Staff learned from discussions with the Company that the balance included the cost of three wells (i.e., Wells No. 1, No. 2, and No. 3) that were offline, inoperable, and unrepairable. The Company's estimate for the original cost of the three wells was \$100,000.

Accumulated Depreciation Adjustment

Adjustment No. 4, Accumulated Depreciation – This adjustment decreases accumulated depreciation by \$644,696 as shown on Schedule CSB-4, and CSB-8.

Staff calculated the ending balance of accumulated depreciation by removing excess depreciation on fully depreciated plant, removing depreciation on the retirement of the 1998 plant discussed in Plant Adjustment No. 2, and by removing the accumulated depreciation related to the inactive wells as discussed in Plant Adjustment No. 3, and by applying the Commission's previously approved depreciation rates.

Excess depreciation (i.e. continuing to depreciate fully depreciated plant) causes two main problems: (1) overstated accumulated depreciation balances which, in turn, result in lower rate bases and (2) overstated depreciation expense which, if included in rates, would require customers to pay more than the original cost of the underlying plant investments.

Contributions in Aid of Construction ("CLAC") and Amortization of CLAC

Adjustment No. 5, CIAC – This adjustment increases CIAC by \$79,327 to reflect inadequately supported plant that, for ratemaking purposes, Staff is treating as CIAC. In 2008, the Company recorded a \$391,888 plant addition in its books and records (see Plant Adjustment No. 1). The Company provided adequate supporting documentation for all of the \$391,888 amount except \$79,327. Therefore, Staff treated the amount as CIAC as shown on Schedule CSB-9, lines 10 through 17.

Adjustment No. 5, Amortization of CIAC – This adjustment increases Amortization of CIAC by \$25,781 to reflect the amortization of Staff's pro forma \$79,327 CIAC adjustment. The amount was amortized for the 6.5 intervening years¹ from 2008 to the end of the test year using the current Commission authorized depreciation rate of five percent. Staff's adjustment is shown on Schedule CSB-9, lines 19 through 23.

OPERATING INCOME STATEMENT

Operating Revenue

Staff tested and accepted the Company's total test year operating revenue of \$548,007.

Operating Expenses

Staff's six adjustments to operating expenses resulted in a net increase of \$20,649 as shown on Schedule CSB-10. Details of Staff's adjustments are presented below.

Adjustment No. 1, Salaries of Company Officers – Adjustment No. 1 increases this expense by \$20,780, as shown on Schedule CSB-11 and CSB-12 to reflect Staff's calculation of the officers' salary based upon Staff's estimation of the number of hours needed to perform certain job duties. The adjustment consists of a \$22,500 increase to reflect the salary expense of an individual who is currently working without being paid a salary and a \$1,720 decrease that reflects the difference

¹ Using the half-year convention

between the amount of salary and wage expense reported in the application and the actual amount of salary and wage expense incurred by the Company.

The majority shareholder and president, is paid \$76,280. The vice president, is paid \$71,309 and the secretary, is not paid a salary as shown in the following table.

<u>Officer Title</u>	<u>Salary</u>
President, Majority Shareholder	\$76,280
Vice President, Minority Shareholder	\$71,309
Secretary	\$0

Staff reviewed the duties for each officer and the number of hours worked and found the following:

President – Classified as full time employee. The Company’s response to Staff’s data request CSB 2-1 states that the president typically works between 30 to 45 hours per week. She is responsible for: reviewing payroll, reviewing monthly customer billing, reviewing monthly cash collections, reviewing payables prior to payment, reviewing cash budget prior to authorization on payables, reviews monthly financial statements and bank statements, discusses annual financial statements with outside accountant, reviews ADEQ and ACC reports, meets with bank for possible loans, interface with town and county officials as needed. Interface with local water conservation board. The president is on call twenty-four hours a day, seven days a week.

Vice President – The vice president is classified as a full time employee. He typically works 40 or more hours per week. He is responsible for reading meters, repairing meters, installing new meters, making purchases for plant and field supplies, maintaining plant inventory records, working with employees and outside contractors for all necessary repairs and plant construction, meets with contractors and reviews bids for needed plant construction, meets with engineers for future construction, meets with suppliers for field and plant supplies, handles customer complaints pertaining to outside operations and repairs. The vice president is on call twenty-four hours a day, seven days a week.

Secretary – The secretary is not a paid employee. Staff found that the secretary served effectively as the office and accounting manager. She is the person primarily responsible for the Company’s bookkeeping and ensuring that the Company’s office is properly managed and operated. She is also the individual with the most knowledge about the Company’s books and records and is the contact person for questions regarding every aspect of the Company.

The secretary typically works 20 hours or more per week and is responsible for accounts payable, accounts receivable, payroll, inputting meter readings, processing monthly bills, bank reconciliations, customer service (which includes answering phones, taking payments, creating work orders, etc.), bank deposits, monitoring and maintaining office supply inventory, filing and responding to Arizona Corporation Commission (“ACC”) rate case and data requests, recruiting, selecting, and training office staff, developing and implementing office policies and procedures,

preparing monthly financial reports and financial statements, preparing Arizona Department of Environmental Quality (“ADEQ”) and ACC reports, and maintaining a safe and secure working environment.

Based upon a review of the secretary’s work activities which are necessary in the provision of water service to Golden Shores’ customers, Staff recommends a salary of \$22,500. The amount is calculated by multiplying an annual salary of \$45,000 by 50 percent (i.e., \$45,000 x 50%= \$22,500) as shown on Schedule CSB-12.

Title	Per Company	Staff's Adjustment	Per Staff
President, Majority Shareholder	\$76,280	\$0	\$76,280
Vice President	\$71,309	\$0	\$71,309
Secretary	\$0	\$22,500	\$22,500

Adjustment No. 2, Water Testing – This adjustment increases water testing by \$5,646, from \$0 to \$5,646 as shown on Schedules CSB-11 and CSB-13 to reflect Staff Engineer’s recommended expense level.

Rate Case Expense – Staff made no adjustment to rate case expense as the amount proposed by the Company represents a reasonable normalized amount.

Adjustment No. 3, Depreciation Expense – This adjustment decreases depreciation expense by \$46,825, from \$95,092 to \$48,267, as shown on Schedules CSB-11 and CSB-14, to reflect application of Staff’s recommended depreciation rates² to Staff’s recommended plant balances.

Adjustment No. 4, Property Tax Expense – This adjustment increases property taxes by \$605, from \$23,878 to \$24,483 on as shown on Schedules CSB-11 and CSB-15, to reflect property taxes calculated using Staff’s modified Arizona Department of Revenue methodology.

Adjustment No. 5, Income Tax Expense – This adjustment increases test year income tax expense by \$4,430, from a negative \$3,140 to \$1,290 to reflect Staff’s calculation of the income tax obligation on Staff’s adjusted test year income, as shown on Schedule CSB-16.

Adjustment No. 6, Interest on Customer Security Deposits – This adjustment increases interest on customer security deposits by \$993, from a \$0 to \$993. The rate base has been reduced by the test year end customer security deposits balance (i.e., \$16,545). Accordingly, Staff has included the interest on the customer security deposits in operating expense as shown on Schedules CSB-11 and CSB-17.

REVENUE REQUIREMENT

Staff recommends a 9.4 percent rate of return (“ROR”). Staff’s recommended ROR is based on the Company’s December 31, 2014, capital structure which consisted of 0 percent long-term debt

² Shown on Table F-1 of the attached Engineering Report

and 100 percent equity. Staff recommends a 9.4 percent return on equity (“ROE”). Staff’s recommended ROR is shown in the following table:

Table 1
Staff’s Recommended Capital Structure and ROR

	Weight	Cost	Weighted Cost
Long-term Debt	0.00%	0.0%	0.0%
Common Equity	100.00%	9.4%	<u>9.4%</u>
ROR			9.4%

Staff’s ROE recommendation is based on the recent cost of equity analysis and recommendation made by Staff in Docket No. W-02465A-15-0367³ et al. (“Bella Vista”), a rate case currently pending before the Commission. According to Staff’s market-based analysis in that case, the average cost of equity to a water/wastewater utility is 9.4 percent.⁴

Staff’s recommended base rates revenue of \$581,303 provides the Company with sufficient cash flow to pay operating expenses and contingencies. In addition, Staff is recommending a Water Infrastructure Financing Authority of Arizona (“WIFA”) loan surcharge that would generate estimated revenue of \$48,914, for total revenue of approximately \$630,217. The base rates revenue is intended to support all operations. The debt service of the loan (i.e., principal, interest payments, and reserve payments) will be made with revenues generated from the WIFA loan surcharge. Staff’s revenue requirement including Staff’s recommended surcharge will allow the Company to meet the minimum 1.2 debt service coverage (“DSC”) ratio required by WIFA.

RATE DESIGN

Schedule CSB-20 presents a complete list of the Company’s present, proposed, and Staff’s recommended rates and charges.

Under the Company’s current rate structure, customer class is distinguished by meter size. The monthly minimum charges vary by meter size and include no gallons. One commodity rate applies to all usage (i.e., uniform rate). The Company has changed the commodity rate structure from a uniform rate to an inverted three-tier under the Company’s proposed rate structure. Under Staff’s recommended rate structure, customer class is distinguished by meter size. The monthly minimum charges vary by meter size and include no gallons. The commodity rate structure is an inverted three-tier.

Miscellaneous Service Charges

³ Application of Liberty Utilities (Bella Vista Water) Corp. for a permanent rate increase.

⁴ See surrebuttal testimony of Crystal S. Brown, in Docket No. W-02465A-15-0367 et al.

The Company has proposed changes to its miscellaneous service charges. Staff recommends the following:

Establishment Charge – Golden Shores proposed an increase to the Establishment Charge from \$30 to \$45. Staff recommends \$35.

Establishment (After Hours) – Golden Shores proposed no change to the Establishment (After Hours) fee of \$45. Staff recommends eliminating the fee.

Reconnection (delinquent) - Golden Shores proposed change to the Reconnection (delinquent) charge from \$45 to \$50. Staff recommends fee to remain at \$45.

Reconnection (delinquent – After Hours) - Golden Shores proposed an increase to the Reconnection (delinquent – After Hours) from \$45 to \$50. Staff recommends elimination of fee.

Meter Test (if correct) – Golden Shores proposed an increase to their Meter Test (if correct) charge from \$30 to \$45. Staff recommends fee to remain at \$30. Arizona Corporation Commission's Utilities Division tests 5/8 x 3/4 - inch meters at no charge to the Company. This size meter is used by 1519 Golden Shores residential customers.

Meter Reread (if correct) - Golden Shores proposed an increase to the Meter Re-Read (if correct) from \$15 to \$20. Staff agrees.

After Hours Service Charge – Golden Shores proposed to increase the After Hours Service charge from \$45 to \$50. Staff agrees with \$50 fee and recommends the addition of “at customer's request”.

NSF Check – Golden Shores proposed an increase to the NSF Check charge of \$10 to \$25. Bank charge is \$12. Staff recommends \$20.

