

ORIGINAL
OPEN MEETING AGENDA ITEM



MEMORANDUM

RECEIVED

30A

2005 JUN 13 A 11: 26

AZ CORP COMMISSION
DOCUMENT CONTROL

TO: Docket Control

FROM: Ernest G. Johnson
for Director
Utilities Division

DATE: June 13, 2005

RE: REVISED STAFF REPORT FOR EAGLETAIL WATER COMPANY,
L.L.C. FOR A PERMANENT RATE INCREASE (DOCKET NO. W-
03936A-04-0840)

On November 22, 2004, Eagletail Water Company, L.L.C. ("Company") filed an application with the Arizona Corporation Commission ("Commission") requesting a permanent rate increase. On April 1, 2005, Staff filed its Staff Report pertaining to this filing.

Subsequent to Staff's filing of its Staff Report, the Commissioners suspended the time clock, with the Company's agreement, so that Staff could consider and analyze late furnished additional documentation and information. Staff reviewed these and recommends inclusion of additional revenue and expenses.

The attached Revised Staff Report and Schedules will supersede and replace the originally docketed Staff Report. All changes from the originally filed Report and Schedules are highlighted in bold print.

EGJ:CRM:

Originator: Charles R. Myhlhousen

Attachment: Original and sixteen copies

Arizona Corporation Commission

DOCKETED

JUN 13 2005

DOCKETED BY	<i>CRM</i>
-------------	------------

Service List for: Eagletail Water Company, L. L.C.
Docket No. W-03936A-04-0840

Ms. Susan Haas
Eagletail Water Company, L.L.C.
Post Office Box 157
Tonopah, Arizona 85354

Mr. Christopher C. Kempley
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**REVISED
STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

EAGLETAIL WATER COMPANY, L.L.C.

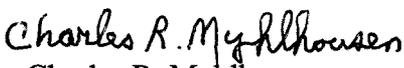
DOCKET NO. W-03936A-04-0840

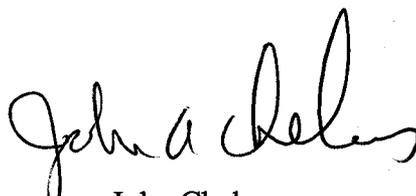
**APPLICATION FOR A
PERMANENT RATE INCREASE**

JUNE 13, 2005

STAFF ACKNOWLEDGMENT

The Staff Report for Eagletail Water Company, L. L.C., Docket No. W-03936A-04-0840, 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. John Chelus was responsible for the engineering and technical analysis. Deb Reagan 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


John Chelus
Utilities Engineer


Deb Reagan
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
EAGLETAIL WATER COMPANY, L.L.C
DOCKET NO. W-03936A-04-0840

Eagletail Water Company, L.L.C. ("Company") is engaged in the business of providing utility water service exclusively to Arizona customers in Maricopa County. The Company operates a public water system in the Harquahala Valley which is approximately 64 miles west of Phoenix and 15 miles south of Interstate 10, in the western part of Maricopa County. The Company provides service to approximately 54 residential customers. The Company's current rates were effective May 1, 2002.

The Company's rate application requested an increase in revenue of \$12,000 or a 42.13 percent increase over test year revenue of \$28,481. The Company's proposed revenues of \$40,481 result in an operating loss of \$4,533 for no rate of return on an original cost rate base ("OCRB") of \$81,062. The Company's requested rates would increase the typical residential bill with a median usage of 3,618 gallons from \$30.32 to \$42.66 for an increase of \$12.34 or 40.70 percent.

Staff's recommended rates would increase revenue by **\$12,000** or a **42.13** percent increase over test year revenue of \$28,481. Staff's recommended revenues of **\$40,481** result in an operating income of **\$12,323** for a **13.61** percent rate of return on an OCRB of **\$90,557**. Staff's recommended rates would increase the typical residential bill with a median usage of 3,618 gallons from \$30.32 to **\$41.85** for an increase of **\$11.53** or **38.0** percent.

