

ORIGINAL



0000020395

MEMORANDUM

30

TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

DATE: May 2, 2005

RE: STAFF REPORT FOR PONDEROSA UTILITY CORPORATION RATE INCREASE APPLICATION (DOCKET NO. W-01717A-04-0825)

Attached is the Staff Report for Ponderosa Utility Corporation's rate application for a permanent rate increase. Staff recommends approval of the application using Staff's recommended rates and charges.

EGJ:CRM:red

Originator: Charles R. Myhlousen

Attachment: Original and sixteen copies

Arizona Corporation Commission  
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Service List for: Ponderosa Utility Corporation  
Docket No. W-01717A-04-0825

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**PONDEROSA UTILITY CORPORATION**

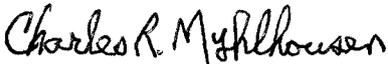
**DOCKET NO. W-01717A-04-0825**

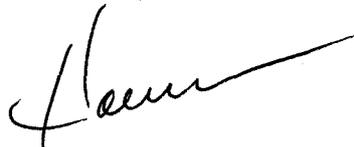
**APPLICATION FOR A  
PERMANENT RATE INCREASE**

**MAY 2, 2005**

## STAFF ACKNOWLEDGMENT

The Staff Report for Ponderosa Utility Corporation, Docket No. W-01717A-04-0825, was the responsibility of the Staff members listed below. Charles R. Myhlhousen was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base and rate design. Lyndon Hammon was responsible for the engineering and technical analysis. John LaPorta was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.

  
Charles R. Myhlhousen  
Public Utility Rate Analyst III

  
Lyndon Hammon  
Utilities Engineer

  
John LaPorta  
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY  
PONDEROSA UTILITY CORPORATION  
DOCKET NO. W-01717A-04-0825**

Ponderosa Utility Corporation ("Company") is engaged in the business of providing utility water service exclusively to Arizona customers in the communities of Mountaineer and Highland Meadows near Flagstaff, Arizona in Coconino County. The Company provides service to approximately 526 residential customers. The Company's current rates were effective August 1, 1997.

The Company's rate application requested an increase in revenue of \$32,077 or a 14.84 percent increase over test year revenue of \$216,157. The Company's proposed revenues of \$248,234 result in an operating income of \$3,950 for a 2.06 percent rate of return on an original cost rate base ("OCRB") of \$191,975. The Company's requested rates would increase the typical residential bill with a median usage of 2,459 gallons from \$29.12 to \$33.14 for an increase of \$4.02 or 13.8 percent.

Staff's recommended rates would increase revenue by \$26,976 or a 12.48 percent increase over test year revenue of \$216,157. Staff's recommended revenues of \$243,133 result in an operating income of \$18,015 for an 8.09 percent rate of return on a OCRB of \$222,775. Staff's recommended rates would increase the typical residential bill with a median usage of 2,459 gallons from \$29.12 to \$31.99 for an increase of \$2.87 or 9.9 percent.

Staff recommends approval of its rates and charges as presented on Schedule 4 of this report.

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Engineering Report

**Fact sheet**

**Current Rates:** Decision No. 60343, dated July 31, 1997, rates effective August 1, 1997.

**Type of Ownership:** Arizona "C" Corporation

**Location:** The Company is located near Flagstaff, Arizona in Coconino County.

**Rates:**

Permanent rate increase application filed: November 15, 2004, and amended January 13, 2005.

**Current Test Year Ended:** January 31, 2004

**Monthly Minimum Charges:**

	Company Current Rates	Company Proposed Rates	Staff Recommended Rates
Monthly Minimum Charge Based on 5/8 X 3/4 inch meter	\$21.00	\$24.41	\$24.00
Gallons in Minimum	0	0	0
Commodity Charge Excess of minimum, per 1,000 gallons	3.30		
All gallons			
Tier one zero to 2,500 gallons		3.55	3.25
Tier two from 2,501 gallons to 8,000 gallons		3.75	4.00
Tier three all gallons over 8,000 gallons		4.10	4.25
Typical residential bill (Based on median usage of 2,459 gallons)	\$29.12	\$33.14	\$31.99

**Customers:**

Average number of customers in prior test year, 473, current test year, 526

**Notifications:**

Customer Notification was mailed on November 17, 2004.

**Complaints:**

Number of customers concerns since application was filed:

One inquiry – from a customer regarding an upgrade of their 2-inch main to a 6-inch main and an upgrade on their meter. Resolved. One opinion – customer against the pending rate increase. Noted. One customer complaint about a service outage and the delay in getting service resorted in a timely manner. Noted. One customer complaint about a service outage due to a water main break. Resolved.

Percentage of complaints to customer base: less than one percent.