Deferred Payment – Golden Shores proposed an increase to the Deferred Payment charge of 1.5 percent to 2.0 percent. Staff recommends 1.5% of unpaid balance per month, per A.A.C. R14-2-409 (G).

Deposit – Golden Shores proposed to change the Deposit from Commission rule A.A.C. R14-2-403(B) to \$75. Staff recommends per Commission rule A.A.C. R14-2-403(B).

Deposit Interest (per year) - Golden Shores proposed change to Deposit Interest from Commission rule A.A.C. R14-2-403(B) to 1 percent. Staff recommends per Commission rule A.A.C. R14-2-403(B) 6 percent.

Reestablishment (within 12 months) – Golden Shores proposed to change Reestablishment (within 12 months) from Commission rule A.A.C. R14-2-403(D) to \$65. Staff recommends per Commission rule A.A.C. R14-2-403(D), months off the system times the monthly minimum.

Late Fee – Golden Shores proposed change to the Late Payment Penalty charge of 1.5 percent to \$5. Staff recommends 1.5 percent of unpaid balance per month or \$5 whichever is greater.

Moving Meter (at customer's request) - Golden Shores proposed no change to the Moving Customer Meter (at customer's request) charge of Cost. Staff agrees.

SERVICE LINE AND METER INSTALLATION CHARGES

Golden Shores has proposed changes to its existing service line and meter installation charges. The installation charges, listed in Table K-1 of the attached Engineering report, are refundable advances. Golden Shores' proposed service line and meter installation charges include only the total charges. The individual service line and meter installation charges were not included. Since Golden Shores may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Staff recommends that the charges listed under "Staff's Recommendation" in Table K-1 of the attached Engineering be adopted.

FINANCING APPLICATION AND SURCHARGE MECHANISM

Purpose and Terms of the Proposed Financing

The purpose of the WIFA loan is to replace meters and valves that are over 30 years old, to purchase a back-up generator and to upgrade infrastructure. The Company's finance application requested approval of a \$550,345 loan. Staff reviewed the plant cost estimates and construction plans and found them to be reasonable and appropriate. However, Staff found that the amounts totaled \$514,700 rather than \$550,345. The Company is in agreement. Therefore, Staff recommends approval of \$514,700. A complete discussion of Staff's findings and recommendations concerning the financing application can be found in the attached Engineering Report.

The proposed \$514,700 financing is a 20-year amortizing loan with an anticipated 5.00 percent interest rate. The payments are estimated to be \$3,396.79 per month, or \$40,761.47 annually, as shown on Schedule CSB-18, page 2.

Use of the \$514,700 Loan Proceeds for Reimbursement of Previous Funds Spent On Meters and Meter Installation Costs

The Company requested, via an electronic mail message dated July 28, 2016, to use a portion of the loan proceeds to be reimbursed for funds spent on meters and meter installation costs as it is critical that the new meters be installed as soon as possible. The Company provided an electronic mail message dated July 29, 2016, from WIFA stating that the reimbursement for previous funds spent on the meters and meter installation costs would be allowable if the Commission authorizes the reimbursement and "the meter installers are being paid Davis-Bacon wage rates." Therefore, Staff recommends that the Company be authorized to use a portion of the loan proceeds to be reimbursed for previous funds spent on the meters and meter installations costs that were incurred beginning July 29, 2016.

Surcharge Mechanism

The Company did not include a request for a WIFA loan surcharge. However, because the final details of the WIFA loan will not be known until after the Company has closed on the loan, Staff is recommending a surcharge mechanism. Schedule CSB-18, page 1 presents a calculation of the additional annual revenue needed by the Company to service a \$514,700 loan over 20 years at 5.00 percent interest rate for the loan. Based on Staff's calculation, \$514,700 of WIFA debt will require the Company to generate an annual cash flow of \$48,913.76⁵ through the surcharge. Staff's calculation shows that a residential customer on a 5/8-inch x 3/4-inch meter will be required to pay a monthly surcharge of \$2.65.

The surcharge mechanism establishes the methodology for calculating the surcharge amounts 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 Commission consideration.

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 18, Step 8. 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.

Times Interest Earned Ratio ("TIER") and Debt Service Coverage Ratio ("DSC")

Staff also examined the effects of the proposed financing on the Company's TIER and 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.

TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

Under Staff's recommended rates including the WIFA loan surcharge revenue, fully drawing the Staff recommended \$514,700 loan, Golden Shores' after tax TIER and DSC are 3.15 and 2.54,

⁵ Staff typically includes an amount to cover income taxes on the surcharge revenue. However, in this case, once the \$41,453 in additional depreciation expense resulting from the WIFA funded plant is added to the Company's total expenses and the Company deducts the \$26,665 in interest, then the Company's total federal and state tax on its total revenue including the surcharge will be approximately \$4,100. However, since Staff's recommended level of income taxes (i.e., \$8,000, see Income Statement) is more than the Company will actually have to pay, then Staff did not include a component for income taxes in the surcharge.

respectively as shown on Schedule CSB-19. The pro forma DSC and TIER shows that Golden Shores has adequate cash flow to meet all obligations on the Staff recommended loan and meets the WIFA 1.2 after tax DSC ratio requirement.

Staff concludes that the proposed capital improvements are appropriate and the cost estimates are reasonable. However, no "used and useful" determination of the proposed project item was made and no particular treatment should be inferred for rate making or rate base purpose in the future. (See section "L" of the attached Engineering report for discussion and details.)

Staff concludes that Golden Shores would have adequate cash flow to meet all obligations on the proposed \$514,700 debt.

Staff concludes that the proposed financing is for lawful purposes, within Golden Shores' 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 application for authorization to issue long-term debt to WIFA in an amount not to exceed \$514,700. Staff further recommends that the Company be authorized to use a portion of the loan proceeds to be reimbursed for previous funds spent on the meters and meter installations costs that were incurred beginning July 29, 2016.

STAFF RECOMMENDATIONS:

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Schedule CSB-20.
2. The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. That Golden Shores, 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 regularly scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
4. 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.
5. The Commission approve the Company's application for authorization to issue long-term debt to the WIFA in an amount not to exceed \$514,700. Staff further recommends that the Company be authorized to use a portion of the loan proceeds

to be reimbursed for previous funds spent on the meters and meter installations costs that were incurred beginning July 29, 2016.

6. The Commission approve the associated surcharge mechanism that may result in a surcharge of \$2.65 per month per customer.
7. 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.
8. 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.
9. The Company provide to Staff, upon request, a copy of any loan documents executed pursuant to the authorizations granted herein.
10. Upon filing of the loan closing notice the Company may file in this Docket an application requesting implementation of the associated surcharge.
11. 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 Commission consideration.
12. Approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding.
13. 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.
14. The only disbursement of funds from this account will be to make debt service and WIFA reserve payments to WIFA.
15. That the Company be directed to record the loan principal portion of the surcharge in its books and records as CIAC.
16. The surcharge automatically expire at the end of term, usually 240 months or upon full payment of the loan, whichever occurs first.
17. Staff further recommends that Golden Shores use the Staff recommended depreciation rates listed in Table F of the attached Engineering Report.

GOLDEN SHORES WATER COMPANY

Docket Nos. W-01815A-14-0173 and W-01815A-16-0142

Test Year Ended Test Year Ended 12/31/14

Schedule CSB-1

Page 1 of 2

SUMMARY OF FILING

	[A]		[B]	[C]	[D]	[E]
	-- Present Rates --					
	Company as Filed	Staff as Adjusted	Company Proposed as Filed	Staff Recommended Without Surcharge on \$514,700 Loan	Staff Recommended With Surcharge* on \$514,700 Loan	
Revenues:						
Metered Water Revenue	\$ 531,953	\$ 531,953	\$661,882	\$ 565,249	\$565,249	
Unmetered Water Revenue	0	0	0	0	0	
Other Water Revenues	16,054	16,054	16,054	16,054	16,054	
Estimated Surcharge Revenue	0	0	0	0	48,914	
Total Operating Revenue	\$548,007	\$548,007	\$677,936	\$581,303	\$630,217	
Operating Expenses:						
Operation and Maintenance	\$ 424,085	\$ 445,225	\$ 424,085	\$ 445,225	\$445,225	
Depreciation	95,092	48,267	95,092	48,267	48,267	
Property & Other Taxes	47,623	48,228	47,623	48,724	48,724	
Income Tax	(3,140)	1,290	30,321	8,023	8,023	
Total Operating Expense	\$563,660	\$543,011	\$597,121	\$550,239	\$550,239	
Operating Income/(Loss)	(\$15,653)	\$4,996	\$80,814	\$31,064	\$79,978	
Rate Base O.C.L.D.	\$ 134,352	\$ 330,470	\$134,352	\$330,470	\$330,470	
Rate of Return - O.C.L.D.	Not Meaningful	1.51%	60.15%	9.40%	24.20%	
Operating Margin	-2.86%	0.91%	11.92%	5.34%	12.69%	
Cash Flow - Before Debt Service	\$79,439	\$53,264	\$175,906	\$79,331	\$128,245	
Less: Debt Service	\$0	\$0	\$0	\$0	(\$48,914)	
Cash Flow - After Debt Service	\$79,439	\$53,264	\$175,906	\$79,331	\$79,331	

* See Schedule CSB-19, Column C for the combined Staff recommended base rate and surcharge revenue.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION		STAFF ORIGINAL COST
1	Adjusted Rate Base	\$	330,470
2	Adjusted Operating Income (Loss)	\$	4,996
3	Current Rate of Return (L2 / L1)		1.51%
4	Required Rate of Return		9.40%
5	Required Operating Income (L4 * L1)	\$	31,064
6	Operating Income Deficiency (L5 - L2)	\$	26,068
7	Gross Revenue Conversion Factor		1.2773
8	Required Revenue Increase (Decrease) (L7 * L6)	\$	33,296
9	Adjusted Test Year Revenue	\$	548,007
10	Proposed Annual Revenue (L8 + L9)	\$	581,303
11	Required Increase in Revenue (%)		6.08%
12	Resulting Operating Margin		5.34%
13	Depreciation Expense	\$	48,267
14	Cash Flow (L5 + L13)	\$	79,331