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

TABLE OF CONTENTS

PAGE

FACT SHEET 1

 RATES: 1

 CUSTOMERS: 1

 NOTIFICATIONS: 2

 COMPLAINTS: 2

SUMMARY OF FILING 3

COMPANY BACKGROUND 3

CONSUMER SERVICES 3

COMPLIANCE 3

RATE BASE 4

 PLANT-IN-SERVICE: 4

 ACCUMULATED DEPRECIATION: 4

 ADVANCES-IN-AID-OF-CONSTRUCTION: 4

 CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION: 4

 WORKING CAPITAL: 5

OPERATING REVENUE 5

OPERATING EXPENSES 5

FINANCING 6

RATE OF RETURN 6

REVENUE REQUIREMENT 6

RATE DESIGN 7

STAFF RECOMMENDATIONS 8

SCHEDULES

Summary of Filing Revised Schedule CRM-1

Rate Base Revised Schedule CRM-2

Statement of Operating Income Revised Schedule CRM-3

Rate Design Revised Schedule CRM-4

Typical Bill Analysis Revised Schedule CRM-5

Attachment

Engineering Report

Fact Sheet

Current Rates: Decision No. 64743, dated April 17, 2002, rates effective May 1, 2002.

Type of Ownership: Arizona Limited Liability Company (“L.L.C.”)

Location: The Company is located in the Harquahala Valley which is approximately 64 miles west of downtown Phoenix and 15 miles south of Interstate 10, in the western part of Maricopa County. The well and storage tank site is located near the intersection of 539th Avenue and Baseline Road.

Rates:

Permanent rate increase application filed: November 22, 2004, and amended January 3, 2005.

Current Test Year Ended: December 31, 2003

Monthly Minimum Charges:

	Company Current <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Monthly Minimum Charge Based on 3/4 inch meter	\$22.00	\$30.00	\$30.00
Gallons in Minimum	0	0	0
Commodity Charge Excess of minimum, per 1,000 gallons	2.30	3.50	
All gallons			
Tier one zero to 3,000 gallons			3.20
Tier two from 3,001 gallons to 8,000 gallons			4.25
Tier three all gallons over 8,000 gallons			4.85
Typical residential bill (Based on median usage of 3,618 gallons)	\$30.32	\$42.66	\$41.85

Customers:

Average number of customers in prior test year 53, current test year 54

Notifications:

Customer Notification was mailed on November 22, 2004.

Complaints:

Number of customer concerns since application filed: Zero complaints, one inquiry regarding the rate case, with opinion-against rate increase.

Percentage of complaints to customer base: zero percent.

Summary of Filing

Based on test year results, as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission"), Eagletail Water Company, L.L.C. ("Eagletail" or "Company") realized an operating income of **\$12,323** on an original cost rate base ("OCRB") of **\$90,557** for a **13.61** percent rate of return as shown on Schedule CRM-1.

The Company proposed rates produce operating revenues of \$40,481 and an operating loss of \$4,533 for no rate of return on the Company's OCRB of \$81,062. The Company's proposed rates would increase the typical residential bill with a median usage of 3,618 gallons from \$30.32 to \$42.66 for an increase of \$12.34 or 40.70 percent.

Staff's recommended rates produce a revenue level of **\$40,481** and an operating income of **\$12,323** for a rate of return of **13.61** percent on Staff adjusted OCRB of **\$90,557**. Staff's recommended rates would increase the typical residential bill with a median usage of 3,618 gallons from \$30.32 to **\$41.85** for an increase of **\$11.53** or **38.0** percent.

Company Background

The official registered name of the utility is Eagletail Water Company, L.C. even though it is a limited liability company. Staff has determined for clarity of purpose in the Staff Report it will be referred to as an L.L.C. The Company agrees the utility is a limited liability company and plans to change the registered name of the company to L.L.C.

On November 22, 2004, the Company filed an application for a permanent rate increase with the Commission. On December 22, 2004, the Company's filing was found deficient. On January 3, 2005, the Company submitted the deficient items. On January 31, 2005, the application was deemed sufficient.

Consumer Services

A review of the Commission's records revealed the following customer complaints and opinions were filed from years 2002 through 2004: In 2002, one complaint – for assessing incorrect rates - Company adjusted the bill. Four inquires – one related to the Company's Certificate of Convenience and Necessity ("CC&N"), one billing related, two regarding the prior rate case and zero opinions. In 2003, zero complaints, inquiries or opinions. In 2004, zero complaints, one inquiry - questions regarding rate case, one opinion against rate increase.