### **Summary of Filing**

Based on test year results, as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission"), Ponderosa Utility Corporation ("Company") realized an operating loss of \$27,082 on an original cost rate base ("OCRB") of \$ 191,975 for no rate of return as shown on Schedule CRM-1.

The Company proposed rates produce operating revenues of \$248,234 and an operating income of \$3,950 for a 2.06 percent rate of return on an OCRB of \$ 191,975. The Company's proposed rates would increase the typical residential bill with a median usage of 2,459 gallons from \$29.12 to \$33.14 for an increase of \$4.02 or 13.8 percent.

Staff's recommended rates produce a revenue level of \$243,133 and an operating income of \$18,015 for a rate of return of 8.09 percent on Staff's adjusted OCRB of \$222,775. Staff's recommended rates would increase the typical residential bill with a median usage of 2,459 gallons from \$29.12 to \$31.99 for a increase of \$2.87 or 9.9 percent increase.

### **Company Background**

On November 15, 2004, the Company filed an application for a permanent rate increase with the Commission. On December 15, 2004, the Company's filing was found deficient. On January 13, 2005, the Company submitted the deficient items. On February 14, 2005, the application was deemed sufficient.

The Company's narrative portion of the application stated that it needs this rate increase because the number of customers have increased by 10 percent, while revenues since the prior rate case have increased by 6 percent over the authorized revenues. However, adjusted expenses have increased by over 37 percent since the prior rate case. There is no anticipated major increase or growth of customers to be served in the near future.

### **Consumer Services**

A review of the Commission's records revealed the following customer complaints and opinions were filed from years 2002 through 2005. In years 2002 and 2003, there were no complaints, inquiries or opinions. In year 2004, one inquiry-from customer regarding an upgrade of their 2-inch main to a 6-inch main was resolved. One customer opinion against the pending rate increase was noted. In 2005, one customer complaint about a service outage and the delay in getting service resorted in a timely manner was noted. Another customer complaint about a service outage due to a water main break was resolved.

### **Compliance**

The Utilities Division Compliance Section showed no outstanding compliance issues.

The Company is current in its property and sales tax payments.

The Company is in good standing with the Corporation's Division of the Commission.

The Arizona Department of Environmental Quality ("ADEQ") reported that Ponderosa is delivering water which meets the water quality standards required by the Arizona Administrative Code, Title 18 Chapter 4, and is in total compliance with all other requirements.

The Company is currently in compliance with the new arsenic Maximum Contaminant Level which will be effective January 23, 2006.

The Company is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.

**Rate Base**

Staff made adjustments to rate base of \$30,799. These adjustments were made to reflect Staff's increase in accumulated depreciation in the amount of \$5,375, removing plant advances in the amount of \$15,521 and the inclusion of the formula method for the cash working capital portion of the working capital allowance in the amount of \$20,653 resulting in a rate base of \$222,775. See Schedule CRM-2 page 1.

**Plant-in-Service:**

Staff made no adjustment to plant in service. See Schedule CRM-2 page 2, plant in service is \$813,364.

**Accumulated Depreciation:**

Staff increased the Company's proposed accumulated depreciation by \$5,375.

Staff's accumulated depreciation amount was calculated by adding depreciation expense for the years beginning February 1, 2000, through January 31, 2004, to the Commission approved accumulated depreciation balance in the prior test year ended January 31, 1999, of \$359,850.

**Advances-in-Aid-of-Construction:**

Staff removed advances-in-aid-of-construction. The Company does not have advances. These are meter deposits and are properly recorded by the Company as meter deposits.

**Contributions-in-Aid-of-Construction:**

Staff concurs with the Company amount of contributions-in-aid-of construction.

### **Operating Revenue**

Staff made no adjustments to metered revenue. The Company's bill count revenue matched the revenue shown in the application and that reflects the test year revenue.

### **Operating Expenses**

Staff adjustments to operating expenses resulted in a decrease of \$19,116 from \$243,239 to \$224,123 as shown on Schedule CRM -3 page 1. Adjustments are discussed below.

Adjustment A: decreased Purchased Power by \$2,349 to reflect the amount Staff determined to be non-recurring expense. These locations are no longer used by the Company.

Adjustment B: decreased Office Supplies and Expense by \$9,407 to reflect the amount of a journal entry made to reconcile the checking account.

Adjustment C: decreased Water Testing by \$696 to reflect Staff's recommended expense level.

Adjustment D: decreased Depreciation Expense by \$6,714. Staff recommended amount is consistent with the depreciation rates on a going forward basis and amortization of contributions-in-aid-of-construction.

### **Rate of Return**

Staff recommended rates and charges would provide an operating income of \$18,015 for a rate of return of 8.09 percent based on the Company's operating income and the Staff's adjusted rate base of \$222,775. This will give the Company a positive cash flow of \$47,049.