GROSS REVENUE CONVERSION FACTOR

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)	21.7086%			
5	Subtotal (L3 - L4)	78.2914%			
6	Revenue Conversion Factor (L1 / L5)	1.2773			
<i>Calculation of Uncollectible Factor:</i>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	20.5250%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.4750%			
10	Uncollectible Rate	0.0000%			
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	6.5000%			
14	Federal Taxable Income (L12 - L13)	93.5000%			
15	Applicable Federal Income Tax Rate (Line 44)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	14.0250%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	20.5250%			
<i>Calculation of Effective Property Tax Factor</i>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	20.5250%			
20	One Minus Combined Income Tax Rate (L18 - L19)	79.4750%			
21	Property Tax Factor	1.4892%			
22	Effective Property Tax Factor (L 21 * L 22)	0.011835677			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		21.7086%		
24	Required Operating Income	\$ 31,064			
25	Adjusted Test Year Operating Income (Loss)	\$ 4,996			
26	Required Increase in Operating Income (L24 - L25)		\$ 26,068		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 8,023			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 1,290			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 6,732		
30	Recommended Revenue Requirement	\$ 581,303			
31	Uncollectible Rate (Line 10)	0.0000%			
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	\$ 24,979			
36	Property Tax on Test Year Revenue	\$ 24,483			
37	Increase in Property Tax Due to Increase in Revenue		\$ 496		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		\$ 33,296		
<i>Calculation of Income Tax:</i>					
39	Revenue	Test Year		STAFF	
40	Operating Expenses Excluding Income Taxes	\$ 548,007	\$ 33,296	Recommended	\$ 581,303
41	Synchronized Interest (L47)	541,720	496		542,216
42	Arizona Taxable Income (L36 - L37- L38)	-			-
43	Arizona State Income Tax Rate	\$ 6,287			\$ 39,087
44	Arizona Income Tax (L39 x L40)	6.5000%			6.5000%
45	Federal Taxable Income (L33 - L35)	\$ 5,878	\$ 409		\$ 2,541
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	882			36,546
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	-			5,482
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	\$ 882			\$ 5,482
52	Combined Federal and State Income Tax (L35 + L42)	\$ 1,290			\$ 8,023
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				15.00%
<i>Calculation of Interest Synchronization:</i>					
54	Rate Base	\$ 330,470			
55	Weighted Average Cost of Debt	0.00%			
56	Synchronized Interest (L45 X L46)	\$ -			

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	[A]	[B]	ADJ. NO.	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS		STAFF AS ADJUSTED
1	Plant in Service	\$ 2,029,364	\$ (395,032)	1,2,3	\$ 1,634,332
2	Less: Accumulated Depreciation	1,815,325	(644,696)	4	1,170,629
3	Net Plant in Service	<u>\$ 214,039</u>	<u>\$ 249,664</u>		<u>\$ 463,703</u>
<i>LESS:</i>					
4	Gross Contribution in Aid-of Construction (CIAC)	\$ 96,697	\$ 79,327	5	\$ 176,024
5	Amortization of CIAC	46,563	25,781	5	72,344
6	Net CIAC	<u>\$ 50,134</u>	<u>\$ 53,546</u>		<u>\$ 103,680</u>
7	Advances in Aid of Construction (AIAC)	13,008	-		13,008
8	Customer Deposits	16,545	-		16,545
9	Deferred Income Tax Credits	-	-		-
10	Total Deductions	<u>\$ 79,687</u>	<u>\$ 53,546</u>		<u>\$ 133,233</u>
<i>ADD:</i>					
11	Cash Working Capital	\$ -	\$ -		\$ -
12	Inventory	-	-		-
13	Prepayments	-	-		-
15	Total Additions	<u>\$ -</u>	<u>\$ -</u>		<u>\$ -</u>
16	Original Cost Rate Base	<u>\$ 134,352</u>	<u>\$ 196,118</u>		<u>\$ 330,470</u>

GOLDEN SHORES WATER COMPANY
 Docket Nos. W-01815A-14-0173 and W-01815A-16-0142
 Test Year Ended December 31, 2014

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Reclassification of 2008 Plant Addition Ref. Sch CSB-5	[C] ADJ #2 Retirement of 1998 Plant Ref. Sch CSB-6	[D] ADJ #3 Inactive Wells Ref. Sch CSB-7	[E] ADJ #4 Accumulated Depreciation Ref. Sch CSB-8	[F] ADJ #5 Amortization of CIAC Ref. Sch CSB-9	[F] STAFF ADJUSTED
1		<u>PLANT IN SERVICE:</u>							
2	301	Franchise Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	302	Land & Land Rights	1,800	-	-	-	-	-	1,800
4	303	Structures & Improvements	30,183	3,499	-	-	-	-	33,682
5	304	Collecting & Impound Res	-	-	-	-	-	-	-
6	305	Wells & Springs	642,982	(81,928)	-	(100,000)	-	-	461,054
7	307	Electric Pumping Equipment	92,877	50,166	(90,991)	-	-	-	52,052
8	311	Water Treatment Equipment	-	-	-	-	-	-	-
9	320	Water Treatment Plants	-	-	-	-	-	-	-
10	320.1	Solutions & Feeders	-	-	-	-	-	-	-
11	320.2	Arsenic Remediation Plant	-	-	-	-	-	-	-
12	320.3	Distribution Reservoirs & Standpipes	-	-	-	-	-	-	-
13	330	Storage Tank	44,771	28,264	-	-	-	-	73,035
14	330.1	Pressure Tanks	-	-	-	-	-	-	-
15	330.2	Transmission & Distribution Mains	506,089	-	-	-	-	-	506,089
16	331	Services	68,397	-	-	-	-	-	68,397
17	333	Meters & Meter Installations	314,744	(87,772)	-	-	-	-	226,972
18	334	Hydrants	1,971	-	-	-	-	-	1,971
19	335	Backflow Prevention Devices	27,987	(27,987)	-	-	-	-	-
20	336	Other Plant & Misc. Equip.	44,741	(32,453)	-	-	-	-	12,288
21	339	Office Furniture & Fixtures	-	-	-	-	-	-	-
22	340	Computer & Software	79,814	-	-	-	-	-	79,814
23	340.1	Store Equipment	28,156	(6,735)	-	-	-	-	21,421
24	341	Tools & Work Equipment	-	-	-	-	-	-	-
25	342	Laboratory Equipment	59,051	-	-	-	-	-	59,051
26	343	Power Operated Equipment	9,632	(7,798)	-	-	-	-	1,834
27	344	Communications Equipment	6,944	-	-	-	-	-	6,944
28	345	Miscellaneous Equipment	69,225	(41,296)	-	-	-	-	27,929
29	346	Other Intangibles	2,029,364	(0)	(295,032)	(100,000)	-	-	1,634,332
30	347	Gross Utility Plant in Service	1,815,325	-	-	-	(644,696)	-	1,170,629
31	348	Less: Accumulated Depreciation	-	-	-	-	-	-	-
32	35	Net Utility Plant in Service (L29 - L30)	214,039	(0)	(295,032)	(100,000)	644,696	-	463,703
33	36								
34	37	<u>DEDUCTIONS</u>							
35	38	Contributions in Aid of Construction (CIAC)	96,697	-	-	-	-	79,327	176,024
36	39	Less: Accumulated Amortization	46,563	-	-	-	-	25,781	72,344
37	40	Net CIAC (L32 - L33)	50,134	-	-	-	-	53,546	103,680
38	41	Advances in Aid of Construction (AIAC)	13,008	-	-	-	-	-	13,008
39	42	Service Line & Meter Advances (Meter Deposits)	-	-	-	-	-	-	-
40	43	Customer Security Deposits	16,545	-	-	-	-	-	16,545
41	44	Deferred Income Tax Credits	-	-	-	-	-	-	-
42	45	Total Deductions	79,687	-	-	-	-	53,546	133,233
43	46								
44	47	<u>ADDITIONS:</u>							
45	48	Cash Working Capital	-	-	-	-	-	-	-
46	49	Inventory	-	-	-	-	-	-	-
47	50	Total Additions	134,352	(0)	(295,032)	(100,000)	644,696	(53,546)	330,470
48	51								
49	52	ORIGINAL COST RATE BASE							

RATE BASE ADJUSTMENT NO. 1 - RECLASSIFICATION OF 2008 PLANT ADDITION

Line No.	Acct. No.	Account Description	[A]	[B]	[C]
			Per Company 2008 Plant Addition	Adjustment	Per Staff 2008 Plant Addition
1	304	Structures & Improv		\$ 3,499	\$ 3,499
2	305	Collecting & Impound Res		\$ -	\$ -
3	307	Wells & Springs	\$ 391,888	\$ (81,928)	\$ 309,960
4	311	Electric Pumping Equip	\$ -	\$ 50,166	\$ 50,166
5	330	Distribution Reservoirs & Standpipes	\$ -	\$ 28,264	\$ 28,264
6			\$ 391,888	\$ -	\$ 391,888

	Per 2008 Financing Staff Report Dec. No. 70171	\$89,232 Allocated to Plant Accounts (From Lines 29 & 35)	Unsupported Amount Treated as CIAC (From Line 38)	Total (From Line 39)	
13	304 Structures & Improv	\$ 2,500.00	\$ 998.89	\$ -	\$ 3,499
14	305 Collecting & Impound Res	\$ -	\$ -	\$ -	\$ -
15	307 Wells & Springs	\$ 164,790.00	\$ 65,842.51	\$ 79,327.00	\$ 309,960
16	311 Electric Pumping Equip	\$ 35,844.00	\$ 14,321.61	\$ -	\$ 50,166
17	330 Distribution Reservoirs & Standpipes	\$ 20,195.00	\$ 8,068.99	\$ -	\$ 28,264
18	Subtotal	\$ 223,329.00	\$ 89,232.00	\$ 79,327.00	\$ 391,888

	Per 2008 Financing Staff Report	Percentages To Be Used to Allocate \$89,232 Amount	Amount To Be Allocated \$89,232
24	304 Structures & Improv	1.12%	\$ 998.89
25	305 Collecting & Impound Res	0.00%	\$ -
26	307 Wells & Springs	73.79%	\$ 65,842.51
27	311 Electric Pumping Equip	16.05%	\$ 14,321.61
28	330 Distribution Reservoirs & Standpipes	9.04%	\$ 8,068.99
29	Subtotal	100.00%	\$ 89,232.00

31	Engineering	\$ 10,000	Per Financing Application-Indirect costs to be alloc to plant
32	Electrical	\$ 32,014	Per Financing Application-Indirect costs to be alloc to plant
33	Mohave Electric	\$ 23,218	Per Financing Application-Indirect costs to be alloc to plant
34	Arizona Water Works Supply	\$ 24,000	Per Financing Application-Indirect costs to be alloc to plant
35	Subtotal	\$ 89,232	

37	Total Per Financing Application	\$ 312,561	Line 29 + Line 35
38	Unsupport Amount Treated as CIAC	\$ 79,327	(See Sch CSB-9)
39	Per Company's Application	\$ 391,888	Account No. 307, Wells and Springs

Rate Base Adjustment No. 2 - Retirement of 1998 Plant

Line No.	Acct. No.	Account Description	[A] Company as Filed	[B] Adjustment	[C] Staff Adjusted
1	311	Pumping Equipment	\$ 92,877	\$ (90,991)	\$ 1,886
2	334	Meters	\$ 314,744	\$ (87,772)	\$ 226,972
3	339	Other Plant	\$ 27,987	\$ (27,987)	\$ -
4	340	Office Furniture & Equipment	\$ 44,741	\$ (32,453)	\$ 12,288
5	343	Tools and Work Equipment	\$ 28,156	\$ (6,735)	\$ 21,421
6	346	Communications Equipment	\$ 9,632	\$ (7,798)	\$ 1,834
7	348	Other Tangible Plant	\$ 69,225	\$ (41,296)	\$ 27,929
8			\$ 587,362	\$ (295,032)	\$ 292,330