Compliance

A check with 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 Corporations Division of the Commission.

The U.S. Environmental Protection Agency ("EPA") will be reducing the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter to 10. The most recent lab analysis by the Company indicated that the arsenic level in its source supply is 5 micrograms per liter. Based on this arsenic concentration, the Company is in compliance with the new arsenic MCL.

Based on data submitted by the Company, Maricopa County Environmental Services Department ("MCESD") and Arizona Department of Environmental Quality ("ADEQ") have determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

The Company is not located within any Active Management Area and is not subject to conservation and monitoring requirements.

Rate Base

Staff made adjustments to rate base of **\$9,495**. These adjustments were made to reflect Staff's reduction of accumulated depreciation in the amount of \$7,153 and inclusion of the formula method for working capital allowance in the amount of **\$2,342** resulting in a rate base of **\$90,557**. See Schedule CRM-2 page 1.

Plant-in-Service:

Staff made no adjustments to plant in service. See Schedule CRM-2 page 2, plant in service is \$100,202.

Accumulated Depreciation:

Staff decreased the Company's proposed accumulated depreciation amount by \$7,153.

Staff's accumulated depreciation amount was calculated by adding depreciation expense for the years 2001 through the end of 2003, to the Commission approved accumulated depreciation balance in the prior test year ended December 31, 2000 of \$4,317.

Advances-in-Aid-of-Construction:

The Company has no advances-in-aid-of-construction.

Contributions-in-Aid-of-Construction:

The Company has no contributions-in-aid-of-construction.

Working Capital:

The Company neglected to claim any working capital allowance. Staff included a working capital allowance of \$2,342, calculated using the formula method.

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 \$16,856 from \$45,014 to \$28,158 as shown on Schedule CRM -3 pages 1 and 2. Adjustments are discussed below.

Adjustment A: Increased Salaries and Wages by \$4,444 to reflect amount being paid.

Adjustment B: Increased Purchased Power by \$623 to reflect amount paid.

Adjustment C: decreased Repairs and Maintenance by \$3,966 to reflect the amount Staff determined not verified to be repairs and maintenance. The Company could not provide an explanation as to why the expense amount between the general ledger and the income statement in the rate application is different. Staff decreased the expense by the unsupported amount.

Adjustment D: Increased Office Supplies and Expense by \$48 to reflect amount paid.

Adjustment E: decreased Outside Services by \$9,299 and to allow professional fees of \$1,160, Maricopa County permit fees of \$500 and legal fees of \$72. The Company could not provide an explanation as to why the expense amount between the general ledger and the income statement in the rate application is different. Staff decreased the expense by the unsupported amount.

Adjustment F: Increased Water Testing by \$26 to reflect the Company's incurred expense amount. The certified operator performs additional allowable tests during the month. In addition, distance of the Company from the testing facility increase the cost of water testing transportation.

Adjustment G: increased Rent Expense in the amount of \$776 to reflect Staff's allowance for rental of backhoe.

Adjustment H: decreased Transportation Expense by \$1,150, as the Company will no longer be reimbursing this expense. Transportation will be provided by volunteers.

Adjustment I: Increased Insurance-General Liability by \$1,440 to reflect cost of the insurance.

Adjustment J: decreased Miscellaneous Expense by \$7,685 to reflect the amount Staff determined not verified. The Company could not provide an explanation as to why the expense amount between the general ledger and the income statement in the rate application is different. Staff decreased the expense by the unsupported amount.

Adjustment K: decreased Depreciation Expense by **\$2,113**. Staff recommended amount of **\$2,897** is consistent with the depreciation rates approved in the last Commission Decision.

Adjustment L: decreased Interest Expense by \$1,863. Company's long-term loan was not approved by the Commission. This loan was discovered in the last rate case, but the disposition was not addressed.

