

OPEN MEETING ITEM

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MARK SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

ORIGINAL



RECEIVED
BRIAN C. MCNEIL
Executive Secretary

ARIZONA CORPORATION COMMISSION

2004 MAY 28 P 12 24

DATE: May 28, 2004

DOCKET NO: W-03512A-03-0279

TO ALL PARTIES:

AZ CORP COMMISSION
DOCUMENT CONTROL

Enclosed please find the recommendation of Assistant Chief Administrative Law Judge Dwight D. Nodes. The recommendation has been filed in the form of an Opinion and Order on:

PINE WATER COMPANY
(RATES/FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

JUNE 7, 2004

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Open Meeting to be held on:

JUNE 15 AND 16, 2004

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Secretary's Office at (602) 542-3931

Arizona Corporation Commission

DOCKETED

MAY 28 2004

DOCKETED BY	
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BRIAN C. McNEIL
EXECUTIVE SECRETARY

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MARC SPITZER, Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 MIKE GLEASON
7 KRISTIN K. MAYES

8 IN THE MATTER OF THE APPLICATION OF
9 PINE WATER COMPANY FOR A
10 DETERMINATION OF THE CURRENT FAIR
11 VALUE OF ITS UTILITIES PLANT AND
12 PROPERTY, A RATE INCREASE AND FOR
13 APPROVAL TO INCUR LONG-TERM DEBT.

DOCKET NO. W-03512A-03-0279

DECISION NO. _____

OPINION AND ORDER

14 DATES OF HEARINGS:

December 8, 2003 (Public Comment, Pine, Arizona); December 15, 2003, January 12 and 15 2004, February 3, 2004, and March 3, 2004 (Procedural Conferences); March 9, 10, 11, 12, and 19, 2004 and April 2, 2004 (Hearings)

15 PLACE OF HEARINGS:

Phoenix, Arizona

16 ADMINISTRATIVE LAW JUDGE:

Dwight D. Nodes

17 APPEARANCES:

Mr. Jay Shapiro, FENNEMORE CRAIG, on behalf of Pine Water Company;

Mr. John G. Gliege, on behalf of the Pine-Strawberry Water Improvement District;

Mr. John O. Breninger, in propria persona;

Mr. Robert M. Cassaro, in propria persona; and

Mr. Gary Horton, Staff Attorney, on behalf of the Utilities Division of the Arizona Corporation Commission.

18 **BY THE COMMISSION:**

19 **I. INTRODUCTION**

20 On May 1, 2003, Pine Water Company ("Pine Water" or "Company") filed an application
21 with the Arizona Corporation Commission ("Commission") for a determination of the current fair
22 value of its utility plant and property, for a rate increase, and for approval of long-term debt. Pine
23 Water is a wholly-owned subsidiary of Brooke Utilities, Inc. ("Brooke"). The Company provides
24 water service to approximately 2,000 customers in Pine, Arizona, an area located 15 miles northwest

1 of Payson in Gila County, Arizona.

2 In August 1996, Brooke acquired E&R Water Company, Inc. ("E&R") and Williamson
3 Waterworks, Inc. ("Williamson"). Brooke subsequently reorganized seven separate water companies
4 and systems into five subsidiaries, including Pine Water and Strawberry Water Company
5 ("Strawberry"). This reorganization was approved by the Commission in Decision No. 60972 (June
6 19, 1998). Pine Water's current rates and charges were authorized for customers of the Company's
7 predecessors, E&R Water Company in Decision No. 62400 (March 28, 2000), and Williamson
8 (March 6, 2000).

9 The Commission's Utilities Division Staff ("Staff") filed a letter of sufficiency on June 2,
10 2003. On June 10, 2003, a Rate Case Procedural Order was issued setting this matter for hearing on
11 December 15, 2003. By Procedural Order issued October 2, 2003, a public comment hearing was
12 scheduled for December 8, 2003 in Pine.

13 On October 23, 2003, the Company and Staff filed a request for rescheduling of the hearing
14 date and testimony filing dates. By Procedural Order issued October 24, 2003, the evidentiary
15 hearing was rescheduled to begin on January 15, 2004. The October 24, 2003 Procedural Order also
16 granted intervention to Robert M. Cassaro, John O. Breninger, and the Pine-Strawberry Water
17 Improvement District ("District").

18 The public comment hearing was held, as scheduled, on December 8, 2003 in Pine, Arizona.
19 Procedural Conferences were conducted on December 15 and 22, 2003 to discuss discovery disputes
20 between the Company and the District and to allow additional opportunities for public comment.
21 During the course of the December 22, 2003 Procedural Conference, the parties agreed to reschedule
22 the January 15, 2004 hearing date. By Procedural Order issued January 2, 2004, the evidentiary
23 hearing was rescheduled to commence on March 3, 2004.

24 A Procedural Conference was conducted on January 12, 2004 to discuss ongoing discovery
25 disputes between the Company and the District. On January 15, 2004, additional public comment
26 was taken from customers of Pine Water.

27 By Procedural Order issued January 30, 2004, a Procedural Conference was scheduled for
28 February 3, 2004. The February 3, 2004 Procedural Conference was conducted to discuss pending

1 procedural issues.

2 On February 27, 2004, a Procedural Order was issued rescheduling the evidentiary hearing to
3 begin on March 9, 2004. The March 3, 2004 hearing date was reserved for additional public
4 comment.

5 Pre-filed testimony was submitted by Robert Hardcastle and Thomas Bourassa on behalf of
6 Pine Water; by Michael Ploughe, John Nelson, and Harry Jones on behalf of the District; by John
7 Thornton, Claudio Fernandez, Marlin Scott, Jr., and Joel Reiker on behalf of Staff; and by Mr.
8 Breninger and Mr. Cassaro as individual intervenors.

9 Evidentiary hearings were conducted on March 9, 10, 11, 12, and 19, 2004. Additional public
10 comment was received during the March 9, 10, and 19, 2004 hearings.

11 On March 23, 2004, a procedural teleconference was conducted with all parties to discuss
12 postponement of additional hearing days to allow the parties to engage in settlement discussions. By
13 Procedural Order issued March 23, 2004, a further procedural teleconference was scheduled for
14 March 25, 2004 to discuss the status of settlement discussions.

15 On March 25, 2004, the procedural teleconference was conducted to discuss the need for
16 additional time to finalize settlement discussions. On March 26, 2004, a Procedural Order was issued
17 scheduling a hearing for April 2, 2004 regarding the proposed settlement.

18 On April 2, 2004, a Settlement Agreement ("Settlement" or "Agreement") was filed by Pine
19 Water, the District, Staff, and Mr. Breninger¹. Mr. Cassaro did not sign the Agreement, but generally
20 supported the Settlement with the exception of his concern regarding the issue of the Company's
21 responsiveness to customer complaints regarding leaks.

22 A hearing on the Settlement Agreement was held on April 2, 2004. Mr. Bourassa, Mr.
23 Fernandez, and Mr. Scott testified in support of the Settlement. Additional public comment was
24 taken at the April 2, 2004 hearing.

25 On April 14, 2004, Pine Water submitted late-filed exhibits describing the Company's
26 customer service procedures for reported leaks and updated ADEQ compliance status reports. On
27

28 ¹ The Settlement Agreement, including the associated schedules, is attached hereto as Attachment A.

1 April 14, 2004, Staff filed a Typical Bill Analysis, in the same format as Exhibit S-8, but removing
 2 meters experiencing zero usage in order to provide a more accurate example of the rate increases
 3 likely to be experienced by full time customers of Pine Water under the Settlement Agreement.