Line No.	Account Description	Plant In Service As of May 31, 1998	No. of Intervening Years from 1998 to 2014	Useful Life	Date Treated as a Retirement
14	311 Pumping Equipment	\$ 90,991	16	8	2014
15	334 Meters	\$ 87,772	16	12	2014
16	339 Other Plant	\$ 27,987	16	15	2014
17	340 Office Furniture & Equipment	\$ 32,453	16	15	2014
18	343 Tools and Work Equipment	\$ 6,735	16	5	2014
19	346 Communications Equipment	\$ 7,798	16	10	2014
20	348 Other Tangible Plant	\$ 41,296	16	15	2014
21		\$ 295,032			

RATE BASE ADJUSTMENT NO. 3 - INACTIVE WELLS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Account No. 307 - Wells and Springs	\$ 642,982	\$ -	\$ 642,982
2	Inactive Wells No.1, No.2, and No. 3	\$ -	\$ (100,000)	\$ (100,000)
3	Total	\$ 642,982	\$ (100,000)	\$ 542,982

RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 1,815,325	\$ -	\$ 1,815,325
2	To Remove Excess Depreciation on Fully Depreciated Plant	\$ -	\$ (249,664)	\$ (249,664) Line 38
3	To Remove Accum Depr on Retirements of 1998 Plant	\$ -	\$ (295,032)	\$ (295,032) Line 50 & Sch CSB-6
4	To Remove Accum Depr for Inactive Wells Treated as Retired	\$ -	\$ (100,000)	\$ (100,000) From Sch CSB-7
5		<u>\$ 1,815,325</u>	<u>\$ (644,696)</u>	<u>\$ 1,170,629</u>

CALCULATION OF EXCESS DEPRECIATION ON FULLY DEPRECIATED PLANT

12/31/1998	12/31/1998	Date the 1998	Number of	Depreciation	Accumulated	
Original Cost	Accumulated	Plant is	Interim Years	Rate	Depreciation	
Plant	Depreciation	Fully Depreciated	from 2008 to 2014		To Be Removed	
301 Organization Cost	\$ -	\$ -	12/31/2008	6	0.00%	
302 Franchise Cost	\$ -	\$ -	12/31/2008	6	0.00%	\$0.00
303 Land & Land Rights	\$ 1,800	\$ -	12/31/2008	6	0.00%	\$0.00
304 Structures & Improv	\$ 30,183	\$ 16,109	12/31/2008	6	5.00%	\$9,054.90
305 Collecting & Impound Res	\$ 81,128	\$ 43,376	12/31/2008	6	5.00%	\$24,338.40
307 Wells & Springs	\$ 49,731	\$ 26,589	12/31/2008	6	5.00%	\$14,919.30
311 Electric Pumping Equip	\$ 90,991	\$ 48,649	12/31/2008	See Note Below	5.00%	\$0.00
320 Water Treatment Equip	\$ -	\$ -	12/31/2008	6	5.00%	\$0.00
330 Dist. Resrvr & Stndpipe	\$ 44,771	\$ 23,937	12/31/2008	6	5.00%	\$13,431.30
331 Trans. & Distr. Mains	\$ 455,430	\$ 243,498	12/31/2008	6	5.00%	\$136,629.00
333 Services	\$ 47,594	\$ 25,446	12/31/2008	6	5.00%	\$14,278.20
334 Meters	\$ 87,772	\$ 46,311	12/31/2008	See Note Below	5.00%	\$0.00
335 Hydrants	\$ 1,972	\$ 1,054	12/31/2008	6	5.00%	\$591.60
339 Other Plant and Misc Equip	\$ 27,987	\$ 14,963	12/31/2008	6	5.00%	\$8,396.10
340 Office Furniture & Fixt	\$ 32,453	\$ 16,887	12/31/2008	See Note Below	5.00%	\$0.00
340 Computers and Software	\$ -	\$ -	12/31/2008	6	5.00%	\$0.00
341 Transportation Equip	\$ 26,380	\$ 14,104	12/31/2008	6	5.00%	\$7,914.00
343 Tools & Work Equip	\$ 6,735	\$ 3,601	12/31/2008	See Note Below	5.00%	\$0.00
345 Power Operated Equip	\$ 64,891	\$ 34,694	12/31/2008	6	5.00%	\$19,467.30
346 Communications Equip	\$ 7,798	\$ 4,169	12/31/2008	See Note Below	5.00%	\$0.00
347 Miscellaneous Equip	\$ 2,146	\$ 1,147	12/31/2008	6	5.00%	\$643.80
348 Other Tangible Plant	\$ 41,296	\$ 22,079	12/31/2008	See Note Below	5.00%	\$0.00
	<u>\$ 1,101,058</u>	<u>\$ 586,613</u>				<u>\$249,663.90</u>

Note: The following plant accounts were not included in the "Excess Depreciation of Fully Depreciated Plant" adjustment as the as the accumulated depreciation was removed in the "Plant Retirements" adjustment.

311 Pumping Equipment	\$ 90,991	
334 Meters	\$ 87,772	
339 Other Plant	\$ 27,987	
340 Office Furniture & Equipment	\$ 32,453	
343 Tools and Work Equipment	\$ 6,735	
346 Communications Equipment	\$ 7,798	
348 Other Tangible Plant	\$ 41,296	
	<u>\$ 295,032</u>	From Schedule CSB-6

RATE BASE ADJUSTMENT NO. 5 - CIAC AND AMORTIZATION OF CIAC

Line No.	Account Description	[A] Company as Filed	[B] Adjustment	[C] Staff Adjusted
1	Net Contributions In Aid of Construction ("CIAC")	\$ 50,134	\$ -	\$ 50,134
2				
3	CIAC, Unsupported Plant Treated as CIAC		\$ 79,327	\$ 79,327
4	Amort of CIAC, Unsupported Plant Treated as CIAC	\$ -	\$ 25,781	\$ 25,781
5	Net CIAC, Unsupported Plant Treated as CIAC (Line 3 - Line 4)	\$ -	\$ 53,546	\$ 53,546
6				
7	Total Net CIAC (Line 1 + Line 5)	\$ 50,134	\$ 53,546	\$ 103,680
8				
9				
10		From Schedule CSB-5		
11	Acct.	Company		Staff
12	No. Account Description	as Filed	Adjustment	Adjusted
13	304 Structures & Improv	\$ -	\$ 3,499	\$ 3,499
14	307 Wells & Springs	\$ 391,888	\$ (161,255)	\$ 230,633
15	311 Electric Pumping Equip	\$ -	\$ 50,166	\$ 50,166
16	330 Distribution Reservoirs & Standpipes	\$ -	\$ 28,264	\$ 28,264
17		\$ 391,888	\$ (79,327)	\$ 312,561
18				
19				\$ 79,327
20				6.5
21				\$ 515,626
22				x 5%
23				\$ 25,781.28

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ. NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>REVENUES:</u>						
2	Metered Water Sales	\$ 531,953	\$ -		\$ 531,953	\$ 33,296	\$ 565,249
3	Water Sales - Unmetered	-	-		-	-	-
4	Other Operating Revenue	16,054	-		16,054	-	16,054
5	Total Operating Revenues	<u>\$ 548,007</u>	<u>\$ -</u>		<u>\$ 548,007</u>	<u>\$ 33,296</u>	<u>\$ 581,303</u>
6							
7	<u>OPERATING EXPENSES:</u>						
8	Salaries & Wages	\$ 241,921	\$ 20,780	1	\$ 262,701	\$ -	\$ 262,701
9	Purchased Water	1,934	-		1,934	-	1,934
10	Purchased Power	49,983	-		49,983	-	49,983
11	Chemicals	-	-		-	-	-
12	Repairs & Maintenance	13,569	-		13,569	-	13,569
13	Office Supplies & Expense	28,581	-		28,581	-	28,581
14	Outside services	28,714	-		28,714	-	28,714
15	Water Testing	-	5,646	2	5,646	-	5,646
16	Rents	4,800	-		4,800	-	4,800
17	Transportation Expense	16,570	-		16,570	-	16,570
18	Insurance - General Liability	8,295	-		8,295	-	8,295
19	Insurance - Health & Life	21,144	-		21,144	-	21,144
20	Regulatory Commission Expense	6,279	(6,279)		-	-	-
21	Bad Debt Expense	-	-		-	-	-
22	Miscellaneous Expense	2,295	-		2,295	-	2,295
23	Depreciation Expense	95,092	(46,825)	3	48,267	-	48,267
24	Taxes Other than Income	23,745	-		23,745	-	23,745
25	Property Taxes	23,878	605	4	24,483	496	24,979
26	Income Tax	(3,140)	4,430	5	1,290	6,732	8,023
27	Interest on Customer Security Deposits	-	993	6	993	-	993
28							
29	Total Operating Expenses	<u>\$ 563,660</u>	<u>\$ (20,649)</u>		<u>\$ 543,011</u>	<u>\$ 7,228</u>	<u>\$ 550,239</u>
30							
31	Operating Income (Loss)	<u>\$ (15,653)</u>	<u>\$ 20,649</u>		<u>\$ 4,996</u>	<u>\$ 26,068</u>	<u>\$ 31,064</u>

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Salaries and Wages Expense ADJ No. 1 Ref. Sch CSB-12	[C] Water Testing ADJ No. 2 Ref. Sch CSB-13	[D] Depreciation Expense ADJ No. 3 Ref. Sch CSB-14	[E] Property Taxes ADJ No. 4 Ref. Sch CSB-15	[F] Income Taxes ADJ No. 5 Ref. Sch CSB-16	[G] Interest on Customer Deposits ADJ No. 6 Ref. Sch CSB-17	[H] STAFF ADJUSTED
1	<u>REVENUES:</u>								
2	461	\$ 531,953	-	-	-	-	-	-	\$ 531,953
3	460	Water Sales - Unmetered	-	-	-	-	-	-	-
4	474	Other Operating Revenue	-	-	-	-	-	-	-
5		16,054	-	-	-	-	-	-	16,054
6		\$ 548,007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 548,007
7	<u>OPERATING EXPENSES:</u>								
8	601	Salaries & Wages	20,780	-	-	-	-	-	\$ 262,701
9	610	Purchased Water	-	-	-	-	-	-	1,934
10	615	Purchased Power	-	-	-	-	-	-	49,983
11	618	Chemicals	-	-	-	-	-	-	-
12	620	Repairs & Maintenance	-	-	-	-	-	-	13,569
13	621	Office Supplies & Expense	-	-	-	-	-	-	28,581
14	630	Outside services	-	-	-	-	-	-	28,714
15	635	Water Testing	-	5,646	-	-	-	-	5,646
16	641	Rents	-	-	-	-	-	-	4,800
17	650	Transportation Expense	-	-	-	-	-	-	16,570
18	657	Insurance - General Liability	-	-	-	-	-	-	8,295
19	659	Insurance - Health & Life	-	-	-	-	-	-	21,144
20	666	Regulatory Commission Expense	-	-	-	-	-	-	6,279
21	670	Bad Debt Expense	-	-	-	-	-	-	-
22	675	Miscellaneous Expense	-	-	-	-	-	-	2,295
23	403	Depreciation Expense	-	-	(\$46,825)	-	-	-	48,267
24	408	Taxes Other than Income	-	-	-	-	-	-	23,745
25	408.11	Property Taxes	-	-	-	605	-	-	24,483
26	409	Income Tax	-	-	-	-	4,430	-	1,290
27	427.4	Interest on Customer Security Deposits	-	-	-	-	-	993	993
28		\$ 563,660	\$ 20,780	\$ 5,646	\$ (46,825)	\$ 605	\$ 4,430	\$ -	\$ 548,237
29									
30		\$ (15,653)	\$ (20,780)	\$ (5,646)	\$ 46,825	\$ (605)	\$ (4,430)	\$ -	\$ (290)