Financing

Prior to January 2000, the utility assets of Eagletail were owned by four different predecessors. In January 2000, the utility assets of Eagletail were abandoned and sold at a Sheriff's auction. The assets were later purchased for \$80,000 by a group of approximately 20 individuals who formed Eagletail Water Company, L.L.C., an Arizona limited liability company and the current owner. The utility company was purchased from Mr. Randolph Brownell, owner of Sunup Water Company, L.L.C. doing business as Eagle Water Company, L. L.C. and the Commission approved the CC&N and asset transfer from Mr. Randolph Brownwell to Eagletail Water Company, L.L.C. The loan for \$80,000 was not approved by the Commission.

Staff determined that since the loan was not approved by the Commission it will be treated as if it were owner's capital. The original 20 individual memberships and the 31 shares in the Company will also be treated as owner's capital.

Rate of Return

Staff recommended rates and charges would provide an operating income of **\$12,323** for a rate of return of **13.61** percent based on the Company's operating income and the Staff adjusted rate base of **\$90,557**.

Revenue Requirement

The Company's narrative portion of the application stated that it needs this rate increase because of a number of issues, including increased costs for chlorine. Also the Company has been paying only the interest on the loan and now needs to pay the principal of the note. Some of the Company's larger users have ceased operations and no longer require water. The Company needs to repair distribution lines and to decrease its water loss.

Staff does concur with the Company that it needs a rate increase. Staff recommends a revenue requirement of **\$40,481** which results in an operating income of **\$12,323** and a **13.61** percent rate of return on an OCRB of **\$90,557**.

Rate Design

The Company's proposed rates would increase the median usage customer's bill by 40.70 percent.

The Company is utilizing a single rate commodity charge. Staff is recommending 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.

Staff has noted the Company's very high water loss factor in its attached Engineering Report. In order to assist the Company in correcting this problem, Staff is recommending an additional dollar amount be added to the commodity charge. This additional amount would be deposited into a separate interest-bearing account and the funds could only be used for leak repairs. These funds would be in addition to what Staff recommended be allowed for repairs in the test year.

Staff is recommending that an additional \$.60 per 1,000 gallons of usage be added to the two upper tiers of the commodity charge for all meter sizes. There would not be any additional charge added to the first tier of the commodity charge. Staff estimates that this would generate approximately \$2,500 per year in additional revenue that would be available exclusively to correct for the high water loss factor.

The Company proposes to increase service charges for Establishment Fees from \$30.00 to \$40.00. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends retaining the current charge of \$30.00 as being reasonable and normal.

The Company proposes to increase Establishment (after hours) from \$45.00 to \$55.00. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends retaining the current charge of \$45.00 as being reasonable and normal.

The Company proposes to increase Reconnection (delinquent) from \$25.00 to \$35.00. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends retaining the current charge of \$25.00 as being reasonable and normal.

The Company proposes to increase Reconnection (delinquent) after hours from zero to \$60.00. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends \$45.00 as being reasonable and normal.

The Company proposes to increase Not Sufficient Funds ("NSF") from zero to \$29.00. After Staff's request the Company has not provided adequate information to support its charge amount. Staff recommends \$25.00 as being reasonable and typical.

The Company proposed a 1.50 percent charge for Deferred payment. After Staff's request, the Company has not provided adequate information to support its amount. Staff recommends the Commission's rule 14-2-409.G-(6).

The Company proposes to increase Meter reread from \$20.00 to \$25.00. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends retaining the Company's current charge of \$20.00.

The Company proposed a late fee charge of 1.5 percent. Staff concurs with the Company's late fee charge of 1.50 percent on the unpaid balance as being reasonable and normal.

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.
- That the Company use the Uniform System of Accounts provided by NARUC and within 60 days after the Decision in this case has been issued, file an affidavit with Docket Control stating that its books and accounting records are now in compliance with NARUC.
- That the Company use the depreciation rates delineated in Exhibit A of the Engineering Report on a going forward basis.
- That the Company file after the effective date of the Decision in this docket, yearly reports within 30 days after the end of each calendar year, with **Docket Control** of the Utilities Division, indicating the quantity of water pumped and sold each month during the year and the efforts to reduce water loss, such as number of leaks repaired.

Staff also recommends that the Company develop a plan to reduce water loss to less than ten percent before the next rate case. (See paragraph G of the Engineering Report for discussion and details.) In addition, report expenditures from account above and beyond test year expenditures.