4 * * * * *

5 Having considered the entire record herein and being fully advised in the premises, the
 6 Commission finds, concludes, and orders that:

7 **FINDINGS OF FACT**

8 **Terms of Settlement Agreement**

9 1. Pursuant to the terms of the Settlement, Pine Water, the District, Mr. Breninger, and
 10 Staff ("Signatory Parties") agree that Pine Water shall receive an annual revenue increase equal to
 11 \$77,243, an overall increase in the Company's revenue requirement of 11.81 percent, and total annual
 12 revenue of \$731,291 (Jt. Ex. 1, at ¶ 3).

13 2. The Settlement provides that, for purposes of this proceeding, Pine Water's Original
 14 Cost Rate Base ("OCRB") shall be \$640,699, which shall also be the Company's Fair Value Rate
 15 Base ("FVRB"). The Signatory Parties also agree that the OCRB includes Project Magnolia, the
 16 10,800 foot pipeline connecting the Pine Water and Strawberry systems (Id. at ¶ 4).

17 3. In connection with inclusion of Project Magnolia in rate base, the Signatory Parties
 18 agree with Staff's recommendation to authorize Pine Water to finance \$449,598, consisting of 33
 19 percent debt and 67 percent equity. The Agreement provides that the debt portion of the Project
 20 Magnolia financing shall be \$149,716 financed at an interest rate of 8 percent for 15 years (Id.).

21 4. The Settlement Agreement further provides that, with two exceptions, Staff's
 22 recommended operating expense levels should be adopted. The first exception provides that
 23 Materials and Supplies expense should be set at \$34,512, which represents an average of the
 24 recommendations made by Staff and the Company for this expense item (Id. at ¶ 5).

25 5. The second exception to Staff's operating expense recommendation is the Settlement's
 26 provision of annual rate case expense of \$50,000, based on a total rate case expense of \$200,000
 27 amortized over four years. The Signatory parties agree that \$200,000 is a reasonable amount for rate
 28 case expense under the totality of the circumstances and, in the event Pine Water files another rate

1 application before the entire amount has been recovered, the Signatory Parties agree that any
2 unrecovered portion of this rate case expense amount should be included and any new revenue
3 requirement authorized by the Commission. The Settlement provides that, for purposes of this
4 proceeding, Pine Water's total operating expenses shall be \$658,187 (Id.).

5 6. The Settlement Agreement provides that Pine Water's required operating income, for
6 purposes of this proceeding, shall be \$73,104. The Signatory Parties agree to adopt Staff's
7 recommendation that Pine Water's revenue requirement, for purposes of this proceeding, shall be
8 determined using an operating margin of 10 percent, resulting in an overall rate of return equal to
9 11.41 percent (Id. at ¶¶ 6 and 7).

10 7. The Settlement further provides that Pine Water shall use the depreciation rates
11 recommended by Staff, as set forth in Attachment B to the Settlement Agreement (Id. at ¶ 8).

12 8. The Signatory Parties agree that the rate design reflected in the Settlement Schedules,
13 as set forth in Attachment A to the Settlement Agreement, should be adopted for purposes of this
14 proceeding. The stipulated rate design is consistent with Staff's recommendation, which provides for
15 a three-tier, inverted block structure, with differing commodity rates based on meter size and seasonal
16 usage (Id. at ¶ 9).

17 9. The Settlement also provides that the current interim Water Augmentation Surcharge,
18 as amended and described in Attachment C to the Settlement Agreement, should be made permanent.
19 The Agreement further provides that Pine Water shall be required to file, within 15 days after
20 approval of the Settlement, tariff sheets reflecting the rates, charges, and terms of service as set forth
21 in the approved Settlement Agreement (Id.).

22 10. The Settlement Agreement states that Pine Water's test year water loss rate was 12.6
23 percent. As a result, the Settlement requires Pine Water to submit a detailed water loss plan to the
24 Director of the Utilities Division within 180 days after a Decision is issued in this proceeding. The
25 Settlement also provides that, if Pine Water finds that reduction of water loss is unnecessary,
26 impractical and/or not cost effective, the Company shall submit a detailed explanation demonstrating
27 why a water loss reduction to less than 10 percent is unnecessary, impractical and/or not cost
28 effective (Id. at ¶ 10).

1 11. The Settlement Agreement requires Pine Water to file quarterly reports detailing the
2 gallons of water pumped, purchased, or otherwise acquired and sold each quarter, specifically
3 identifying the quantity and source of water: 1) pumped from wells owned by the Company; 2)
4 pumped from wells subject to water sharing agreements or the Company's October 1996 agreement
5 with Solitude Trails, as amended in November 1996; 3) purchased from Strawberry Water or other
6 sources for delivery through Project Magnolia; and/or 4) purchased for water hauling by truck. The
7 Settlement requires the first quarterly report to be filed by October 31, 2004, and that Pine Water
8 must file reports for five subsequent quarters, after which time the Company may request, and Staff
9 may approve, discontinuance of the filing requirement. Copies of the reports must be maintained at
10 the Company's offices and be available for inspection during normal business hours (Id.).

11 12. As set forth in a late-filed exhibit submitted by the Company on April 14, 2004,
12 ADEQ reports no major deficiencies and that Pine Water is currently delivering water that meets
13 water quality standards required under the Arizona Administrative Code.

14 13. Under the Settlement, Pine Water agrees to comply with the NARUC system of
15 accounting within two years and to use Generally Accepted Accounting Principles (Id. at ¶ 11).

16 14. Following issuance of the Commission's Decision in this matter, the Settlement
17 Agreement requires Pine Water to notify customers of the new rates in the Company's next regular
18 billing cycle, in a form approved by Staff. The Settlement requires the notice to include information
19 concerning the Water Augmentation Surcharge, including an illustration of the potential impact of the
20 surcharge on residential customers (Id. at ¶ 12).

21 15. In its application, the Company requested financing authority related to an inter-
22 company payable in the amount of \$533,599 (as of the end of the test year) between Pine Water and
23 Brooke. Pursuant to the Settlement Agreement, the Signatory Parties agree that this inter-company
24 payable will be converted to paid in capital and the Company will not be permitted to seek recovery
25 from ratepayers at a later date of any additional amounts of the existing inter-company payable that
26 may have accrued after the test year and before issuance of a Decision in this matter (Id. at ¶ 13).

27 16. The Signatory Parties agree that the record in this proceeding reflects the
28 extraordinary water supply problems Pine Water faces in its certificated service area and that there

1 remain significant questions and disagreements concerning the availability, cost and risks associated
2 with exploring for and obtaining additional water supplies for use in serving the Company's
3 customers. The Settlement Agreement states that the Signatory Parties agree that these water supply
4 issues are not able to be resolved by settlement until such time as the Commission has an opportunity
5 to consider and address Pine Water's request for guidance regarding the exploration of additional
6 water supplies. The Signatory Parties therefore urge the Commission "to provide such guidance" (Id.
7 at ¶ 14).

8 17. On January 21, 2004, in Docket No. W-03512A-03-0106, the District filed an
9 application for cancellation of Pine Water's CC&N. The Settlement Agreement provides that
10 immediately following issuance of a Decision by the Commission in this matter, the District will seek
11 to withdraw its application for cancellation of Pine Water's CC&N (Id. at ¶ 15).

12 Discussion

13 17. We find the stipulated \$77,243, or 11.81 percent, revenue requirement increase agreed
14 to by the Signatory Parties represents a reasonable disposition of the rate base, revenue, and operating
15 income issues previously raised in this proceeding. The Settlement Agreement incorporates the vast
16 majority of Staff's recommendations, including placing the Project Magnolia pipeline in Pine Water's
17 rate base rather than treating the pipeline as the property of Brooke Utilities for purposes of setting
18 rates. Inclusion of the pipeline in Pine Water's rate base benefits the Company's customers by
19 providing a conduit to wells in the Strawberry area that have historically produced more dependable
20 sources of water. Accordingly, the Company's OCRB of \$640,699, which also represents its FVRB,
21 is reasonable and shall be approved for purposes of this proceeding. We also agree that, consistent
22 with Staff's prior recommendation, the Settlement's financing treatment of the \$449,598 cost of
23 Project Magnolia, whereby 33 percent of the cost will be financed over 15 years at 8 percent interest
24 with the balance treated as equity, is a reasonable treatment of the costs associated with the project.