### **Revenue Requirement**

The Company's narrative portion of the application stated that it needs this rate increase because the number of customers have increased by 10 percent, while revenues since the prior rate case have increased by 6 percent over the authorized revenues. However, adjusted expenses have increased by over 37 percent since the last rate case. There is no anticipated major increase or growth in the number of customers to be served in the near future.

Staff concurs with the Company in its needs to increase rates. However, Staff is recommending a smaller increase than the Company's requested increase of \$32,077. Staff is recommending an increase of \$26,976.

### **Rate Design**

Both the Company and Staff are utilizing an inverted three-tier rate structure. These recommended tiers provide an economic incentive for large consumption customers to conserve. No gallons are included in the minimum charge under the Company's proposed or Staff's recommended rates. The Company's proposed rates would increase the typical residential bill with a median usage of 2,459 gallons by \$4.02 or 13.8 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 2,459 gallons by \$2.87 or 9.9 percent.

The Company proposes to increase Reconnection (Delinquent) after hours from zero to \$25.00. Staff concurs.

The Company proposes to increase Deposit Interest from 6 percent to Per Commission Rules (R14-2-403B). Staff concurs.

The Company proposes to increase NSF Check from \$10.00 to \$25.00. Staff concurs.

The Company proposes to increase Meter Re-read (if correct) from \$10.00 to \$25.00. Staff concurs.

### **Staff Recommendations**

Staff recommends:

- Approval of Staff's rates and charges as shown on Schedule CRM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409-D-5).
- That the Company docket with the Commission a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- The Company adopt the specific depreciation rates by category found in Exhibit 3 of the Engineering Report.
- Acceptance of the Company's proposed curtailment tariff and recommends that the Company file its proposed curtailment tariff coincident with the ordered rate tariffs from this rate proceeding, or, as an alternative, file the curtailment tariff within 45 days after the effective date of any Decision and Order pursuant to this application. The tariff shall be filed with Docket Control.
- That the Company file a backflow tariff coincident with the ordered rate tariffs from this rate proceeding, or as an alternative, within 45 days after the effective

date of any decision and order pursuant to this application. The tariff shall be filed with Docket Control.

- That the backflow tariff shall generally conform to the sample tariff found posted on the Commission's web site ([www.cc.state.az.us/utility/water/forms.htm](http://www.cc.state.az.us/utility/water/forms.htm)) or available upon request from Commission Staff.

**SUMMARY OF FILING**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Proposed	Staff as Recommended
Revenues:				
Metered Water Revenue	\$212,274	\$212,274	\$244,351	\$239,250
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	3,883	3,883	3,883	3,883
<b>Total Operating Revenue</b>	<b>\$216,157</b>	<b>\$216,157</b>	<b>\$248,234</b>	<b>\$243,133</b>
Operating Expenses:				
Operation and Maintenance	\$189,347	\$176,895	\$189,347	\$176,895
Depreciation	35,748	29,034	35,748	29,034
Property & Other Taxes	18,144	18,144	18,144	18,144
Income Tax	0	50	1,045	1,045
<b>Total Operating Expense</b>	<b>\$243,239</b>	<b>\$224,123</b>	<b>\$244,284</b>	<b>\$225,118</b>
<b>Operating Income/(Loss)</b>	<b>(\$27,082)</b>	<b>(\$7,966)</b>	<b>\$3,950</b>	<b>\$18,015</b>
Rate Base O.C.L.D.	\$191,975	\$222,775	\$191,975	\$222,775
Rate of Return - O.C.L.D.	-14.11%	-3.58%	2.06%	8.09%
Times Interest Earned Ratio (Pre-Tax)	NMN	NMN	NMN	NMN
Debt Service Coverage Ratio (Pre-Tax)	NMN	NMN	NMN	NMN
Operating Margin	-12.53%	-3.69%	1.59%	7.41%

NMN: Not a meaningful number.

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

**RATE BASE**

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$813,364	\$0		\$813,364
Less:				
Accum. Depreciation	547,670	5,375	A	553,045
<b>Net Plant</b>	<b>\$265,694</b>	<b>(\$5,375)</b>		<b>\$260,319</b>
Less:				
Plant Advances	\$15,521	(\$15,521)	B	\$0
Meter Deposits	15,521	0		15,521
<b>Total Advances</b>	<b>\$31,042</b>	<b>(\$15,521)</b>		<b>\$15,521</b>
Contributions Gross	\$95,595	\$0		\$95,595
Less:				
Amortization of CIAC	52,919	0		52,919
<b>Net CIAC</b>	<b>\$42,676</b>	<b>\$0</b>		<b>\$42,676</b>
<b>Total Deductions</b>	<b>\$73,718</b>	<b>(\$15,521)</b>		<b>\$58,197</b>
Plus:				
1/24 Power	(\$0)	\$730	C	\$730
1/8 Operation & Maint.	(0)	19,923	C	19,923
Inventory	0	0		0
Prepayments	0	0		0
<b>Total Additions</b>	<b>(\$1)</b>	<b>\$20,653</b>		<b>\$20,653</b>
<b>Rate Base</b>	<b>\$191,975</b>	<b>\$30,799</b>		<b>\$222,775</b>

- A See Schedule CRM-2 page 3
- B Company does not have any plant advances. Staff removed.
- C Staff's inclusion of formula-method working capital, based on recommended operating expenses.