- That the Company be ordered to segregate the extra \$.60 per 1,000 gallons of usage included in the commodity charge of the two upper tiers for all meter sizes and deposit these funds into a separate interest-bearing account. These funds can only be used for leak repairs. Additionally, the Company should file quarterly reports to Docket Control listing the revenue collected and reflecting all disbursements from the fund and the type of repairs completed. This first report shall be due for the first calendar quarter after the rates go into effect and filed within 30 days after the end of each calendar quarter thereafter.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company Proposed	Staff Recommended
Revenues:				
Metered Water Revenue	\$28,103	\$28,103	\$40,103	\$40,103
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	378	378	378	378
Total Operating Revenue	\$28,481	\$28,481	\$40,481	\$40,481
Operating Expenses:				
Operation and Maintenance	\$37,878	\$23,135	\$37,878	\$23,135
Depreciation	5,010	2,897	5,010	2,897
Property & Other Taxes	2,126	2,126	2,126	2,126
Income Tax	0	0	0	0
Total Operating Expense	\$45,014	\$28,158	\$45,014	\$28,158
Operating Income/(Loss)	(\$16,533)	\$323	(\$4,533)	\$12,323
Rate Base O.C.L.D.	\$81,062	\$90,557	\$81,062	\$90,557
Rate of Return - O.C.L.D.	-20.40%	0.36%	-5.59%	13.61%
Times Interest Earned Ratio (Pre-Tax)	NMN	NMN	NMN	NMN
Debt Service Coverage Ratio (Pre-Tax)	NMN	NMN	NMN	NMN
Operating Margin	-58.05%	1.13%	-11.20%	30.44%

NMN: Not a meaningful number.

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
 2. 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	\$100,202	\$0		\$100,202
Less:				
Accum. Depreciation	19,140	(7,153)	A	11,987
Net Plant	\$81,062	\$7,153		\$88,215
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$0	\$0		\$0
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$0	\$0		\$0
Plus:				
1/24 Power	\$0	\$275	B	\$275
1/8 Operation & Maint.	(0)	2,067	B	2,067
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	(\$0)	\$2,342		\$2,342
Rate Base	\$81,062	\$9,495		\$90,557

A See Schedule CRM-2 page 3

B Staff's inclusion of formula-method working capital, based on recommended operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	0	0	0
304 Structures & Improvements	1,866	0	1,866
307 Wells & Springs	37,176	0	37,176
311 Pumping Equipment	12,188	0	12,188
320 Water Treatment Equipment	5,100	0	5,100
330 Distribution Reservoirs & Star	0	0	0
331 Transmission & Distribution M	40,000	0	40,000
333 Services	0	0	0
334 Meters & Meter Installations	3,872	0	3,872
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipr	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipr	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$100,202	\$0	\$100,202

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$19,140
Accumulated Depreciation - Per Staff	11,987
Total Adjustment	<u>(\$7,153)</u>

Explanation of Adjustment:

Accumulated depreciation per Decision No. 64743	\$ 4,317
Plus: Depreciation Exp. From year 2001 through year 2003	7,661
Total	<u>\$ 11,987</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	\$28,103	\$0		\$28,103
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	378	0		378
Total Operating Revenue	\$28,481	\$0		\$28,481
Operating Expenses:				
601 Salaries and Wages	\$0	\$4,444	A	\$4,444
610 Purchased Water	0	0		0
615 Purchased Power	5,977	623	B	6,600
618 Chemicals	1,311	0		1,311
620 Repairs and Maintenance	7,566	(3,966)	C	3,600
621 Office Supplies & Expense	552	48	D	600
630 Outside Services	11,031	(9,299)	E	1,732
635 Water Testing	1,774	26	F	1,800
641 Rents	0	776	G	776
650 Transportation Expenses	1,150	(1,150)	H	0
657 Insurance - General Liability	0	1,440		1,440
659 Insurance - Health and Life	0	0		0
666 Regulatory Commission Expense - Rate Case	0	0		0
675 Miscellaneous Expense	8,517	(7,685)	I	832
403 Depreciation Expense	5,010	(2,113)	J	2,897
408 Taxes Other Than Income	0	0		0
408.11 Property Taxes	2,126	0		2,126
409 Income Tax	0	0		0
Total Operating Expenses	\$45,014	(\$16,856)		\$28,158
OPERATING INCOME/(LOSS)	(\$16,533)	\$16,856		\$323
Other Income/(Expense):				
419 Interest and Dividend Income	\$22	\$0		\$22
421 Non-Utility Income	0	0		0
427 Interest Expense	1,863	(1,863)	K	0
428 Reserve/Replacement Fund Deposit	0	0		0
426 Miscellaneous Non-Utility Expense	0	0		0
Total Other Income/(Expense)	(\$1,841)	\$1,863		\$22
NET INCOME/(LOSS)	(\$18,374)	\$18,719		\$345