25 18. With respect to operating expenses, we find the stipulated amount of \$658,187, which
26 includes \$34,512 for Materials and Supplies and a four-year amortization of \$200,000 for rate case
27 expense, is reasonable for purposes of this proceeding. However, we do not agree that the Company
28 should be entitled to recover unrecovered portions of the authorized rate case expense in the event

1 that a new revenue requirement is established in a subsequent rate case. Rather, rate case expenses
2 should be treated in the same manner as all other expenses in a future rate case.

3 19. As described above, the Settlement Agreement adopts Staff's recommendation to set
4 the revenue requirement in this case based on an operating margin of 10 percent. Employing a 10
5 percent operating margin results in an overall rate of return equal to 11.41 percent. Although we will
6 accept the operating margin approach for determining a fair return in this case, we wish to make clear
7 that this approach should not be considered as a precedent for determining a fair value rate of return
8 in future rate proceedings. We note that Staff's alternative position in this matter included a rate of
9 return recommendation of 8.7 percent based on a more traditional cost of equity analysis. However,
10 under the unique circumstances of this case, we are willing to accept the Settlement's 10 percent
11 operating margin proposal as part of a reasonable overall resolution of the issues raised herein.

12 20. Pursuant to the terms of the Settlement, the \$533,599 inter-company payable between
13 Pine Water and Brooke will be converted to paid in capital. We find this provision of the Settlement
14 is a reasonable resolution of the inter-company payable issue that was previously in dispute. The
15 Settlement's prohibition against seeking recovery of any additional amounts that have accrued since
16 the end of the test year protects Pine Water's ratepayers from having to pay for amounts associated
17 with the inter-company payables.

18 21. The Settlement Agreement adopts Staff's rate design recommendation, which includes
19 increasingly higher monthly minimum charges for larger meter sizes, a three-tier inverted block
20 commodity charge, and higher summer commodity rate. We believe the stipulated rate design
21 properly recognizes the need to send price signals as usage increases and provides customers with the
22 ability to mitigate costs by limiting usage. The inverted block structure is consistent with prior
23 Commission decisions and provides opportunities and incentives to promote conservation, which is
24 especially important in areas such as Pine where water is a scarce commodity.

25 22. As described above, the Settlement would make permanent the current interim Water
26 Augmentation Surcharge ("Surcharge"). The Surcharge is applied only in instances where the
27 Company must haul water to the Pine system by truck due to extreme supply shortages. Water
28 hauling is typically employed only in summer months when usage increases substantially due to

1 seasonal residents. We believe the Settlement provides a reasonable resolution of the Water
2 Augmentation Surcharge issue because it requires additional structure and guidelines for ensuring
3 that water hauling is used only as a last resort after all other available supply options have been
4 exhausted. As set forth in proposed Surcharge tariff (Attachment C to Settlement), Pine Water must
5 make reasonable efforts to maximize, as its primary supply sources, water obtained from company
6 owned wells and through water sharing agreements such as the agreement with the Solitude Trails
7 Water Improvement District. The proposed tariff also requires the Company to make reasonable
8 efforts to maximize water purchases from Strawberry for delivery through Project Magnolia (with
9 due regard to protecting the water supply available to Strawberry Water). Only after these lesser-cost
10 sources have been exhausted may the Company haul water by trucks to meet demand. In addition,
11 the Settlement Agreement requires Pine Water to submit quarterly reports specifically describing the
12 quantity of water pumped from each of its sources in the preceding three months. These quarterly
13 reports will be subject to review by Staff and will also be available for inspection at the Company's
14 offices. We believe the quarterly reports will provide a reasonable mechanism for Staff and
15 customers of Pine Water to review the Company's decisions regarding supply sources. In the event
16 that Staff and/or Pine Water's customers believe that the Company has not reasonably complied with
17 the requirements of the Surcharge tariff, those concerns may be raised through an appropriate request
18 for review including, but not limited to, a formal complaint. Given these protections, we find that the
19 Water Augmentation Surcharge tariff is reasonable and should be approved as part of the overall
20 Settlement Agreement.

21 23. The Settlement also requires Pine Water to submit, within 180 days, a detailed plan to
22 address the Company's 12.6 percent test year water loss. We find this provision of the Agreement is
23 a reasonable means of addressing the water loss issue identified by Staff. As described in the
24 Settlement, the Company is not necessarily required to achieve a particular water loss goal.
25 However, Pine Water must provide a detailed explanation demonstrating why a water loss reduction
26 to less than 10 percent is unnecessary, impractical and/or not cost-effective. Staff will then have an
27 opportunity to review the Company's plan and make recommendations to the Company with respect
28 to mitigating its system water losses. To the extent Staff is not satisfied with the Company's water

1 loss reduction efforts, we expect Staff to bring this matter to our attention along with a
2 recommendation for resolving the issue.

3 24. The Settlement Agreement requires Pine Water to notify customers of the new rates
4 approved by this Decision in a form approved by Staff. The notice must also include an illustration
5 of the potential impact of the Water Augmentation Surcharge on residential customers. Although we
6 agree that the notice requirement is an essential provision of the Settlement, we will require Staff to
7 submit the Company's proposed notice for our review at least 10 days prior to giving approval to the
8 Company. If no action is taken by the Commission within that 10-day period, the Staff may approve
9 the notice in a format it deems appropriate and direct the Company to proceed with notification to
10 customers.

11 25. The Settlement Agreement requires the District to withdraw its request for
12 cancellation of Pine Water's CC&N immediately following issuance of an Order approving the
13 Settlement Agreement. We direct the District to file a pleading withdrawing its request within 10
14 days of the effective date of this Decision.

15 26. The final substantive issue addressed by the Settlement Agreement pertains to the
16 agreement by the Signatory Parties that the Commission should provide "guidance regarding the
17 exploration of additional water supplies" (Joint Ex. 1 at ¶14). The Settlement states that such
18 guidance is necessary due to the extraordinary water supply problems faced by Pine Water in its
19 service area and because there remain substantial questions and disagreements concerning the
20 availability, cost and risks associated with exploring for additional water supplies (Id.). It was
21 conceded at the hearing on the Settlement that this "exploration" provision of the Agreement was left
22 vague intentionally because the Signatory Parties could not resolve the exploration issue in the course
23 of their negotiations. According to the Company's witness, the guidance that is sought from the
24 Commission would apparently include assurance from the Commission with respect to recovery of
25 costs associated with unsuccessful exploration projects. Mr. Bourassa testified that the guidance (i.e.,
26 assurance of cost recovery) sought by the Company would also extend to matters such as the
27 construction of additional storage facilities (Tr. 956-959). He conceded that the type of assurance
28 being requested would represent a "slippery slope" for the Commission with respect to setting a

1 precedent for other companies. However, Mr. Bourassa claims that the water shortage situation in
2 Pine reflects an "extreme circumstance" that warrants guidance from the Commission (Id. at 959-
3 960).

4 27. Although we appreciate the magnitude of the water supply difficulties being
5 experienced in the Pine area, we do not believe the request for guidance described in the Settlement
6 Agreement is sufficiently developed to warrant the type of extraordinary regulatory relief sought by
7 Pine Water. Indeed, the Signatory Parties admitted that this provision of the Settlement was left
8 vague intentionally because they could not agree on a remedy for the Company's water supply
9 situation. Under the guise of a request for "guidance," the Signatory Parties are, in effect, seeking
10 from the Commission a predetermination that would insulate the Company from risk. The Settlement
11 Agreement not only fails to describe the type of guidance being sought, but adoption of such a
12 scheme would set a precedent that would be difficult to distinguish in future cases. The fact that the
13 Company seeks to extend this guidance to other non-exploratory capital projects reinforces our belief
14 that the concept should not be approved in this docket. For these reasons, we decline to adopt
15 Paragraph 14 of the Settlement Agreement.