**PLANT ADJUSTMENT**

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$1,443	\$0	\$1,443
302 Franchises	0	0	0
303 Land & Land Rights	1,361	0	1,361
304 Structures & Improvements	119,247	0	119,247
307 Wells & Springs	216,966	0	216,966
311 Pumping Equipment	46,166	0	46,166
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Standpipes	71,548	0	71,548
331 Transmission & Distribution Mains	184,607	0	184,607
333 Services	33,404	0	33,404
334 Meters & Meter Installations	50,091	0	50,091
335 Hydrants	5,609	0	5,609
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	121	0	121
340 Office Furniture & Equipment	16,645	0	16,645
341 Transportation Equipment	35,155	0	35,155
343 Tools Shop & Garage Equipment	26,439	0	26,439
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	787	0	787
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	3,775	0	3,775
348 Other Tangible Plant	0	0	0
<b>TOTALS</b>	<b>\$813,364</b>	<b>\$0</b>	<b>\$813,364</b>

**ACCUMULATED DEPRECIATION ADJUSTMENT**

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$547,670
Accumulated Depreciation - Per Staff	524,262
<b>Total Adjustment</b>	<b><u>(\$23,408)</u></b>

*Explanation of Adjustment:*

Accumulated depreciation per decision No. 62424	359,850
Plus: Depreciation Expense from February 1, 1999 through January 31, 2004.	<u>164,412</u>
Total	<u><u>524,262</u></u>

**STATEMENT OF OPERATING INCOME**

	Company Exhibit	Staff Adjustments	Staff Adjusted
<b>Revenues:</b>			
461 Metered Water Revenue	\$212,274	\$0	\$212,274
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	3,883	0	3,883
<b>Total Operating Revenue</b>	<b>\$216,157</b>	<b>\$0</b>	<b>\$216,157</b>
<b>Operating Expenses:</b>			
601 Salaries and Wages	\$118,455	\$0	\$118,455
610 Purchased Water	0	0	0
615 Purchased Power	19,861	(2,349) A	17,512
618 Chemicals	2,549	0	2,549
620 Repairs and Maintenance	10,347	0	10,347
621 Office Supplies & Expense	13,483	(9,407) B	4,076
630 Outside Services	0	0	0
635 Water Testing	3,494	(696) C	2,798
641 Rents	0	0	0
650 Transportation Expenses	12,081	0	12,081
657 Insurance - General Liability	7,577	0	7,577
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	1,500	0	1,500
675 Miscellaneous Expense	0	0	0
403 Depreciation Expense	35,748	(6,714) D	29,034
408 Taxes Other Than Income	9,553	0	9,553
408.11 Property Taxes	8,591	0	8,591
409 Income Tax	0	50	50
<b>Total Operating Expenses</b>	<b>\$243,239</b>	<b>(\$19,116)</b>	<b>\$224,123</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(\$27,082)</b>	<b>\$19,116</b>	<b>(\$7,966)</b>
<b>Other Income/(Expense):</b>			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
<b>Total Other Income/(Expense)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>NET INCOME/(LOSS)</b>	<b>(\$27,082)</b>	<b>\$19,116</b>	<b>(\$7,966)</b>

**STAFF ADJUSTMENTS**

A -	PURCHASED POWER - Per Company	\$19,861	
	Per Staff	17,512	<u>(\$2,349)</u>

To remove \$2,349 of non-recurring expense.  
These sites are not being used by the Company.

B -	OFFICE SUPPLIES & EXPENSE - Per Company	\$13,483	
	Per Staff	4,076	<u>(\$9,407)</u>

To reduce office supplies and expense by \$9,407 to  
remove the amount of a journal entry made to reconcile the  
checking account.

C -	WATER TESTING - Per Company	\$3,494	
	Per Staff	2,798	<u>(\$696)</u>

To adjust to Staff Engineer's recommended expense level.

D -	DEPRECIATION - Per Company	\$35,748	
	Per Staff	29,034	<u>(\$6,714)</u>

To adjust to Staff's recommended depreciation expense.