STAFF ADJUSTMENTS

<p>A - SALARIES AND WAGES - Per Company Per Staff</p>	<p>\$0 <u>4,444</u> <u>\$4,444</u></p>
<p>To reflect the amount Staff determined to be a pro-forma adjustment, to include post-year salary expense additions.</p>	
<p>B - PURCHASED POWER - Per Company Per Staff</p>	<p>\$5,977 <u>6,600</u> <u>\$623</u></p>
<p>To reflect the amount Staff determined was actually paid for power.</p>	
<p>C - REPAIRS AND MAINTENANCE - Per Company Per Staff</p>	<p>\$7,566 <u>3,600</u> <u>(\$3,966)</u></p>
<p>To remove the amount Staff determined was not verified to be repairs and maintenance expense.</p>	
<p>D - OFFICE SUPPLIES AND EXPENSE - Per Company Per Staff</p>	<p>\$552 <u>600</u> <u>\$48</u></p>
<p>To reflect the amount Staff determined was paid for office supplies and expense.</p>	
<p>E - OUTSIDE SERVICES - Per Company Per Staff</p>	<p>\$11,031 <u>1,732</u> <u>(\$9,299)</u></p>
<p>Staff allowed professional fees of \$1,160, legal fees of \$72, permits of \$500. Balance of charges are non-recurring.</p>	
<p>F - WATER TESTING - Per Company Per Staff</p>	<p>\$1,774 <u>1,800</u> <u>\$26</u></p>
<p>To reflect the amount Staff determined was paid for water testing.</p>	
<p>G - RENT- Per Company Per Staff</p>	<p>\$0 <u>776</u> <u>\$776</u></p>
<p>Staff allowance of backhoe rental for repairs.</p>	

STAFF ADJUSTMENTS (Cont.)

H	-	TRANSPORTATION EXPENSE - Per Company	\$1,150	
		Per Staff	0	<u>(\$1,150)</u>

Staff disallowed transportation expense because it is non-recurring.

I	-	INSURANCE -GENERAL LIABILITY - Per Company	\$0	
		Per Staff	1,440	<u>\$1,440</u>

To reflect Staff allowance for liability insurance.

J	-	MISCELLANEOUS EXPENSE - Per Company	\$8,517	
		Per Staff	832	<u>(\$7,685)</u>

Staff removed expense items that the Company could not substantiate.

K	-	DEPRECIATION - Per Company	\$5,010	
		Per Staff	2,897	<u>(\$2,113)</u>

Staff recommended amount is consistent with the depreciation rates approved in the last rate case decision.

Pro Forma Annual Depreciation Expense:

Plant in Service	\$100,202
Less: Non Depreciable Plant	0
Fully Depreciated Plant	0
Depreciable Plant	<u>\$100,202</u>
Times: Staff Proposed Depreciation Rate	2.891%
Credit to Accumulated Depreciation	<u>\$2,897</u>
Less: Amort. of CIAC @ 2.89%	0
Pro Forma Annual Depreciation Expense	<u><u>\$2,897</u></u>

L	-	INTEREST EXPENSE - Per Company	\$1,863	
		Per Staff	0	<u>(\$1,863)</u>

To remove unapproved loan liability.