Operating Income Adjustment No. 1 - Salaries of Officers

LINE NO.	Description	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	President	\$ 76,280	\$ -	\$ 76,280
2	Vice President	71,309	-	71,309
3	Secretary	-	22,500	22,500
4	Employee Position 1	36,289	-	36,289
5	Employee Position 2	26,783	-	26,783
6	Employee Position 3	5,223	-	5,223
7	Employee Position 4	16,661	-	16,661
8	Employee Position 5	5,750	-	5,750
9	Employee Position 6	1,908	-	1,908
10	Unreconciled Amount	1,720	(1,720)	-
11	Total Salaries and Wages Expense	\$ 241,922	\$ 20,780	\$ 262,702

12
13
14
15
40
41
42
43
44
45
46
47

Eileen Sparks Secretary

Annual Salary	\$ 45,000
Half-time Employee	50%
Salary- Per Staff	22,500

Docket Nos. W-01815A-14-0173 and W-01815A-16-0142

Test Year Ended December 31, 2014

Operating Income Adjustment No. 2 - Water Testing Expense

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Water Testing Expense	\$ -	\$ 5,646	\$ 5,646

OPERATING INCOME ADJUSTMENT No. 3 - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A] Gross Utility Plant In Service Per Staff	[B] Fully and/or Non Depreciable Plant	[C] Depreciable Plant Col A + Col B	[D] Depreciation Rate	[E] Depreciation Expense
<i>Plant In Service</i>							
1	301		0 \$	- \$	-	0.00%	\$ -
2	302	Franchise Costs	-	-	-	0.00%	-
3	303	Land & Land Rights	1,800	(1,800)	-	0.00%	-
4	304	Structures & Improvements	33,682	(33,682)	(0)	3.33%	(0)
5	305	Collecting & Impound Res	-	(81,128)	(81,128)	2.50%	(2,028)
6	307	Wells & Springs	461,054	-	461,054	3.33%	15,353
7	311	Electric Pumping Equipment	52,052	-	52,052	12.50%	6,506
8	320	Water Treatment Equipment	-	-	-	-	-
9	320.1	Water Treatment Plants	-	-	-	3.33%	-
10	320.2	Solutions & Feeders	-	-	-	20.00%	-
11	320.3	Arsenic Remediation Plant	-	-	-	33.33%	-
12	330	Distribution Reservoirs & Standpipes	-	-	-	-	-
13	330.1	Storage Tank	73,035	(44,770)	28,265	2.22%	627
14	330.2	Pressure Tanks	-	-	-	5.00%	-
15	331	Transmission & Distribution Mains	506,089	(463,816)	42,273	2.00%	845
16	333	Services	68,397	(61,328)	7,069	3.33%	235
17	334	Meters & Meter Installations	226,972	-	226,972	8.33%	18,907
18	335	Hydrants	1,971	(3,561)	(1,590)	2.00%	(32)
19	336	Backflow Prevention Devices	-	-	-	6.67%	-
20	339	Other Plant & Misc. Equip.	-	(27,535)	(27,535)	6.67%	(1,837)
21	340	Office Furniture & Fixtures	12,288	(21,126)	(8,838)	-	-
22	340.1	Computer & Software	-	-	-	20.00%	-
23	341	Transportation Equipment	79,814	-	79,814	20.00%	15,963
24	342	Store Equipment	-	-	-	4.00%	-
25	343	Tools & Work Equipment	21,421	-	21,421	5.00%	1,071
26	344	Laboratory Equipment	-	-	-	10.00%	-
27	345	Power Operated Equipment	59,051	(32,159)	26,892	5.00%	1,345
28	346	Communications Equipment	1,834	-	1,834	10.00%	183
29	347	Miscellaneous Equipment	6,944	-	6,944	10.00%	694
30	348	Other Intangibles	27,929	-	27,929	10.00%	2,793
31							
32		Subtotal General	\$ 1,634,332	\$ (770,905)	\$ 863,427		\$ 60,627
33							
34							
35							
36							
37							
38							
39							
40							
41							
42							

Composite Depreciation Rate (Depreciation Exp / Depreciable Plant): 7.02%

CIAC: \$ 176,024

Amortization of CIAC (Line 33 x Line 34): \$ 12,360

Depreciation Expense Before Amortization of CIAC: \$ 60,627

Less Amortization of CIAC: \$ 12,360

Test Year Depreciation Expense - Staff: \$ 48,267

Depreciation Expense - Company: \$ 95,092

Staff's Total Adjustment: \$ (46,825)

OPERATING INCOME ADJUSTMENT No. 4 - PROPERTY TAXES

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 548,007	\$ 548,007
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 1,096,014	\$ 1,096,014
4	Staff Recommended Revenue	548,007	581,303
5	Subtotal (Line 4 + Line 5)	\$ 1,644,021	\$ 1,677,317
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 548,007	\$ 559,106
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 1,096,014	\$ 1,118,211
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 1,096,014	\$ 1,118,211
13	Assessment Ratio	19.00%	19.00%
14	Assessment Value (Line 12 * Line 13)	\$ 208,243	\$ 212,460
15	Composite Property Tax Rate	11.75710%	11.75710%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 24,483	
17	Company Proposed Property Tax	23,878	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 605	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 24,979
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		24,483
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 496
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 496
23	Increase in Revenue Requirement		\$ 33,296
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.489233%

OPERATING EXPENSE NO. 5 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B]	[C] STAFF RECOMMENDED
1	Income Tax Expense	\$ (3,140)	\$ 4,430	\$ 1,290
3				
4	Total	\$ (3,140)	\$ 4,430	\$ 1,290

LINE NO.	DESCRIPTION	(A) Test Year	(B)
12	<u>Calculation of Income Tax:</u>		
13	Revenue (Including Surcharge Revenue)	\$ 548,007	
14	Less: Operating Expenses - Excluding Income Taxes	\$ 541,720	
15	Less: Synchronized Interest (L17)	\$ -	
16	Arizona Taxable Income (L1- L2 - L3)	\$ 6,287	
17	Arizona State Income Tax Rate	6.500%	
18	Arizona Income Tax (L4 x L5)		\$ 409
19	Federal Taxable Income (L4 - L6)	\$ 5,878	
20	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 882	
21	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -	
22	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -	
23	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -	
24	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	
25	Total Federal Income Tax		\$ 882
26	Combined Federal and State Income Tax (L6 + L13)		\$ 1,290

27			
28			
29	<u>Calculation of Interest Synchronization:</u>		
30	Rate Base	\$ 330,470	
31	Weighted Average Cost of Debt	0.00%	
32	Synchronized Interest (L16 x L17)	\$ -	
33			
34			
35	Income Tax - Per Staff	\$ 1,290	
36	Income Tax - Per Company	\$ (3,140)	
37	Staff Adjustment	\$ 4,430	

Docket Nos. W-01815A-14-0173 and W-01815A-16-0142

Test Year Ended December 31, 2014

Operating Income Adjustment No. 6 - Interest on Customer Deposits

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Interest Expense on Customer Deposits	\$ -	\$ 993	\$ 993
2				
3				
4				
5				
6				
7				Interest Expense on Customer Deposits
8				\$ 16,545
9				Multiplied by: Interest Rate 6%
				Staff's Adjustment
				<u>993</u>

WIFA LOAN SURCHARGE CALCULATION

Loan Amount: **\$514,700**
Term: **20** Years
Interest Rate Before Subsidy **5.00%**
WIFA Subsidy Rate: **100%**
Interest Rate After Subsidy **5.00%**

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

\$15,375.69 Principal (From Loan Amortization Schedule)
\$25,385.81 Plus: Interest (From Loan Amortization Schedule)
\$40,761.51 Debt Service Component of the Annual Surcharge Revenue

Step 2 - Find the Gross Revenue Conversion Factor

1.27728969 From Testimony or Staff Report or Decision, Schedule XXX-1, Col. B, Line 7

Step 3 - Find the Incremental Income Tax Factor

1.27728 minus 1 = 0.27728

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

0.27728 Incremental Income Tax Factor (from Step 3)
\$15,375.69 Multiplied by: Annual Principal Payment on Loan from Step 1 (Note: Interest Expense is tax deductible)
\$4,263.36 Annual Income Tax Component Related to the Principle

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

0.27728 Incremental Income Tax Factor (from Step 3)
\$41,452.71 Depreciation Expense (Staff recommended WIFA plant x Staff recommended depreciation rates)
\$11,493.97 Annual Income Tax Component of Surcharge Related to Depreciation Expense

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

\$4,263.36 Annual Income Tax Component Related to the Principle (from Step 4)
(\$11,493.97) Less: Annual Income Tax Component of Surcharge Related to Depreciation Expense (from Step 5)
(\$7,230.61) Net Annual Income Tax Component of Surcharge Revenue

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

\$40,761.51 Annual Interest and Principal Payments on the Loan (from Step 1)
20% Multiplied by: One-fifth of Annual Principal and Interest Payment
\$8,152.30 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

\$0.00 Net Annual Income Tax Component of the Annual Surcharge Revenue (from Step 6)
\$40,761.51 Plus: Debt Service Component of the Annual Surcharge Revenue (from Step 1)
\$8,152.30 Plus: Annual Reserve Fund Deposit (from Step 7)
\$48,913.81 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	Number of Months in Year	Equivalent Bills Col B x C x D
5/8"x 3/4" Meter	1	x 1,525	x 12	= 18,300
3/4" Meter	1.5	x 0	x 12	= -
1" Meter	2.5	x 2	x 12	= 60
1½" Meter	5	x 0	x 12	= -
2" Meter	8	x 1	x 12	= 96
3" Meter	15	x 0	x 12	= -
4" Meter	25	x 0	x 12	= -
6" Meter	50	x 0	x 12	= -
		<u>1,528</u>		<u>18,456</u>

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

\$48,913.81 Total Annual Surcharge Revenue Requirement for the Loan (from Step 8)
18,456 Divided by: Total Number of Equivalent Bills (from Step 9)
\$2.65 Monthly Surcharge for 5/8 x 3/4-Inch 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-Inch Customers' Surcharge	Surcharge by Meter Size Col B x C
5/8"x 3/4" Meter	1	x \$2.65	= \$2.65
3/4" Meter	1.5	x \$2.65	= \$3.98
1" Meter	2.5	x \$2.65	= \$6.63
1½" Meter	5	x \$2.65	= \$13.25
2" Meter	8	x \$2.65	= \$21.20
3" Meter	15	x \$2.65	= \$39.75
4" Meter	25	x \$2.65	= \$66.26
6" Meter	50	x \$2.65	= \$132.51