**STAFF ADJUSTMENTS (Cont.)**

**Pro Forma Annual Depreciation Expense:**

Plant in Service	\$813,364
Less: Non Depreciable Plant	2,804
Fully Depreciated Plant	0
Depreciable Plant	<u>\$810,560</u>
Times: Staff Proposed Depreciation Rate	4.06%
Credit to Accumulated Depreciation	<u>\$32,916</u> *
Less: Amort. of CIAC* @ 4.06%	3,882
<b>Pro Forma Annual Depreciation Expense</b>	<b><u><u>\$29,034</u></u></b>

**\* Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$95,595
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	<u>\$95,595</u>
Times: Staff Proposed Amortization Rate	4.06%
<b>Amortization of CIAC</b>	<b><u><u>\$3,882</u></u></b>

**RATE DESIGN**

Monthly Usage Charge	Present Comprny		Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$21.00	\$24.41	\$24.00
3/4" Meter	31.50	36.62	32.50
1" Meter	52.50	61.03	54.00
1 1/2" Meter	105.00	122.06	108.00
2" Meter	168.00	195.30	192.00
3" Meter	315.00	366.19	360.00
4" Meter	525.00	610.31	600.00
6" Meter	1,050.00	1,220.63	1,200.00
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 gallons	3.30	n/a	n/a
<b>5/8 Inch and 3/4 inch Meters</b>			
Tier one zero gallons to 3,000 gallons	n/a	3.55	n/a
Tier two from 3,001 gallons to 5,000 gallons	n/a	3.75	n/a
Tier three all gallons over 5,000 gallons	n/a	4.10	n/a
<b>5/8 Inch and 3/4 Inch Meters</b>			
Tier one zero gallons to 2,500 gallons	n/a	n/a	3.25
Tier two from 2,501 gallons to 8,000 gallons	n/a	n/a	4.00
Tier three all gallons over 8,000 gallons	n/a	n/a	4.25
<b>One Inch Meter</b>			
Tier one zero gallons to 15,000 gallons	n/a	3.55	3.25
Tier two from 15,001 gallons to 25,000 gallons	n/a	3.75	4.00
Tier three all gallons over 25,000 gallons	n/a	4.10	4.25
<b>One and one half Inch Meter</b>			
Tier one zero gallons to 25,000 gallons	n/a	3.55	3.25
Tier two from 25,001 gallons to 35,000 gallons	n/a	3.75	4.00
Tier three all gallons over 35,000 gallons	n/a	4.10	4.25
<b>Two Inch Meter</b>			
Tier one zero gallons to 40,000 gallons	n/a	3.55	3.25
Tier two from 40,001 gallons to 60,000 gallons	n/a	3.75	4.00
Tier three all gallons over 60,000 gallons	n/a	4.10	4.25
<b>Three Inch Meter</b>			
Tier one zero gallons to 80,000 gallons	n/a	3.55	3.25
Tier two from 80,001 gallons to 125,000 gallons	n/a	3.75	4.00
Tier three all gallons over 125,000 gallons	n/a	4.10	4.25
<b>Four Inch Meter</b>			
Tier one zero gallons to 125,000 gallons	n/a	3.55	3.25
Tier two from 125,001 gallons to 200,000 gallons	n/a	3.75	4.00
Tier three all gallons over 200,000 gallons	n/a	4.10	4.25
<b>Six Inch Meter</b>			
Tier one zero gallons to 250,000 gallons	n/a	3.55	3.25
Tier two from 250,001 gallons to 450,000 gallons	n/a	3.75	4.00
Tier three all gallons over 450,000 gallons	n/a	4.10	4.25
<b>Standpipe Rate Per 1,000 Gallons</b>	5.70	5.70	5.70
<b>Service Line and Meter Installation Charges</b>			
5/8" x 3/4" Meter	\$400.00	\$400.00	\$400.00
3/4" Meter	440.00	440.00	440.00
1" Meter	500.00	500.00	500.00
1 1/2" Meter	715.00	715.00	715.00
2" Meter Turbo	1,170.00	1,170.00	1,170.00
2" Meter Compound	1,700.00	1,700.00	1,700.00
3" Meter Turbo	1,585.00	1,585.00	1,585.00
3" Meter Compound	2,190.00	2,190.00	2,190.00
4" Meter Turbo	2,540.00	2,540.00	2,540.00
4" Meter Compound	3,215.00	3,215.00	3,215.00
6" Meter turbo	4,815.00	4,815.00	4,815.00
6" Meter Compound	6,270.00	6,270.00	6,270.00
<b>Service Charges</b>			
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	40.00	40.00	40.00
Reconnection (Delinquent)	15.00	15.00	15.00
Reconnection (Delinquent) after hours	n/a	25.00	25.00
Meter Test (If Correct)	25.00	25.00	25.00
Deposit	*	*	*
Deposit Interest	6.00%	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	10.00	25.00	25.00
Deferred Payment	***	***	***
Meter Re-Read (If Correct)	10.00	25.00	25.00
Late Payment Penalty (per month on unpaid balance)	1.50%	1.50%	1.50%
<b>Monthly Service Charge for Fire Sprinkler</b>			
4" or Smaller	****	****	****
6"	****	****	****
8"	****	****	****
10"	****	****	****
Larger than 10"	n/a	****	****