16 28. Although not specifically addressed in the Settlement Agreement, Mr. Cassaro raised
17 the issue of customer response time and its relationship to water loss levels experienced by Pine
18 Water (Tr. 918). Mr. Cassaro alleged that the Company's response regarding reported leaks is
19 inadequate because customers are required to call the Company's 1-800 number. According to Mr.
20 Cassaro, it often takes hours to days before a service person is dispatched to repair reported leaks,
21 thereby resulting in unnecessary levels of water loss.

22 29. As indicated above, the Company late-filed the text of the customer service procedures
23 that the 1-800 telephone operators are apparently instructed to follow when customers call to report
24 system leaks. As described therein, the guidelines state that hydrant leaks, customer premises leaks,
25 service or main leaks, and meter leaks are all emergencies that will be investigated immediately.
26 Unfortunately, the comments made by Mr. Cassaro and other public comment witnesses suggest that
27 the policy described in the Company's written guidelines is not being followed consistently. Various
28 customer comments indicate that calls to the call center in California are often dropped or, even if the

1 Pine Water Company's corporate powers, is compatible with the public interest, with sound financial
2 practices, and with the proper performance by Pine Water Company as a public service corporation,
3 and will not impair Pine Water Company's ability to perform that service.

4 IT IS FURTHER ORDERED that the financing approved herein is for the purposes stated in
5 the application and is reasonably necessary for those purposes, and such purposes are not, wholly or
6 in part, chargeable to operating expenses or income.

7 IT IS FURTHER ORDERED that Pine Water Company is hereby authorized to engage in any
8 transactions and to execute any documents necessary to effectuate the financing authorization granted
9 herein.

10 IT IS FURTHER ORDERED that such financing authority is contingent upon Pine Water
11 Company's use of the proceeds for the purposes set forth in the application.

12 IT IS FURTHER ORDERED that pursuant to the terms of the Settlement Agreement, the
13 \$533,599 inter-company payable between Pine Water Company and Brooke Utilities, Inc. will be
14 converted to paid in capital and Pine Water Company shall not be permitted to seek recovery from
15 ratepayers at a later date of any additional amounts of the existing inter-company payable that
16 accrued from the end of the test year to the effective date of this Decision.

17 IT IS FURTHER ORDERED that pursuant to the terms of the Settlement Agreement, the
18 current interim Water Augmentation Surcharge shall be made permanent. As described herein, the
19 Surcharge is applied only in instances where the Pine Water Company must haul water to the Pine
20 system by truck due to extreme supply shortages.

21 IT IS FURTHER ORDERED that pursuant to the terms of the Settlement Agreement, Pine
22 Water shall make reasonable efforts to maximize, as its primary supply sources, water obtained from
23 company owned wells and through water sharing agreements such as the agreement with the Solitude
24 Trails Water Improvement District. As described herein, Pine Water Company shall also make
25 reasonable efforts to maximize water purchases from Strawberry for delivery through Project
26 Magnolia with due regard to protecting the water supply available to Strawberry Water. Only after
27 these lesser-cost sources have been exhausted may Pine Water Company haul water by trucks to meet
28 demand.

1 IT IS FURTHER ORDERED that Pine Water Company shall submit quarterly reports
2 specifically describing the quantity of water pumped from each of its sources in the preceding three
3 months. These quarterly reports will be subject to review by Staff and will also be available for
4 inspection at the Company's offices. The first such quarterly report shall be submitted by October
5 31, 2004 and the reports shall be filed for five subsequent quarters after which Pine Water Company
6 may seek Staff's approval to discontinue filing the quarterly reports.

7 IT IS FURTHER ORDERED that Pine Water Company shall submit, within 180 days, a
8 detailed plan to address the Company's 12.6 percent test year water loss. Pine Water Company must
9 provide a detailed explanation demonstrating why a water loss reduction to less than 10 percent is
10 unnecessary, impractical and/or not cost-effective, after which time Staff will have an opportunity to
11 review the Company's plan and make recommendations with respect to mitigating the Company's
12 system water losses. To the extent Staff is not satisfied with Pine Water Company's water loss
13 reduction efforts, we expect Staff to bring this matter to our attention along with a recommendation
14 for resolving the issue.

15 IT IS FURTHER ORDERED that Pine-Strawberry Water Improvement District shall
16 withdraw its request for cancellation of Pine Water Company's CC&N within 10 days of the effective
17 date of this Decision.

18 IT IS FURTHER ORDERED that we decline to adopt Paragraph 14 of the Settlement
19 Agreement because, among other reasons, we do not believe the request for guidance described in the
20 Settlement Agreement is sufficiently developed to warrant the type of extraordinary regulatory relief
21 sought by Pine Water Company.

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1 IT IS FURTHER ORDERED that Pine Water Company shall establish a 24-hour local
 2 telephone number for reporting leaks and/or service outages on its system. In accordance with this
 3 requirement, a local service representative shall be responsible for answering leak/outage calls from
 4 Pine Water customers and for returning calls within 30 minutes after receiving leak/outage calls. The
 5 local customer service representative shall discuss the severity of the leak with the customer and shall
 6 give a reasonable estimate of when a service representative will be available to investigate and/or
 7 repair the leak. The service representative should make every reasonable effort to promptly repair all
 8 system leaks and shall respond immediately to all leaks that are severe, involve a hydrant, or involve
 9 a customer outage. Information regarding the local leak/outage call number shall be included in the
 10 Company's notice that is provided to Staff and the Commission for review. At this time, other
 11 general inquiries, such as billing questions, may continue to be directed through the Company's call
 12 center.

13 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

14 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

15
 16
 17 CHAIRMAN COMMISSIONER COMMISSIONER

18
 19 COMMISSIONER COMMISSIONER

20 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
 21 Secretary of the Arizona Corporation Commission, have
 22 hereunto set my hand and caused the official seal of the
 23 Commission to be affixed at the Capitol, in the City of Phoenix,
 24 this ____ day of _____, 2004.

25 _____
 26 BRIAN C. McNEIL
 27 EXECUTIVE SECRETARY

28 DISSENT _____

DISSENT _____
DDN:mj

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SERVICE LIST FOR: PINE WATER COMPANY

DOCKET NO.: W-03512A-03-0279

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Director of Utilities
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

SETTLEMENT AGREEMENT

Applicant Pine Water Company, ("Applicant"), Intervenor Pine Strawberry Water Improvement District ("District"), Intervenor John Breninger ("Breninger") and The Arizona Corporation Commission Utilities Division ("Staff"), each a party (and collectively herein the "Parties") to Arizona Corporation Commission Docket No. W-03512A-03-0279 captioned IN THE MATTER OF THE APPLICATION OF PINE WATER COMPANY FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE AND FOR APPROVAL TO INCUR LONG-TERM DEBT (the "Application"), hereby stipulate and agree to the following settlement provisions in connection with the relief sought in said docket. The following terms and conditions of this Agreement are intended to resolve all of the issues among the undersigned Parties in a manner consistent with the public interest.

Terms and Conditions

The Parties to this Agreement include Applicant, the District, Breninger and Staff, who hereby agree to the following:

1. Statement of Intentions and Admissions. Applicant, the District, Breninger and Staff hereby agree that the purpose of this Agreement is to resolve contested matters in Docket No. W-03512A-03-0279 in a manner consistent with the public interest. The Parties further recognize that: (1) this Agreement acts as a procedural device to propose the Parties' settlement terms to the Commission; and (2) this Agreement has no binding force or effect until finally approved by an order of the Commission. Nothing contained in this Agreement is an admission by any Party that any of the positions taken, or that might be taken by each in this proceeding, is unreasonable or unlawful. In addition, acceptance of this Agreement by any of the Parties is without prejudice to any position taken by any Party in these proceedings.