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$21.00	\$27.00	\$27.00
3/4" Meter	22.00	30.00	30.00
1" Meter	37.00	45.00	45.00
1½" Meter	41.00	50.00	50.00
2" Meter	51.00	61.00	61.00
3" Meter	88.00	105.00	204.00
4" Meter	124.00	135.00	637.50
6" Meter	208.00	220.00	1,275.00
Gallons Included in Minimum	0	0	0
<u>Commodity Charge</u>			
per 1,000 gallons	2.30	3.50	n/a
<u>Commodity charge for all meter sizes</u>			
Tier one-zero gallons to 3,000 gallons	n/a	n/a	3.20
Tier two-3,001 gallons to 25,000 gallons	n/a	n/a	4.25
Tier three-all gallons over 25,000.	n/a	n/a	4.85
<u>Service Line and Meter Installation Charges</u>			
5/8" x 3/4" Meter	\$440.00	\$440.00	\$440.00
3/4" Meter	510.00	510.00	510.00
1" Meter	590.00	590.00	590.00
1½" Meter	825.00	825.00	825.00
2" Meter	1,415.00	1,415.00	1,415.00
3" Meter	2,105.00	2,105.00	2,105.00
4" Meter	3,120.00	3,120.00	3,120.00
6" Meter	5,715.00	5,715.00	5,715.00
<u>Service Charges</u>			
Establishment	\$30.00	\$40.00	\$30.00
Establishment (After Hours)	45.00	55.00	45.00
Reconnection (Delinquent)	25.00	35.00	25.00
Reconnection (delinquent) after hours		60.00	45.00
Meter Test (If Correct)	30.00	30.00	30.00
Deposit	Per ACC	Per ACC	*
Deposit Interest	Per ACC	Per ACC	*
Re-Establishment (Within 12 Months)	Per ACC	Per ACC	**
NSF Check	0.00	29.00	25.00
Deferred Payment	1.50%	1.50%	***
Meter Re-Read (If Correct)	20.00	25.00	20.00
Late Fee (on unpaid balance)	1.50%	1.50%	1.50%
<u>Monthly Service Charge for Fire Sprinkler</u>			
4" or Smaller	****	****	****
6"	****	****	****
8"	****	****	****
10"	****	****	****
Larger than 10"	****	****	****

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)
*** Per Commission Rules (R14-2-409.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 3/4 - Inch Meter

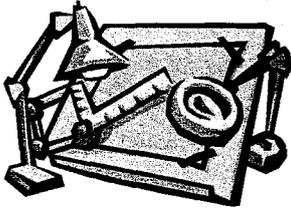
Average Number of Customers: 38

<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	8,045	\$40.50	\$58.16	\$17.66	43.6%
Median Usage	3,618	\$30.32	\$42.66	\$12.34	40.7%

<u>Staff Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	8,045	\$40.50	\$58.01	\$17.51	43.2%
Median Usage	3,618	\$30.32	\$41.85	\$11.53	38.0%

Present & Proposed Rates (Without Taxes)
General Service 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	\$22.00	\$30.00	36.4%	\$30.00	36.4%
1,000	24.30	33.50	37.9%	33.20	36.6%
2,000	26.60	37.00	39.1%	36.40	36.8%
3,000	28.90	40.50	40.1%	39.60	37.0%
4,000	31.20	44.00	41.0%	43.25	38.6%
5,000	33.50	47.50	41.8%	46.90	40.0%
6,000	35.80	51.00	42.5%	50.55	41.2%
7,000	38.10	54.50	43.0%	54.20	42.3%
8,000	40.40	58.00	43.6%	57.85	43.2%
9,000	42.70	61.50	44.0%	61.50	44.0%
10,000	45.00	65.00	44.4%	65.15	44.8%
15,000	56.50	82.50	46.0%	83.40	47.6%
20,000	68.00	100.00	47.1%	101.65	49.5%
25,000	79.50	117.50	47.8%	119.90	50.8%
50,000	137.00	205.00	49.6%	226.15	65.1%
75,000	194.50	292.50	50.4%	332.40	70.9%
100,000	252.00	380.00	50.8%	438.65	74.1%
125,000	309.50	467.50	51.1%	544.90	76.1%
150,000	367.00	555.00	51.2%	651.15	77.4%
175,000	424.50	642.50	51.4%	757.40	78.4%
200,000	482.00	730.00	51.5%	863.65	79.2%



Engineering Report For
Eagletail Water Company, L.L.C.
for a Rate Increase
Docket No. W-03936A-04-0840

EXECUTIVE SUMMARY

Conclusions

- I. ADEQ and Maricopa County reported that the water system is delivering water that does not exceed any maximum contaminant level and meets the water quality standards of the Safe Drinking Water Act.