\* Per Commission Rules (R14-2-403.B)  
\*\* Months off system times the minimum (R14-2-403.D)  
\*\*\* Per Commission Rules (R-14-2-409.G(6))  
\*\*\*\* 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**TYPICAL BILL ANALYSIS**

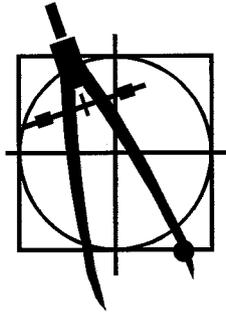
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 505

<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	3,371	\$32.12	\$36.45	\$4.33	13.5%
Median Usage	2,459	\$29.12	\$33.14	\$4.02	13.8%
<u>Staff Proposed</u>					
Average Usage	3,371	\$32.12	\$35.61	\$3.49	10.9%
Median Usage	2,459	\$29.12	\$31.99	\$2.87	9.9%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 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	\$21.00	\$24.41	16.2%	\$24.00	14.3%
1,000	24.30	27.96	15.1%	27.25	12.1%
2,000	27.60	31.51	14.2%	30.50	10.5%
3,000	30.90	35.06	13.5%	32.50	5.2%
4,000	34.20	38.81	13.5%	36.50	6.7%
5,000	37.50	42.56	13.5%	40.50	8.0%
6,000	40.80	46.66	14.4%	44.50	9.1%
7,000	44.10	50.76	15.1%	48.50	10.0%
8,000	47.40	54.86	15.7%	52.50	10.8%
9,000	50.70	58.96	16.3%	56.75	11.9%
10,000	54.00	63.06	16.8%	61.00	13.0%
15,000	70.50	83.56	18.5%	82.25	16.7%
20,000	87.00	104.06	19.6%	103.50	19.0%
25,000	103.50	124.56	20.3%	124.75	20.5%
50,000	186.00	227.06	22.1%	231.00	24.2%
75,000	268.50	329.56	22.7%	337.25	25.6%
100,000	351.00	432.06	23.1%	443.50	26.4%
125,000	433.50	534.56	23.3%	549.75	26.8%
150,000	516.00	637.06	23.5%	656.00	27.1%
175,000	598.50	739.56	23.6%	762.25	27.4%
200,000	681.00	842.06	23.7%	868.50	27.5%



**Engineering Report  
For  
PONDEROSA  
Utility Corporation  
Docket No. W-01717A-04-0825  
(Rates)**

**FINDINGS**

1. The Arizona Department of Environmental Quality reported that Ponderosa Utility Corporation is delivering water which meets the water quality standards required by the Arizona Administrative Code, Title 18 Chapter 4, and is in complete compliance with all other environmental quality requirements.
2. Ponderosa Utility Corporation is in compliance with the new arsenic MCL of 10 µg/l.
3. Ponderosa Utility Corporation has adequate water storage and production.

**RECOMMENDATIONS**

1. Water testing expenses are based upon participation in the DEQ Monitoring Assistance Program. Annual testing expenses should be adjusted to the level described in Table II (\$ 2,800).
2. Staff recommends that Ponderosa Utility Corporation adopt the specific depreciation rates by National Association of Regulatory Utility Commissioners category found in Exhibit 3 of this report. (See §K for a discussion of the recommended rates.)
3. Ponderosa's proposed curtailment tariff follows suggested language and conditions. Therefore, Staff recommends acceptance of the Company's proposed tariff and recommends that the Company file its proposed curtailment tariff coincident with the ordered rate tariffs from this rate proceeding, or, as an alternative, file the curtailment tariff within 45 days after the effective date of any decision and order pursuant to this application. The tariff shall be filed within the current docket of record for this rate application (Docket No. W-01717A-04-0825).
4. Staff recommends that Ponderosa file a backflow prevention tariff coincident with the ordered rate tariffs from this rate proceeding, or, as an alternative, within 45 days after the effective date of any decision and order pursuant to this application. The tariff shall be

filed within the current docket of record for this rate application (Docket No. W-01717A-04-0825).

Staff also recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's web site ([www.cc.state.az.us/utility/water/forms.htm](http://www.cc.state.az.us/utility/water/forms.htm)) or available upon request from Commission Staff.

5. Staff recommends the adoption of the Company's proposed meter and service line charges.

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**A. LOCATION OF COMPANY**

Ponderosa Utility Corporation (herein also “Ponderosa” or “Company”), provides water service to the mountain and summer home communities of Mountainaire and Highland Meadows. Mountainaire is located at exit 333 on Interstate 17, about 8 miles south of Flagstaff. Exhibit 1 describes the location and certificated area of the water company within Coconino County.