2. Settlement Schedules. Applicant, the District, Breninger and Staff hereby agree that the settlement concerning all financial and other accounting aspects of the Application reached between the Parties is illustrated on the schedules prepared by Applicant and Staff and attached hereto as Attachment A and incorporated herein by this reference (the "Settlement Schedules"). Applicant, the District, Breninger and Staff hereby acknowledge and agree that the figures set forth in the Settlement Schedules are the result of negotiation and do not, unless otherwise indicated herein, necessarily reflect the position of any Party to this Agreement.

3. Revenue Increase. Applicant, the District, Breninger and Staff hereby agree that Applicant should receive an annual increase in revenue equal to \$77,243, which constitutes an overall increase in revenue requirement of 11.81% and results in a total annual revenue of \$731,291.

4. Adjusted Rate Base. Applicant, the District, Breninger and Staff hereby agree to an adjusted Original Cost Rate Base of \$640,699, which shall be the Fair Value Rate Base consistent with Staff's recommendation in this docket. The Parties further acknowledge and agree that this rate base includes Project Magnolia, a 10,800 foot pipeline connecting Applicant's water utility system to that of Strawberry Water Company. In connection with the inclusion of Project Magnolia in Applicant's rate base, Applicant, the District, Breninger and Staff further agree to Staff's recommendation that Applicant be authorized financing in the amount of \$449,598 consisting of 33% debt and 67% equity to account for the rate basing of Project Magnolia. The debt portion shall be \$149,716 and financed at 8% for fifteen years.

5. Total Operating Expense. Applicant, the District, Breninger and Staff hereby agree to accept Staff's recommended levels of operating expenses, with two exceptions, as reflected in the Settlement Schedules, Attachment A. First, the Parties agree that Materials and Supplies expense should be \$34,512, the average of the recommendations by Staff and the Applicant for this expense item. Second, the Parties agree that the

annual amount of amortized rate case expense shall be \$50,000, which is based on a four year amortization of rate case expense equal to \$200,000, which amount Applicant, the District, Breninger and Staff agree is a reasonable amount of rate case expense for this matter under the totality of the circumstances. The Parties further agree that Applicant shall be entitled to recover the full amount of rate case expense authorized and, in the event Applicant files another rate application before all amounts have been recovered, the Parties agree that any unrecovered portion of rate case expense shall be included in any new revenue requirement authorized by the Commission. The total operating expense agreed to by Applicant, the District, Breninger and Staff is \$658,187.

6. Required Operating Income. Applicant, the District, Breninger and Staff hereby agree to a required operating income of \$73,104.

7. Operating Margin. In lieu of a determined rate of return, Applicant, the District, Breninger and Staff hereby agree that Applicant's revenue requirement should be determined using an operating margin of 10%, consistent with Staff's recommendation in this matter and which results in an overall rate of return equal to 11.41%.

8. Depreciation Rate. Applicant, the District, Breninger and Staff hereby agree that Applicant will use the depreciation rates recommended by Staff and included hereto as Attachment B.

9. Rate Design. Applicant, the District, Breninger and Staff hereby agree to the rate design reflected in the Settlement Schedules, Attachment A hereto, which rate design is consistent with Staff's recommendation in this matter. Applicant, the District, Breninger and Staff further agree that the Water Augmentation Surcharge, as amended and illustrated in Attachment C hereto, should be made permanent. Within 15 days after approval of this Agreement, Applicant shall file tariff sheets reflecting the rates, charges, and terms of service contemplated in this Agreement as approved by the Commission.

10. Water Usage, Reporting and Water Loss. Applicant had a test year water loss equal to 12.6%. Within 180 days after an order is issued in this proceeding; the Company

shall submit a detailed plan to the Director of the Arizona Corporation Commission Utilities Division to address the Company's water loss. While the Parties are not intending or attempting herein to establish a standard for water loss applicable to Applicant's operations, if the Company finds that reduction of water loss is either unnecessary, impractical and/or not cost-effective, the Company shall submit a detailed explanation demonstrating why a water loss reduction to less than 10% is either unnecessary, impractical and/or not cost-effective. In addition, the Company shall file quarterly reports detailing the gallons of water pumped, purchased, or otherwise acquired and sold for each quarter, specifically identifying the quantity and source of water: 1) pumped from Applicant-owned wells; 2) pumped from wells subject to Water Sharing Agreements or Applicant's October 1996 Agreement with Solitude Trails, as amended in November 1996; 3) purchased from Strawberry Water Company or other sources for delivery through Project Magnolia; and/or 4) purchased for water hauling by truck. The first report shall be submitted by October 31, 2004 and cover the preceding calendar quarter. Subsequent reports shall be filed for five (5) subsequent quarters, at which time the Applicant may request and Staff may approve discontinuance of the filing requirement. Copies of such reports shall be maintained at Applicant's offices and available for inspection during normal business hours.

11. NARUC/GAAP Accounting. Applicant agrees to comply with the NARUC system of accounting within two years and to use Generally Accepted Accounting Principles.

12. Public Notice of Rate Increases. Following issuance of a Commission order approving rate increases, Applicant shall notify customers of the new rates in its next regular billing cycle, in a form approved by Staff. Such notice shall also include information concerning the Water Augmentation Surcharge, including an illustration of the potential impact of the surcharge on residential customers.

13. Intercompany Payable/Financing Request. Applicant, the District, Breninger and Staff hereby acknowledge that Applicant has requested certain financing authority related to an intercompany payable between Applicant and its shareholder, Brooke Utilities, Inc., which payable amounted to \$533,599 at the end of the test year. Applicant, the District, Breninger and Staff hereby agree that this amount of the intercompany payable will be converted to paid in capital and Applicant further agrees not to seek recovery from ratepayers at a later date of any additional amounts of the existing intercompany payable between Applicant and Brooke Utilities that may have accrued after the test year and before issuance of an Order of the Commission in this matter.

14. Exploration of Additional Water Supplies. Applicant, the District, Breninger and Staff hereby acknowledge and agree that the record reflects the extraordinary water supply problems Applicant faces in its certificated service area and that there remain substantial questions and disagreements concerning the availability, cost and risks associated with exploring for and obtaining additional water supplies for use in serving Applicant's customers. These Parties further acknowledge and agree that these issues are not able to be resolved by settlement until such time as the Commission has an opportunity to consider and address the Applicant's request for guidance regarding the exploration of additional water supplies. Applicant, the District, Breninger and Staff thereby join in urging the Commission to provide such guidance.

15. District Application to Cancel CC&N. Immediately following issuance of an order by the Commission approving this Agreement, the District will move to withdraw its pending Application for Cancellation of Certificate of Convenience and Necessity concerning Applicant's CC&N.

16. Staff Authority. The Parties recognize that: (1) the Staff does not have the power to bind the Commission; and (2) for purposes of settlement, the Staff acts in the same manner as a party in proceedings before the Commission.

17. Commission Authority to Modify. Each provision of this Agreement is in consideration and support of all other provisions, and expressly conditioned upon acceptance by the Commission without material change. The Parties further recognize that the Commission will evaluate the terms of this Agreement, and that after such evaluation the Commission may require immaterial modifications to the terms hereof before accepting this Agreement.

18. Commission Approval. In the event that the Commission adopts an order approving all of the terms of this Agreement without material change, such action by the Commission constitutes approval of the Agreement, and thereafter the Parties shall abide by its terms.

19. Effect of Modification by the Commission. In the event that any Party objects to any modification to the terms of this Agreement made by the Commission in an order approving this Agreement, such Party shall timely file an application for rehearing under A.R.S. § 40-253. In the event that a Party does not file such an application, that Party shall be deemed: (i) to have accepted any modifications made by the Commission; and (ii) to have conclusively and irrefutably accepted that any modifications to the terms of this Agreement are not material and therefore the Commission order does adopt the terms of this Agreement without material change.