WIFA Loan Amount Requested	\$514,700		
Down Payment:	\$0		
Amount Financed:	\$514,700		
Number of years:	20	Compounding Periods:	12
Interest rate Before Subsidy	5.00%		
WIFA Subsidy Rate:	1.00		
WIFA Interest rate (r) (Line 5 x Line 6):	5.00%	APR:	5.12%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning-of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$3,396.79	\$514,700.00	\$2,144.58	\$1,252.21	\$513,447.79			
2	3,396.79	513,447.79	2,139.37	1,257.43	512,190.36			
3	3,396.79	512,190.36	2,134.13	1,262.67	510,927.70			
4	3,396.79	510,927.70	2,128.87	1,267.93	509,659.77			
5	3,396.79	509,659.77	2,123.58	1,273.21	508,386.56			
6	3,396.79	508,386.56	2,118.28	1,278.51	507,108.05			
7	3,396.79	507,108.05	2,112.95	1,283.84	505,824.21			
8	3,396.79	505,824.21	2,107.60	1,289.19	504,535.01			
9	3,396.79	504,535.01	2,102.23	1,294.56	503,240.45			
10	3,396.79	503,240.45	2,096.84	1,299.96	501,940.49			
11	3,396.79	501,940.49	2,091.42	1,305.37	500,635.12			
12	3,396.79	500,635.12	2,085.98	1,310.81	499,324.31	25,385.81	15,375.69	40,761.51

FINANCIAL ANALYSIS

Selected Financial Data
Including Immediate Effects of the Proposed Debt & WIFA Loan Surcharge

Line No.	[A] Staff Recommended Rates without Surcharge, Loan Principal & Interest	[B] Adjustments	REF	[C] Staff Recommended Rates with Surcharge, Loan Principal & Interest	
1	INCOME STATEMENT				
2	Operating Revenue				
3	Metered Water Revenue	\$ 565,249	\$ -	\$	565,249
4	WIFA Loan Surcharge	\$ -	\$ 48,914	A	48,914
5	Other Water Revenues	\$ 16,054	\$ -	\$	16,054
6	Total Operating Rev:	\$ 581,303	\$ 48,914	\$	630,217
7	Operating Expenses				
8	Salaries & Wages	\$ 262,701	\$ -	\$	262,701
9	Purchased Water	\$ 1,934	\$ -	\$	1,934
10	Purchased Power	\$ 49,983	\$ -	\$	49,983
11	Chemicals	\$ -	\$ -	\$	-
12	Repairs & Maintenance	\$ 13,569	\$ -	\$	13,569
13	Office Supplies & Expense	\$ 28,581	\$ -	\$	28,581
14	Outside services	\$ 28,714	\$ -	\$	28,714
15	Water Testing	\$ 5,646	\$ -	\$	5,646
16	Rents	\$ 4,800	\$ -	\$	4,800
17	Transportation Expense	\$ 16,570	\$ -	\$	16,570
18	Insurance - General Liability	\$ 8,295	\$ -	\$	8,295
19	Insurance - Health & Life	\$ 21,144	\$ -	\$	21,144
20	Regulatory Commission Expense	\$ -	\$ -	\$	-
21	Bad Debt Expense	\$ -	\$ -	\$	-
22	Miscellaneous Expense	\$ 2,295	\$ -	\$	2,295
23	Depreciation Expense	\$ 48,267	\$ -	\$	48,267
24	Taxes Other than Income	\$ 23,745	\$ -	\$	23,745
25	Property Taxes	\$ 24,979	\$ -	\$	24,979
26	Income Tax	\$ 8,023	\$ -	B	8,023
27	Interest on Customer Security Deposits	\$ 993	\$ -	\$	993
28	Total Operating Expense	\$ 550,239	\$ -	\$	550,239
29	Operating Income	\$ 31,064	\$ 48,914	\$	79,978
30	Interest Income	\$ -	\$ -	\$	-
31	Interest Expense on Long-term debt	\$ -	\$ 25,386	C	25,386
32	Total Other Interest Expense	\$ -	\$ (25,386)	\$	(25,386)
33	Net Income	\$ 31,064	\$ 23,528	\$	54,592
34	Rate Base	\$ 330,470		\$	330,470
35	Rate of Return (Line 33 / Line 34)	9.40%			24.20%
36	Operating Margin (Line 29 / Line 6)	5.34%			12.69%
37a	Principal Repayment	\$ -	\$ 15,376	D	15,376
37b	Debt Reserve Annual Payment	\$ -	\$ 8,152	\$	8,152
37c	Principal & Debt Reserve Payment	\$ -	\$ 23,528	\$	23,528
38	Cash Flow (L 33 + L23 - L37c)	\$ 79,331	\$ -	\$	79,331
39	TIER				
40	Before Tax [L 29 + L 26] ÷ L 31	Not Meaningful			3.19
41	After Tax L 29 + L 31	Not Meaningful			3.15
42	DSC				
43	Before Tax [L 29 + L 26 + L 37a] ÷ [L 37a + L 31]	Not Meaningful			3.34
44	After Tax [L 29 + L 37a] ÷ [L 37a + L 31] WIFA	Not Meaningful			2.54
45	Short-term Debt	\$ -	0%	\$	15,376 2.0%
46	Long-term Debt	\$ -	0%	\$	499,324 63.5%
47	Common Equity	\$ 271,879	100%	\$	271,879 34.6%
48	Total Capital	\$ 271,879	100.0%	\$	786,579 100.0%

A - See Sch CSB-18, page 1, Step 8

B - See Sch CSB-18, page 1, Step 6; Staff typically includes an amount to cover income taxes caused by the surcharge revenue. However, in this case, once the \$41,453 in additional depreciation expense is added to the Company's total expenses and the Company deducts the \$26,665 in interest, then the Company's total federal and state tax on its total revenue including the surcharge will be approximately \$4,100. However, since Staff's recommended level of income taxes (i.e., \$8,000, see Income Statement) is more than the Company will actually have to pay, then Staff did not include a component for income taxes in the surcharge.

C - See Sch CSB-18, page 1, Step 1

D - See Sch CSB-18, page 1, Step 1

Revenue Detail Percentages

	Staff Recommended	Metered Revenue for 5/8 x 3/4 Inch Meter	Metered Revenue Percentage
<u>5/8x3/4 Inch - Residential</u>			
Minimum	\$ 21.00	\$381,906.00	68.24%
<u>Commodity</u>			
First 3,000 gallons	\$ 1.52	\$54,258.68	9.70%
3,001 gallons to 10,000 gallons	1.72	\$66,576.90	11.90%
Over 10,000 gallons	1.90	\$56,893.60	10.17%
		<u>\$559,635.18</u>	<u>100.00%</u>

Miscellaneous Charges

	Present	Company Proposed	Staff Recommended
Establishment	\$ 30.00	\$ 45.00	\$ 35.00
Reconnection (Deliquent)	45.00	\$ 50.00	45.00
After Hours Service Charge	45.00	\$ 50.00	50.00
Meter Test (If Correct)	30.00	\$ 45.00	30.00
Deposit	\$ 60.00	\$ 75.00	*
Deposit Interest	AAC R-14-2-403 3.1	0.01%	**
Reestablishment (Within 12 Months)	AAC R-14-2-403 3.1	\$ 65.00	***
NSF Check	10.00	\$ 25.00	20.00
Deferred Payment, Per Month	1.50%	2.00%	****
Meter Re-read (If Correct)	15.00	\$ 20.00	20.00
Late Payment Fee (Per Month)	1.50% of Unpaid Bal	\$ 5.00	*****

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

** Per A. A. C. R-14-2-403 (B) 6%

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

**** 1.50 percent per month of unpaid balance per A.A.C. R14-2-403 (D)

*****1.50 percent per month of unpaid balance per month or \$5 whichever is greater

Service and Meter Installation Charges

	Total Present Charge	Company Proposed Service Line Charge	Company Proposed Meter Installation Charge*	Total Company Proposed Charge
5/8 x 3/4 Inch	\$ 410	N/A	N/A	\$ 500
3/4 Inch	\$ 455	N/A	N/A	\$ 575
1 Inch	\$ 520	N/A	N/A	\$ 675
1 1/2 Inch	\$ 740	N/A	N/A	\$ 900
2 Inch	\$ 1,800	N/A	N/A	\$ 2,165
3 Inch	\$ 2,340	N/A	N/A	\$ 2,660
4 Inch	\$ 3,405	N/A	N/A	\$ 4,265
6 Inch	\$ 6,510	N/A	N/A	\$ 7,750

	Total Present Charge	Staff Recommended Service Line Charge	Staff Recommended Meter Installation Charge	Total Staff Recommended Charge
5/8 x 3/4 Inch	\$ 410	\$ 400	\$ 100	\$ 500
3/4 Inch	\$ 455	\$ 415	\$ 160	\$ 575
1 Inch	\$ 520	\$ 420	\$ 255	\$ 675
1 1/2 Inch	\$ 740	\$ 470	\$ 430	\$ 900
2 Inch	\$ 1,800	\$ 750	\$ 1,415	\$ 2,165
3 Inch	\$ 2,340	\$ 960	\$ 1,700	\$ 2,660
4 Inch	\$ 3,405	\$ 1,500	\$ 2,765	\$ 4,265
6 Inch	\$ 6,510	\$ 2,100	\$ 5,650	\$ 7,750

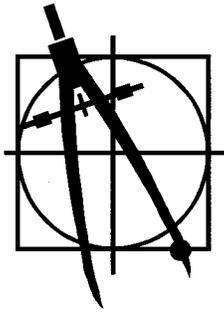
TYPICAL BILL ANALYSIS
General Service 5/8-Inch x 3/4-Inch Meter

Average Number of Customers: 1,516

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,738	\$ 28.72	\$ 36.33	\$ 7.61	26.5%
Median Usage	3,116	\$ 24.74	\$ 30.82	\$ 6.08	24.6%
Staff Recommend Without Surcharge					
Average Usage	5,738	\$ 28.72	\$ 30.27	\$ 1.55	5.4%
Median Usage	3,116	\$ 24.74	\$ 25.76	\$ 1.02	4.1%
Staff Recommend With \$2.65 Surcharge					
Average Usage	5,738	\$ 28.72	\$ 32.92	\$ 4.20	14.6%
Median Usage	3,116	\$ 24.74	\$ 28.41	\$ 3.67	14.8%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$ 20.00	\$ 25.00	25.0%	\$ 21.00	5.0%
1,000	21.52	26.86	24.8%	22.52	4.6%
2,000	23.04	28.72	24.7%	24.04	4.3%
3,000	24.56	30.58	24.5%	25.56	4.1%
4,000	26.08	32.68	25.3%	27.28	4.6%
5,000	27.60	34.78	26.0%	29.00	5.1%
6,000	29.12	36.88	26.6%	30.72	5.5%
7,000	30.64	38.98	27.2%	32.44	5.9%
8,000	32.16	41.08	27.7%	34.16	6.2%
9,000	33.68	43.18	28.2%	35.88	6.5%
10,000	35.20	45.28	28.6%	37.60	6.8%
15,000	42.80	58.53	36.8%	47.10	10.0%
20,000	50.40	71.78	42.4%	56.60	12.3%
25,000	58.00	85.03	46.6%	66.10	14.0%
50,000	96.00	151.28	57.6%	113.60	18.3%
75,000	134.00	217.53	62.3%	161.10	20.2%
100,000	172.00	283.78	65.0%	208.60	21.3%
125,000	210.00	350.03	66.7%	256.10	22.0%
150,000	248.00	416.28	67.9%	303.60	22.4%
175,000	286.00	482.53	68.7%	351.10	22.8%
200,000	324.00	548.78	69.4%	398.60	23.0%