**B. PLANT IN SERVICE**

The plant facilities were visited on February 22, 2005, by Lyndon Hammon in the accompaniment of Ms. Sue Ten Pas, who is the general manager and owner of the water system.

The water company consists of two wells, storage tanks, and booster pumps, which serve the two interconnected areas of Mountainaire and Highland Meadows. The federal and state public water system identification number is “03-018”.

Exhibit 2 provides a process schematic for the existing water system. Table I provides a summary of major equipment. The water system has adequate storage and production.

Table I - Facility Summary

	PWS ID Number 03-018		Highland Meadows Service Area	Kiowa St. Pump Station	Fox St Pump Station
ADWR ID No.	55-566882	55-806223	-----	-----	-----
Horsepower	40 Hp	30 Hp	-----	-----	-----
Capacity	120 gal/min	75 gal/min	-----	-----	-----
Pump Type	submersible	submersible	-----	-----	-----
Disinfection	no	no	-----	-----	-----
Well meter	yes	yes	-----	-----	-----
Storage (1)	11,000 gal	64,000 gal 8,500 gal	66,000 gal	125,000 gal	25,000 gal
Booster Pump (1)	10 Hp	10 Hp	-----	5 Hp	5Hp
Booster Pump (2)	10 Hp	10 Hp	-----	5 Hp	5Hp
Booster Pump (3)	-----	15 Hp	-----	-----	-----
Pressure Tanks	-----	-----	-----	3,000 gal 1,000 gal	5,000 gal
Customers	530				

### **C. ARSENIC**

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") to 10  $\mu\text{g/l}$ . The date for compliance with the new MCL is January 23rd, 2006.

Laboratory analyses from DEQ indicate that the arsenic levels in the wells are 1.7 and 5  $\mu\text{g/l}$ . Based on this sample data, the Company is in compliance with the new arsenic MCL.

### **D. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE (DEQ)**

The Arizona Department of Environmental Quality reported that Ponderosa is delivering water which meets the water quality standards required by the Arizona Administrative Code, Title 18 Chapter 4, and is in total compliance with all other requirements.

### **E. ARIZONA CORPORATION COMMISSION COMPLIANCE**

A check with the Utilities Division Compliance Section showed no outstanding compliance issues.

### **F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE**

Ponderosa Utility Corporation is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.

### **G. WATER TESTING EXPENSE**

On December 8, 1998, DEQ adopted rules which provide for a monitoring assistance program ("MAP"). The MAP program was fully implemented in 1999. On October 16, 2001, rule amendments were promulgated which changed the fee structure and some sampling protocol. Starting January 1, 2002, water companies began paying a fixed \$250 per year fee, plus an additional fee of \$2.57 per service connection, regardless of meter size for participation in the MAP program. Participation in the MAP program is mandatory for water systems which serve less than 10,000 persons, (approximately 3,300 service connections), and Ponderosa is subject to the MAP program.

Water testing costs were calculated, based on the following assumptions:

- MAP will do baseline testing on all parameters except copper, lead, nitrates, and coliform bacteria.
- DEQ testing is performed in 3 year compliance cycles. Therefore, monitoring costs are estimated for a 3 year compliance period and then presented as a *pro forma* expense on an annualized basis.
- Expenses are included for a complete inorganic analysis at each well. This will provide important aesthetic and water quality information for the Company and the consumer (i.e., hardness, salinity, iron, manganese, and alkalinity).
- All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and two points of entry for the water system.
- The estimated water testing expenses represent a minimum cost based on no "hits", and assumes the Company has qualified for reduced lead and copper sampling. If any constituents were found, then the testing costs would dramatically increase.

Water testing expenses should be adjusted to the annual expense amount shown in the Table II below.