20. Application for Rehearing. If any Party to this Agreement files an application for rehearing and alleges that the Commission has failed to approve all terms of the Agreement without material change, then such application shall be deemed a withdrawal of the Agreement, and the Parties shall request a procedural order setting Applicant's original Application for hearing. Such hearing shall be without prejudice to the position of any Parties, and this Agreement and any supporting documents relating thereto shall not be admitted into evidence for any purpose nor used by the Commission in its final consideration of the issues raised in this Docket.

21. Appeal of Commission Decision. If a Party's application for rehearing alleges that the Commission has failed to approve all terms of this Agreement without material change, and the application for rehearing is denied, either by Commission order or by operation of law, and such Party still objects to any modification to the terms of this Agreement made by the Commission, that Party shall timely file an appeal of the Commission's decision pursuant to A.R.S. § 40-254 or § 40-254.01, as appropriate. In the event that the Party does not file such an appeal, it shall be deemed: (i) to have accepted any modifications made by the Commission; and (ii) to have conclusively and irrefutably accepted that any modifications to the terms of this Agreement are not material and therefore the Commission's order approves the Agreement without material change.

22. Limitations. The terms and provisions of this Agreement apply solely to and are binding only in the context of the provisions and results of this Agreement and none of the positions taken in this Agreement by any of the Parties may be referred to, cited to, or relied upon by any other Party in any fashion as precedent or otherwise in any proceeding before the Commission or any other regulatory agency or before any court of law for any purpose except in furtherance of the purpose and results of this Agreement.

23. Definitive Text. The "Definitive Text" of this Agreement shall be the text adopted by the Commission in an order adopting substantially all the terms of this Agreement including all modifications made by the Commission in such order.

24. Severability. Each of the terms of the Definitive Text of this Agreement are in consideration and support of all other terms. Accordingly, such terms are not severable.

25. Support and Defend. The Parties pledge to support and defend this Agreement before the Commission including appearing at any Open Meeting of the Commission when such agreement is considered, and not to take any position, either before the Commission or elsewhere, that is inconsistent with the terms of this Agreement. If this Agreement enters into force and effect by virtue of a Commission order approving this

Agreement, the Parties will support and defend this Agreement before any court or regulatory agency in which it may be at issue.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the 2nd day of April, 2004.

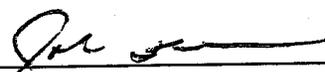
PINE WATER COMPANY

By: 
Its: Attorney of Record

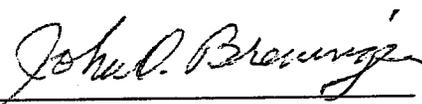
ARIZONA CORPORATION
COMMISSION UTILITIES
DIVISION STAFF

By: 
Its: Director

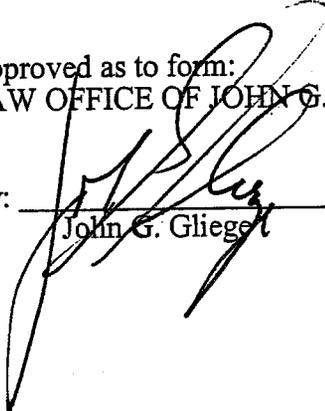
PINE STRAWBERRY WATER
IMPROVEMENT DISTRICT

By: 
Its: Administrator

JOHN BRENINGER

By: 

Approved as to form:
LAW OFFICE OF JOHN G. GLIEGE

By: 
John G. Gliege

1530595

ATTACHMENT A

DECISION NO. _____

Pine Water Company
 Docket No. W-03512A-03-0279
 Test Year Ended December 31, 2002

COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	SETTLEMENT AGREEMENT ORIGINAL COST
1	Adjusted Rate Base	\$ 640,699
2	Adjusted Operating Income (Loss)	\$ 12,223
3	Current Rate of Return (L2 / L1)	1.91%
4	Required Rate of Return	11.4100%
5	Required Operating Income (L4 * L1)	\$ 73,104
6	Required Operating Margin (L5 / L11)	10.00%
7	Operating Income Deficiency (L5 - L2)	\$ 60,881
8	Gross Revenue Conversion Factor	1.26876
9	Increase In Gross Revenue (L7 * L6)	\$ 77,243
10	Adjusted Test Year Revenue	\$ 654,048
11	Proposed Annual Revenue (L8 + L9) Note A	\$ 731,291
12	Require Increase in Revenue (%) (L8/L9)	11.81%

DECISION NO. _____

Pine Water Company
 Docket No. W-03512A-03-0279
 Test Year Ended December 31, 2002

RATE BASE - ORIGINAL COST
 SETTLEMENT AGREEMENT

LINE NO.	DESCRIPTION	AMOUNT
1	Plant in Service	\$ 2,342,790
2	Less: Accumulated Depreciation	(1,245,877)
3	Net Plant in Service	<u>\$ 1,096,913</u>
	<u>LESS:</u>	
4	Advances in Aid of Construction (AIAC)	(52,072)
5	Contributions in Aid of Construction (CIAC)	\$ (958,323)
6	Less: Accumulated Amortization	494,931
7	Net CIAC	<u>(463,392)</u>
8	Total Advances and Contributions	(515,464)
9	Customer Deposits	(21,356)
10	Meter Advances	-
11	Deferred Income Tax	-
	<u>ADD:</u>	
12	Working Capital	80,606
13	Total Rate Base	<u>\$ 640,699</u>

DECISION NO. _____

Pine Water Company
Docket No. W-03512A-03-0279
Test Year Ended December 31, 2002

SETTLEMENT AGREEMENT - PLANT IN SERVICE

LINE NO.	DESCRIPTION	AMOUNT
1	Land and Land Rights	\$ 16,930
2	Structures and Improvements	160,067
3	Wells and Springs	65,994
4	Supply Mains	479
5	Pumping Equipment	131,320
6	Water Treatment Plants	5,320
7	Storage Tanks	247,073
8	Transmission and Distribution [a]	1,439,889
9	Services	80,461
10	Meters and Meter Installations	195,257
11	GROSS PLANT	\$ 2,342,790

[a] Inclusive of Project Magnolia of \$449,598.