**Engineering Report For
Golden Shores Water Company, Inc.
Docket Nos. W-01815A-14-0173 (Rates)
And W-01815A-16-0142 (Financing)**

By Jian W Liu

July 21, 2016

CONCLUSIONS

- A. The Arizona Department of Environmental Quality (“ADEQ”) reported that the Golden Shores Water Company (“Golden Shores” or “the Company”) Public Water System (“PWS”) No. 08-024, is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.
- B. The Company is not located in any Active Management Area (“AMA”) and is not subject to any Arizona Department of Water Resources (“ADWR”) AMA reporting and conservation requirements. ADWR reported that Golden Shores is currently in compliance with departmental requirements governing water providers and/or community water systems.
- C. A check with the Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Compliance Section showed no delinquent compliance items for the Company.
- D. The Company has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.
- E. Commission Utilities Division Staff (“Staff”) concludes that the Golden Shores has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.
- F. Based on its review of the Financing Application and information provided by the Company, Staff concludes that Golden Shores’ 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.

RECOMMENDATIONS

1. Staff recommends its average annual cost of \$5,646 be adopted for the water testing expense in this proceeding.
2. Staff recommends that Golden Shores use Staff's typical and customary water depreciation rates presented in Table F-1.
3. Staff recommends that the Company charge separate service line and meter installation charges listed in Table K-1.

TABLE OF CONTENTS

	<u>Page</u>
A. INTRODUCTION AND LOCATION OF COMPANY	1
B. DESCRIPTION OF WATER SYSTEM.....	1
C. WATER USE	2
<i>Water Sold</i>	2
<i>Non-Account Water</i>	2
D. GROWTH	2
E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE (“ADEQ”).....	3
<i>Compliance</i>	3
<i>Water Testing Expense</i>	3
F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE	3
G. ACC COMPLIANCE	3
H. DEPRECIATION RATES	3
I. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFFS	4
J. SERVICE LINE AND METER INSTALLATION CHARGES	4
K. FINANCING APPLICATION.....	4

DRAWINGS

A-1. COUNTY MAP	5
A-2. CERTIFICATED AREA	6
C-1. WATER USE	7

TABLES

E-1. WATER TESTING COST	8
F-1. DEPRECIATION RATES.....	9

A. INTRODUCTION AND LOCATION OF COMPANY

On June 2, 2014, Golden Shores Water Company (“Golden Shores” or “the Company”) filed an application to increase its rates with the Arizona Corporation Commission (“ACC” or “Commission”) in Docket No. W-01815A-14-0173. Golden Shores' application used a test year (“TY”) ending December 31, 2013. On July 9, 2015, Golden Shores filed its Amended Rate Application with a TY of 2014. Golden Shores provided utility service to approximately 1,515 water customers in Mohave County, Arizona as of December 31, 2014. On April 29, 2016, Golden Shores filed with the Commission a financing application in Docket No. W-01815A-16-0142. Per Procedural Order dated July 19, 2016, Docket Nos. W-01815A-14-0173 and W-01815A-16-0142 were consolidated. Figure A-1 describes the location of the Company within Mohave County, and Figure A-2 describes the certificated area of Golden Shores. Commission Utilities Division Staff (“Staff”) engineering review and analysis of the applications are presented in this report.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on October 29, 2014, by Jian W Liu, Staff Utilities Engineer, in the accompaniment of Mark A Sparks, representing Golden Shores.

The operation of the water system consists of two active wells, three storage tanks, five booster pumps and a distribution system. The detailed plant facility descriptions are as follows:

Well/Plant Data

ADWR ID No.	Pump HP	Pump GPM	Casing Depth(ft)	Casing Size(in)	Meter Size(in)	Year Drilled
55- 576721	75	600	600	12	6	1999
55- 205965	100	1,000	600	14	8	2004

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
250,000	1	8,000	2	20	3
100,000	2	10,000	1	VFD*	2
Total 450,000					

*A variable-frequency drive (VFD) is a system for controlling the rotational speed of an alternating current (AC) electric motor by controlling the frequency of the electrical power supplied to the motor.

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2				
4	149,274	5/8x3/4	1,525	42
6	68,490	3/4		
8	5,300	1	2	
		1.5		
		2	1	
		3		
		4		
		Total	1,528	

C. WATER USE

Water Sold

Based on the information provided by Golden Shores, water use for the year 2014 is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 297 gallons per day (“GPD”) per connection and a low monthly average water use of 153 GPD per connection for an average annual use of 205 GPD per connection.

Non-Account Water

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. Golden Shores reported 118,986,000 gallons pumped and 114,078,000 gallons sold, resulting in a water loss of approximately 4.12 percent in 2014, which is within acceptable limits.

D. GROWTH

In 2007 Golden Shores had approximately 1,570 customers. It had approximately 1,515 customers during the test year of 2014. The Company has been losing customers and therefore predicts that little or no growth will occur in the next five years.

Staff concludes that the Golden Shores has adequate production capacity and storage capacity to serve the existing customer base and anticipated growth.

**E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE
("ADEQ")**

Compliance

ADEQ reported that the Golden Shores drinking water system, Public Water System ("PWS") No. 08-024, is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ compliance status report dated May 14, 2016).

Water Testing Expense

The Company is subject to mandatory participation in the ADEQ 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 \$0.0 during the 2014 test year, which excluded \$4,146.12 in ADEQ MAP fees. Staff reviewed the Company's reported testing expense and made certain adjustments to determine an average annual cost of \$5,646 as shown in Table E-1. Staff recommends an annual water testing expense of \$5,646 be used for purposes of this application.

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

The Company is not located in any ADWR Active Management Area ("AMA") and is not subject to any ADWR AMA reporting and conservation requirements. ADWR reported that Golden Shores 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 ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated April 6, 2016.)

H. DEPRECIATION RATES

In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by National Association of Regulatory Utility Commissioners ("NARUC") category. (For example, a uniform 2.50 percent composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table F-1. Staff recommends that Golden Shores use these depreciation rates by individual NARUC category.

I. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFFS

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

J. SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested to change its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges are within or below Staff's recommended range for these charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff using the Company's proposed total charge. Staff recommends that the Company charge separate service line and meter installation charges as listed in Table K-1.

K. FINANCING APPLICATION

On April 29, 2016, Golden Shores filed with the Commission a financing application requesting authorization to incur long term debt from the Water Infrastructure Finance Authority of Arizona ("WIFA") in an amount of \$550,344.60 (Docket No. W-01815A-16-0142). The stated purpose for the loan is to replace Meters and Valves that are over 30 years old, purchase a back-up generator and upgrade some infrastructure, including new Sensus accuSTREAM water meters, radio transceiver (FlexNet SmartPoint M2), and the Sensus AutoRead® Hand-Held Device.

The Company proposed plant additions and costs are as following:

Plant Summary Cost Breakdown WIFA Loan

Qty.	Description	Price	Cost	Total Cost
1	Generac Commercial Series 150KW Standup Generator (277/480V-NG) SCAQMD Complaint		\$29,399.00	\$29,399.00
42	Dana Kepner – Valve Replacement Gate Valve 4” 4”MJ RW DI OL Valve, Less Accs	\$394.30	\$16,560.60	
84	4” MJ Compact Accessory Pack w/Gland	\$17.56	\$1,475.04	
42	4” 6855 Domestic Valve Box Bottom Section Slip Type	\$67.59	\$2,838.78	
42	4” Domestic 16” Valve Box Top Section Slip Type	\$78.55	\$3,299.10	
42	5-1/4” Domestic VB Drop Lid Marked “WATER”	\$16.44	\$690.49	\$24,864.00
15	Dana Kepner – Valve Replacement Gate Valve 6” 6”MJ RW DI OL Valve, Less Accs	\$503.18	\$7,547.70	
30	6” MJ Compact Accessory Pack w/Gland	\$26.49	\$794.70	
15	6” 24” 6855 Domestic Valve Box Bottom Section Slip Type	\$67.59	\$1,013.85	
15	4” Domestic 16” Valve Box Top Section Slip Type	\$78.55	\$1,178.25	
15	5-1/4” Domestic VB Drop Lid Marked “WATER”	\$16.44	\$246.60	\$10,781.10
500	Dana Kepner – Meters NL 3/4” C38-23-2.5 Ford Meter Cplg. Meter Swivel Nut by Maleiron pipe Thread (2 1/2” long)	\$10.02 pcs	\$5,010.00	
900	NL 3/4” Ford Straight Ball Meter Valve, Pack J	\$.24 ft	\$1,080.00	
15	3/4 x 300’ CTS 200 PSI Polyethylene Tubing Dr.9	\$1.46	\$1,314.00	\$71,196.00
1120	Radio Read System 5/8 x 3/4 accuSTREAM, TR/PL, 1 gal, LPLA	\$106.62	\$119,414.40	
1550	520M MXU, 1 port, TC Hourly Read, Leak DET	\$162.00	\$251,100.00	
1	6501-GB Sensus Hand Helt Upgrade w/Dock Station	\$5,700.00	\$5,700.00	
1	Autoread Upgrade to Walk by/Drive by	\$1,695.00	\$1,695.00	
1	Smart Point Command Link	\$550.00	\$550.00	\$378,459.40

TOTAL: \$514,699.50

Based on its review of the Financing Application and information provided by the Company, Staff concludes that Golden Shores’ 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.