Table II - Water Testing Cost

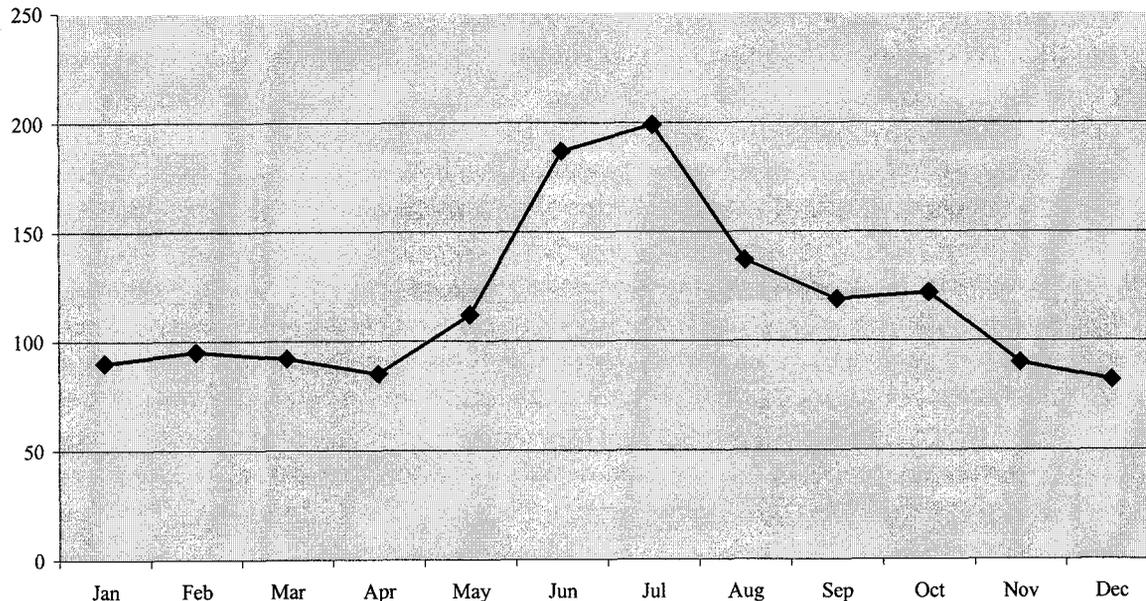
Monitoring – 2 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Bacteriological – monthly	\$ 15	144	2160	720
Inorganics (& secondary)	\$275	2	550	184
Nitrates – annual	\$ 40	6	240	80
Lead & Copper – annual	\$ 45	10	450	150
MAP fees				1,664
Total				<b>\$ 2,798</b>

## H. WATER USE

### Water Sold

Based on the information provided by the Company, monthly water use for the year 2003 is presented in this report as Chart 1, below. For the test year, Ponderosa reported a low monthly usage of 82 gal/day-service (December), a high monthly usage of 200 gal/day-service (July) and an annual average usage of 120 gal/day-service.

Chart 1  
Ponderosa Utility Corporation  
Water Use (gal/day-service)



### 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.

A well meter was broken during part of the test year (2003) and production readings were erratic and unreliable. After repairs, the non-account water computed to around 2% at the end of the test year. For 2004, non account water averaged about 7%, which is within acceptable limits. However, Ponderosa believes that this number can be reduced further and plans to initiate a program of meter replacement for the older meters in the water system. (As water meters age, they generally run slower and report lower than actual volume of water sold.)

### **I. GROWTH**

In the past, Ponderosa Utility Corporation experienced a relatively moderate growth rate of about 2% per year, and it is reasonable to expect this same growth rate in the future.

## **J. DEPRECIATION RATES**

In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by NARUC category. ("NARUC" is an acronym for National Association of Regulatory Utility Commissioners.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life for the NARUC categories. These rates are presented in Exhibit 3.

Staff recommends that, going forward from the end of the test year, the Company use depreciation rates by individual NARUC category, as delineated in Exhibit 3, rather than depreciate plant at a fixed overall rate of 5 per cent as in the past. Based upon the un-audited and unadjusted plant in service from the Company's application, the use of the depreciation rates in Exhibit 3 would change the overall effective rate from 5% to about 4.4%.

## **K. SPECIAL SERVICE TARIFFS**

### Curtailment Tariff

A curtailment tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events.

Ponderosa Utility Corporation does not have a curtailment tariff, but has wisely chosen this rate application process to prepare and file such a tariff. The proposed curtailment tariff follows recommended language and conditions. Therefore, Staff accepts the Company's proposed tariff and recommends that the Company file its proposed curtailment tariff coincident with the ordered rate tariffs from this rate proceeding, or file the curtailment tariff within 45 days after the effective date of any decision and order pursuant to this application.

### Backflow Prevention Tariff

Staff could not locate a current backflow prevention tariff on file with the Commission. Therefore, Staff recommends that Ponderosa file a backflow prevention tariff within 45 days after the effective date of any decision and order pursuant to this application. The tariff shall be filed within the current docket of record for this rate application (Docket No. W-01717A-04-0825). Staff also recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's web site ([www.cc.state.az.us/utility/water/forms.htm](http://www.cc.state.az.us/utility/water/forms.htm)) or available upon request from Commission Staff.

### Meter and Service Line Installation Fees

The Company has requested no change its meter and service line charges. These charges are advances, refundable *in toto*, and the Company's existing charges are within Staff's experience of reasonable and customary charges. Staff recommends adoption of the Company's proposed meter and service line charges.

Exhibit 3

**TYPICAL DEPRECIATION RATES FOR WATER COMPANIES**

NARUC Account 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.