DECISION NO. _____

Pine Water Company
Docket No. W-03512A-03-0279
Test Year Ended December 31, 2002

OPERATING INCOME - SETTLEMENT AGREEMENT

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Metered Water Revenue	\$ 645,612		\$ 645,612	\$ 77,243	\$ 722,855
2	Unmetered Water Revenue	-		-		-
3	Other Water Revenue	8,436		8,436		8,436
4	Total Operating Revenues	\$ 654,048	\$ -	\$ 654,048	\$ 77,243	\$ 731,291
EXPENSES:						
7	Salaries and Wages	\$ 125,296	-	\$ 125,296		\$ 125,296
8	Pension and Benefits	6,105	-	6,105		6,105
9	Purchased Water	64,262	(6,427)	57,835		57,835
10	Purchased Power	36,942	-	36,942		36,942
11	Chemicals	604	-	604		604
12	Materials and Supplies	42,923	(8,411)	34,512		34,512
13	Regulatory Water Testing	7,758	-	7,758		7,758
14	Contractual Services - Engineering	-	-	-		-
15	Contractual Services - Accounting	38,328	-	38,328		38,328
16	Contractual Services - Legal	66,430	-	66,430		66,430
17	Contractual Services - Other	19,368	-	19,368		19,368
18	Overhead Allocation - G and A	71,092	-	71,092		71,092
19	Rental of Equipment	-	-	-		-
20	Transportation Expenses	176,144	(174,645)	1,499		1,499
21	Workmen's Comp	2,271	-	2,271		2,271
22	Insurances Medical/Dental	12,663	-	12,663		12,663
23	Telephone	2,631	-	2,631		2,631
24	Dues and Subscriptions	299	-	299		299
25	Bad Debt Expense	2,153	-	2,153	254	2,407
26	Miscellaneous Expenses	202	-	202		202
27	Office Supplies	4,080	-	4,080		4,080
28	Licenses and Permits	1,000	-	1,000		1,000
29	Repairs and Maintenance - Building	-	-	-		-
30	R and M Vehicles	-	-	-		-
31	Sales tax Expenses	(380)	380	-		-
32	Utility Regulatory Assessment Fee	272	-	272		272
33	CAWCD Costs	21,501	-	21,501		21,501
34	Rate Case Expense	50,000	-	50,000		50,000
35	Depreciation Expense	35,496	6,982	42,478		42,478
36	Other Taxes and Licenses	45	-	45		45
37	Property Taxes	45,239	(5,011)	40,228		40,228
38	Income Tax	(45,951)	42,184	(3,767)	16,108	12,341
39						
40	Total Operating Expenses	\$ 786,773	\$ (144,948)	\$ 641,825	\$ 16,362	\$ 658,187
41						
42	Operating Income (Loss)	\$ (132,725)	\$ 144,948	\$ 12,223	\$ 60,881	\$ 73,104

DECISION NO. _____

Pine Water Company
 Docket No. W-03512A-03-0279
 Test Year Ended December 31, 2002

SETTLEMENT AGREEMENT
 Page 1 of 5

RATE DESIGN

Rate Code 14A
 Monthly Usage Charge: Residential/Commercial

	Minimum Monthly Usage Charge				
	Present Rates	Company Proposed		Staff Proposed	
		Winter	Summer	Winter	Summer
5/8" x 3/4" Meter	\$ 18.45	\$ 22.14	\$ 22.14	\$ 18.45	\$ 18.45
3/4" Meter	\$ 21.22	\$ 33.21	\$ 33.21	\$ 21.22	\$ 21.22
1" Meter	\$ 24.54	\$ 55.35	\$ 55.35	\$ 24.54	\$ 24.54
1 1/2" Meter	\$ 36.90	\$ 110.74	\$ 110.74	\$ 36.90	\$ 36.90
2" Meter	\$ 64.58	\$ 177.12	\$ 177.12	\$ 64.58	\$ 64.58
3" Meter	\$ 92.25	\$ 354.24	\$ 354.24	\$ 92.25	\$ 92.25
4" Meter	\$ 147.60	\$ 553.50	\$ 553.50	\$ 147.60	\$ 147.60
6" Meter	\$ -	\$ 1,107.00	\$ 1,107.00	\$ 250.00	\$ 250.00
8" Meter	\$ -	\$ 2,214.00	\$ 2,214.00	\$ 400.00	\$ 400.00

Rate Code 14B
 Monthly Usage Charge: Residential/Commercial

5/8" x 3/4" Meter	20.35	22.14	22.14	\$ 18.45	\$ 18.45
3/4" Meter	30.53	33.21	33.21	\$ 21.22	\$ 21.22
1" Meter	50.88	55.35	55.35	\$ 24.54	\$ 24.54
1 1/2" Meter	101.75	110.70	110.70	\$ 36.90	\$ 36.90
2" Meter	162.80	177.12	177.12	\$ 64.58	\$ 64.58
3" Meter	305.25	354.24	354.24	\$ 92.25	\$ 92.25
4" Meter	508.75	553.50	553.50	\$ 147.60	\$ 147.60
6" Meter	1,017.50	1,107.00	1,107.00	\$ 250.00	\$ 250.00
8" Meter	-	2,214.00	2,214.00	\$ 400.00	\$ 400.00

Gallons Included In Minimum Charge:

All Meters	-	-	-	-	-
Fire Hydrants Used For Construction Water	-	-	-	-	-

Pine Water Company
 Docket No. W-03512A-03-0279
 Test Year Ended December 31, 2002

SETTLEMENT AGREEMENT
 Page 2 of 5

RATE DESIGN
 CONTINUED

Rate Code 14A

Residential/Commercial - Per 1,000 Gallons

Present Rates	Commodity Rates			
	Company Proposed		Staff Proposed	
	Winter	Summer	Winter	Summer

Tier 1:

5/8 x 3/4 Inch Meter	0 to 4,000 Gallons	\$ 3.40	\$ -	\$ -	\$ -	\$ -	\$ -
5/8 x 3/4 Inch Meter	0 to 2,000 Gallons	\$ -	\$ 4.28	\$ 5.80	\$ 3.95	\$ 6.00	\$ -
1 Inch and Larger	0 to 4,000 Gallons	\$ 3.40	\$ -	\$ -	\$ -	\$ -	\$ -
1 Inch and Larger	0 to 2,000 Gallons	\$ -	\$ -	\$ -	\$ 3.95	\$ 6.00	\$ -
1 Inch and Larger	0 to 10,000 Gallons	\$ -	\$ 4.28	\$ 5.80	\$ -	\$ -	\$ -

Tier 2:

5/8 x 3/4 Inch Meter	Over 4,000 Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -	\$ -
5/8 x 3/4 Inch Meter	2,001 to 6,000 Gallons	\$ -	\$ -	\$ -	\$ 4.96	\$ 7.00	\$ -
5/8 x 3/4 Inch Meter	4001 to 8,000 Gallons	\$ -	\$ 7.50	\$ 10.14	\$ -	\$ -	\$ -
1 Inch and Larger	Over 4,000 Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -	\$ -
1 Inch and Larger	2,001 to 6,000 Gallons	\$ -	\$ -	\$ -	\$ 4.16	\$ 7.00	\$ -
1 Inch and Larger	10,001 to 25,000 Gallons	\$ -	\$ 7.50	\$ 10.14	\$ -	\$ -	\$ -

Tier 3:

5/8 x 3/4 Inch Meter	Over 4,000 Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -	\$ -
5/8 x 3/4 Inch Meter	In excess of 6,000 Gallons	\$ -	\$ -	\$ -	\$ 6.00	\$ 8.00	\$ -
5/8 x 3/4 Inch Meter	Over 8,000 Gallons	\$ -	\$ 11.50	\$ 14.14	\$ -	\$ -	\$ -
1 Inch and Larger	Over 4,000 Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -	\$ -
1 Inch and Larger	In excess of 6,000 Gallons	\$ -	\$ -	\$ -	\$ 6.00	\$ 8.00	\$ -
1 Inch and Larger	Over 25,000 Gallons	\$ -	\$ 11.50	\$ 14.14	\$ -	\$ -	\$ -

DECISION NO. _____

Pine Water Company
 Docket No. W-03512A-03-0279
 Test Year Ended December 31, 2002

SETTLEMENT AGREEMENT
 Page 3 of 5

RATE DESIGN
 CONTINUED

Rate Code 14B

Commodity Rates

Residential/Commercial - Per 1,000 Gallons

Present Rates	Commodity Rates			
	Company Proposed		Staff Proposed	
	Winter	Summer	Winter	Summer

Tier 1:

5/8 x 3/4 Inch Meter	All Gallons	\$ 3.40	\$ -	\$ -	\$ -	\$ -
5/8 x 3/4 Inch Meter	0 to 2,000 Gallons	\$ -	\$ 4.28	\$ 5.80	\$ 3.95	\$ 6.00
1 Inch and Larger	All Gallons	\$ 3.40	\$ -	\$ -	\$ -	\$ -
1 Inch and Larger	0 to 2,000 Gallons	\$ -	\$ -	\$ -	\$ 3.95	\$ 6.00
1 Inch and Larger	0 to 10,000 Gallons	\$ -	\$ 4.28	\$ 5.80	\$ -	\$ -

Tier 2:

5/8 x 3/4 Inch Meter	All Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -
5/8 x 3/4 Inch Meter	2,001 to 6,000 Gallons	\$ -	\$ -	\$ -	\$ 4.96	\$ 7.00
5/8 x 3/4 Inch Meter	2001 to 8,000 Gallons	\$ -	\$ 7.50	\$ 10.14	\$ -	\$ -
1 Inch and Larger	All Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -
1 Inch and Larger	2,001 to 6,000 Gallons	\$ -	\$ -	\$ -	\$ 4.96	\$ 7.00
1 Inch and Larger	10,001 to 25,000 Gallons	\$ -	\$ 7.50	\$ 10.14	\$ -	\$ -

Tier 3:

5/8 x 3/4 Inch Meter	All Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -
5/8 x 3/4 Inch Meter	In excess of 6,000 Gallons	\$ -	\$ -	\$ -	\$ 6.00	\$ 8.00
5/8 x 3/4 Inch Meter	Over 25,000 Gallons	\$ -	\$ 11.50	\$ 14.14	\$ -	\$ -
1 Inch and Larger	All Gallons	\$ 5.95	\$ -	\$ -	\$ -	\$ -
1 Inch and Larger	In excess of 6,000 Gallons	\$ -	\$ -	\$ -	\$ 6.00	\$ 8.00
1 Inch and Larger	Over 25,000 Gallons	\$ -	\$ 11.50	\$ 14.14	\$ -	\$ -

Pine Water Company
 Docket No. W-03512A-03-0279
 Test Year Ended December 31, 2002

SETTLEMENT AGREEMENT
 Page 4 of 5

RATE DESIGN
 CONTINUED

	Rate Code			
	Sheet A Present Charges	Sheet B Present Charges	Company Proposed Charges (*)	Staff Proposed Charges *
Service Line and Meter Installation Charge:				
5/8" x 3/4" Meter	\$ 430	\$ 430	\$ 500	\$ 500
3/4 Inch" Meter	\$ 480	\$ 480	\$ 575	\$ 575
1" Meter	\$ 550	\$ 550	\$ 660	\$ 660
1.5" Meter	\$ 775	\$ 775	\$ 900	\$ 900
2" Meter - Turbine	\$ 1,305	\$ 1,305	\$ 1,500	\$ 1,500
2" Meter - Compound	N/A	N/A	\$ 2,200	\$ 2,200
3" Meter-Turbine	\$ 1,815	\$ 1,815	\$ 2,100	\$ 2,100
3" Meter-Compound	N/A	N/A	\$ 2,900	\$ 2,900
4" Meter-Turbine	\$ 2,860	\$ 2,860	\$ 3,200	\$ 3,200
4" Meter-Compound	N/A	N/A	\$ 4,200	\$ 4,200
6" Meter-Turbine	N/A	\$ 5,275	\$ 5,275	\$ 6,000
6" Meter-Compound	N/A	N/A	\$ 7,700	\$ 7,700
8" Meter	Cost	Cost	Cost	Cost
Meters Larger than 8"	Cost	Cost	Cost	Cost

(*) Actual Cost be applied when crossing paved roads.

As meters and service lines are now taxable income for income purposes, it shall be the at the discretion of the utility whether to collect income taxes on the meter and service line charges.

Any tax collected will be refunded each year that the meter deposit is refunded.

Water Exploration Surcharge, per month	\$ -	0	\$ 10.00	0
Water Hauling Surcharge (1)	Cost	Cost	Cost	Cost

(1) Per gallon rate calculated by dividing actual hauling costs less curtailment penalty fees collected by the total gallons sold for the month.

Customer bill amount will be calculated by multiplying the gallons used for the month times the per gallon rate. Customers will be billed in the month following actual costs incurred.

Pine Water Company
Docket No. W-03512A-03-0279
Test Year Ended December 31, 2002

SETTLEMENT AGREEMENT
Page 5 of 5

	Rate Code			
	Sheet A Present Charges	Sheet B Present Charges	Company Proposed Charges (*)	Staff Proposed Charges
Other Service Charges:				
Establishment	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 35.00	\$ 35.00	\$ 35.00	\$ 35.00
Reconnection (Delinquent)	\$ 20.00	\$ 35.00	\$ 50.00	\$ 35.00
Reconnection (After Hours)	\$ 30.00	\$ 45.00	\$ 45.00	\$ 45.00
Meter Test	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Deposit	**	**		
Deposit Interest	6.00%	6.00%	6.00%	6.00%
Re-Establishment (With-in 12 months)	***	***	***	***
NSF Check	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Deferred Payment, Per Month (b)	\$ -	\$ -	\$ -	1.50%
Meter Re-Read	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
Charge of Moving Customer Meter-Customer Requested	Cost	Cost	Cost	Cost
Late Payment Charge, greater of 1.50% or (1)	\$ 5.00	\$ 5.00	\$ 10.00	1.50%
Cut Lock Fee	\$ -	\$ -	\$ 50.00	\$ -
Meter Removal Fee	\$ -	\$ -	\$ 150.00	\$ -
Illegal Supply Fee				
First Offence			\$ 500.00	0
Second Offence			\$ 1,000.00	0
Third Offence			\$ 2,000.00	0
Water Theft Fee				
First Offence			\$ 250.00	0
Second Offence			\$ 500.00	0
Third Offence			\$ 750.00	0
Emergency Conservation Response Fee			\$ 100.00	0
Cross Connection Exposure Fee			\$ 100.00	0
Damages to Meter Locks, Valves, Seals (2)	Cost	Cost	\$ 40.00	Cost
Sprinklers			(a)	(a)

(1) Greater of 1.50% or \$5.00 Present Rates or 1.5% or \$10 Proposed Rates.

(2) \$40.00 plus actual cost of making repairs.

** PER COMMISSION RULES (R14-2-403.B)

*** MONTHS OFF SYSTEM TIMES MINIMUM (R14-2-403.D)

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCISE TAX, PER COMMISSION RULE (14-2-409.D 5).

ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.

(a) 1.50% of the monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month.

(b) 1.50% of the outstanding balance.

DECISION NO. _____

ATTACHMENT B

Table J-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	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

ATTACHMENT C

TARIFF SCHEDULE

Utility: Pine Water Company
 Docket No.: W-03512A-03-0279
 Phone No.: 1-800-270-6084

Tariff Sheet No.: _____
 Decision No.: _____
 Effective: _____

WATER AUGMENTATION SURCHARGE

Pine Water Company ("Company") is authorized to make monthly adjustments to its rates and charges for water service to recover costs incurred for bulk water purchases and transportation ("Water Augmentation Costs").

The Water Augmentation Surcharge shall be calculated by dividing the total Water Augmentation Costs incurred in a given month by the amount of water sold that month. The resulting rate per 1,000 gallons will then be multiplied by the gallons used in that month for each customer to arrive at the surcharge per 1000 gallons. The resulting Water Augmentation Surcharge will be charged in the next month as a separate line item on the customer's bill.

The Commission recognizes that operational decisions regarding water supply management should be left within the discretion of the Company and that deficient water supply conditions sometimes require the Company to concurrently augment its primary water supplies to meet customer demand. The foregoing notwithstanding, Company shall undertake reasonable efforts to maximize the quantity of water obtained from Company owned wells and wells operated under Water Sharing Agreements, including the Company's 1996 Agreement with the Solitude Trails Water Improvement District, as the primary source of water supply. The Company shall also undertake reasonable efforts to maximize water purchases for delivery through Project Magnolia before resorting to hauling water by tanker truck with due regard to protection of the water supply available to Strawberry Water Company.

JSHAPIRO/1530516.1/75206.006

ISSUED: _____ / _____ / _____
 Month Day Year

EFFECTIVE _____ / _____ / _____
 Month Day Year

ISSUED BY Robert Hardcastle, President

Decision No. _____

DECISION NO. _____