Golden Shores Water Company
Docket No. W-01815A-14-0173 (Rates)

MOHAVE COUNTY

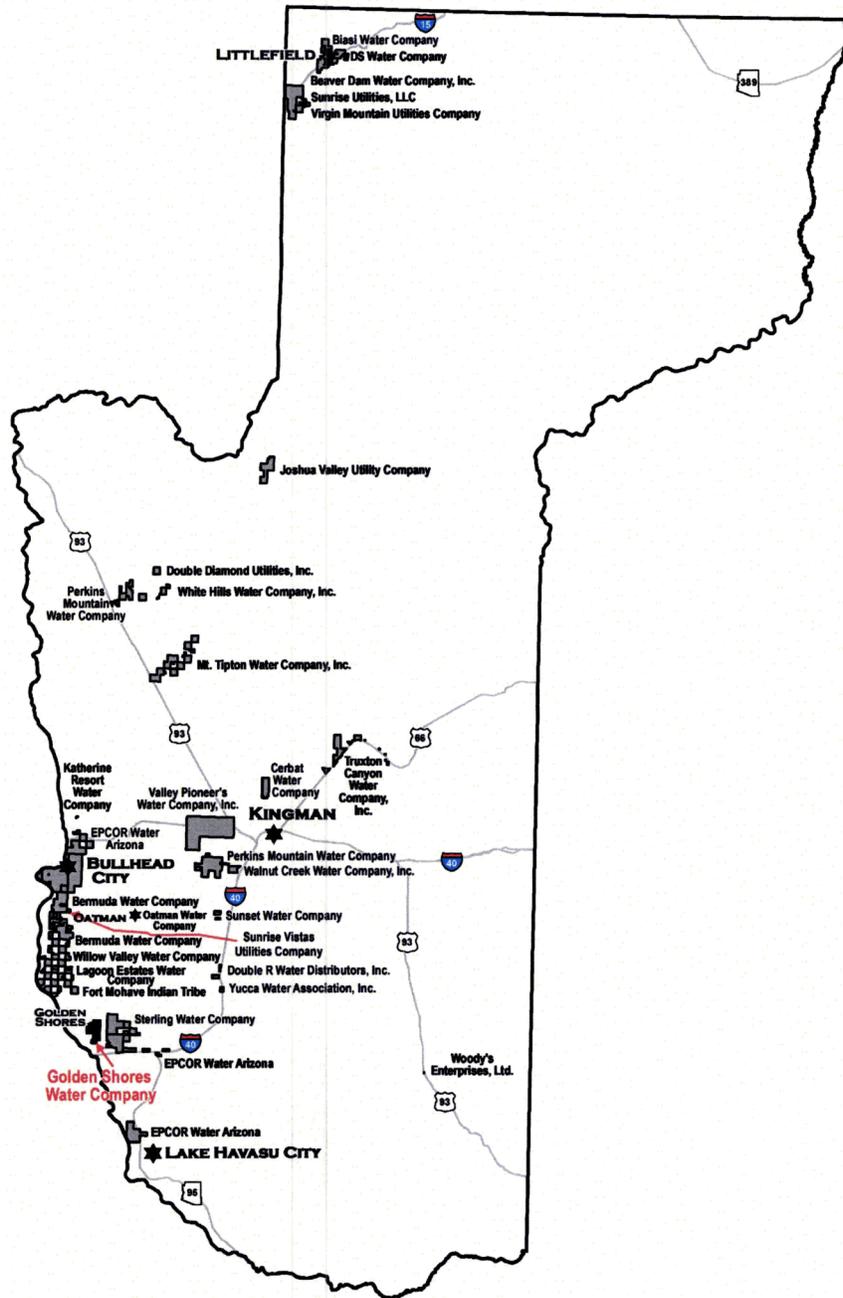


Figure 1: County Map

Golden Shores Water Company
Docket No. W-01815A-14-0173 (Rates)

MOHAVE COUNTY

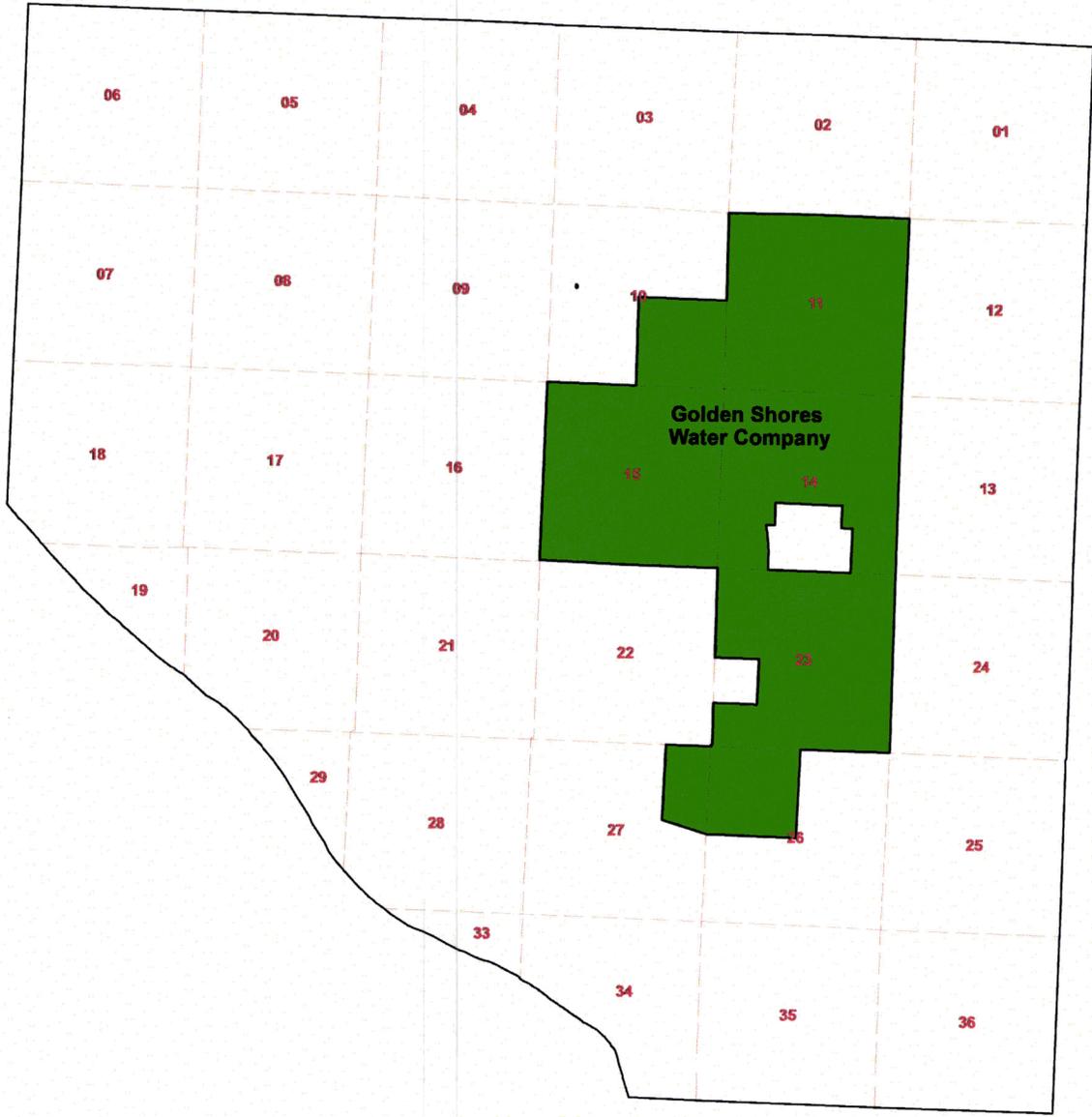


Figure 2: Certificated Area

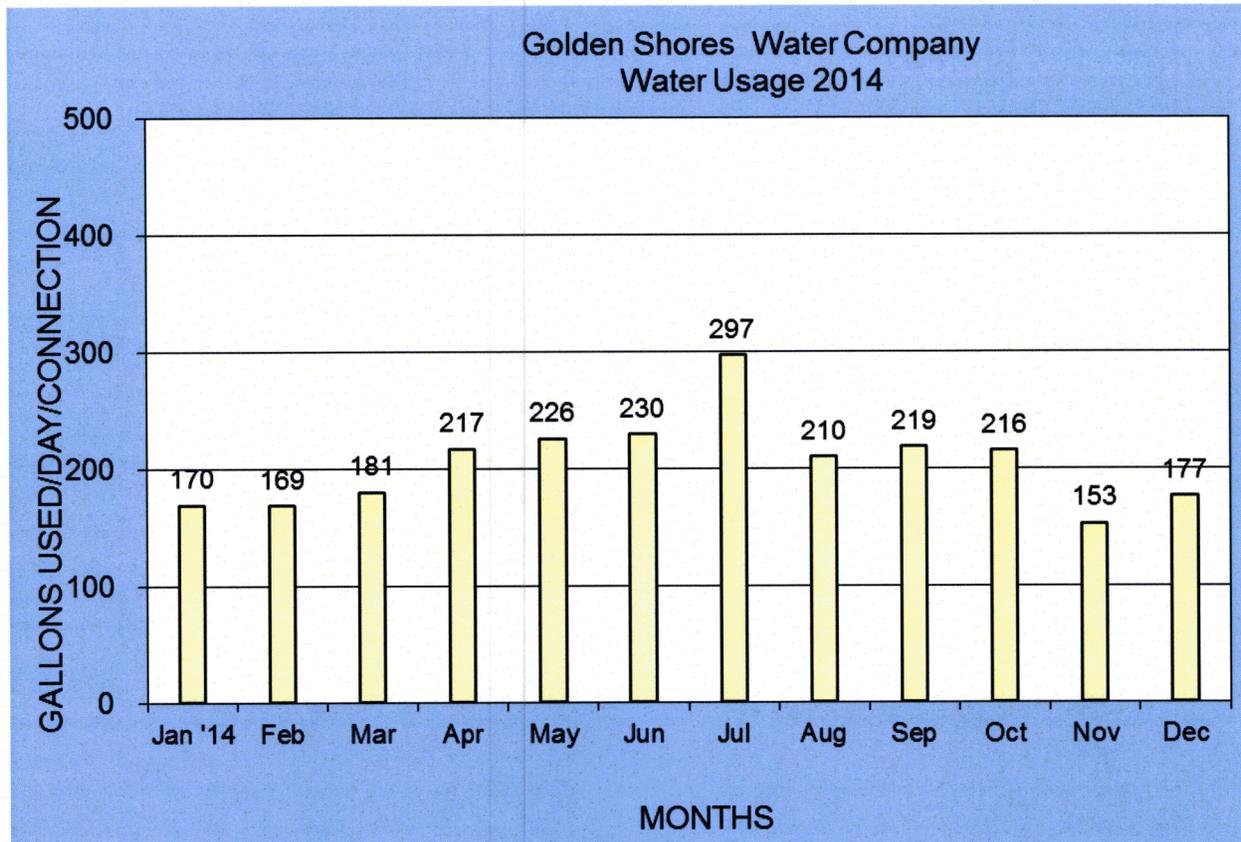


Figure C-1. Water Use

Table E-1. Water Testing Cost

Monitoring	Cost per test	No. of test	Annual Expense
Total coliform – monthly	\$20	48	\$960
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$4,146
Lead & Copper – annually	\$45	12	\$540
Total			\$5,646

Table F-1. Depreciation Rates

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
348	Other Tangible Plant	10	10.00

Table K-1. Current Service Line and Meter Installation Charges

Meter Sizes	Current Charges	Company Proposed Charges	Staff recommended Service Line Charges	Staff recommended * Meter Charges	Staff recommended Total Charges
5/8" x 3/4"	410	500	400	100	500
3/4"	455	575	415	160	575
1"	520	675	420	255	675
1-1/2"	740	900	470	430	900
2"	1800	2165	750	1415	2165
3"	2340	2660	960	1700	2660
4"	3405	4265	1500	2765	4265
6"	6510	7750	2100	5650	7750

*Note: Meter charge includes meter box or vault.