Recommendations

- I. Water testing expenses are based upon participation in the ADEQ Monitoring Assistance Program. Annual testing expenses should be adjusted to the level described in Table 1 (\$954.00). (See §F of report for discussion and details.)
- II. Staff recommends that after the effective date of the Decision, the Company file yearly reports within 30 days after the end of each calendar year, with the Compliance Section of the Utilities Division, indicating the quantity of water pumped and sold each month during the year and the efforts made to reduce water loss, such as number of leaks repaired. Staff also recommends that the Company come up with a plan to reduce water loss to less than ten percent before the next rate case. (See §G of report for discussion and details.)

TABLE OF CONTENTS

	<u>PAGE</u>
A. LOCATION OF WATER SYSTEM.....	1
B. DESCRIPTION OF WATER SYSTEM.....	1
C. ARSENIC	2
D. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) AND MARICOPA COUNTY ENVIRONMENTAL SERVICES DEPARTMENT (“MCESD”) COMPLIANCE	2
E. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE.....	2
F. WATER TESTING EXPENSES	2
G. WATER USAGE	3
H. GROWTH	4
I. DEPRECIATION RATES	4
J. CURTAILMENT PLAN	4

EXHIBITS

CERTIFICATED AREA AND LOCATION OF COMPANY.....	1&2
PROCESS SCHEMATIC	3
DEPRECIATION RATES	4

A. LOCATION OF WATER SYSTEM

Eagletail Water Company, L.L.C. ("Company") is located about 64 miles west of downtown Phoenix and 15 miles south of the I-10 Salome Road Exit 81 in the Harquahalla Valley. The well and storage tank site is located near the intersection of 539th Avenue and Baseline Road. The Certificated area covers parts of Township 1 South, Range 9 West, Sections 5, 6, 7, 8, 9 and Township 1 North, Range 9 West, Section 31. Figures 1 & 2 show the location of the Company in relation to other regulated companies in Maricopa County.

B. DESCRIPTION OF WATER SYSTEM

The system serves approximately 55 metered customers and one un-metered customer. Besides serving about 45 residential customers who live on 1.25 acre or larger lots, there is an area of large ten acre lots which are approximately six miles from the well site. The system consists of one well; one pressure tank, one storage tank, two booster pumps, chlorination equipment, and distribution system.

John A. Chelus, Utilities Engineer, inspected the water system on February 10, 2005. He was accompanied by Charles Myhlhousen of the Financial and Regulatory Analysis Section. The Company was represented by Homer and Elisa Bigbey, and Bill Lawrence.

Well Data

	Well No. 1
ADWR ID No.	55-602826
Casing Size	8 inch
Casing Depth	1,140 ft.
Meter Size	6 inch
Pump Size	125 hp Turbine
Pump Yield	400 gpm
Date Drilled	1978
Storage Tank	1 - 500,000 gallon
Pressure Tank	5,000 gallons
Booster Pumps	2- 25 hp

Mains

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

Meters

Size	Quantity
5/8 X 3/4"	8
3/4"	39
1"	3
2"	4

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 (“µg/l”) to 10 µg/l. The date for compliance with the new MCL is January 23rd, 2006. The most recent lab analysis by the Company indicated that the arsenic level in its source supply is 5 µg/l. Based on this arsenic concentration, the Company is in compliance with the new arsenic MCL.

D. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) AND MARICOPA COUNTY ENVIRONMENTAL SERVICES DEPARTMENT (“MCESD”) COMPLIANCE

ADEQ and MCESD regulate the water system under Public Water System I.D. No. 07-032.

Based on data submitted by the Company, MCESD and ADEQ have determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

E. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Company is not located within any Active Management Area and is not subject to conservation and monitoring requirements.

F. WATER TESTING EXPENSES

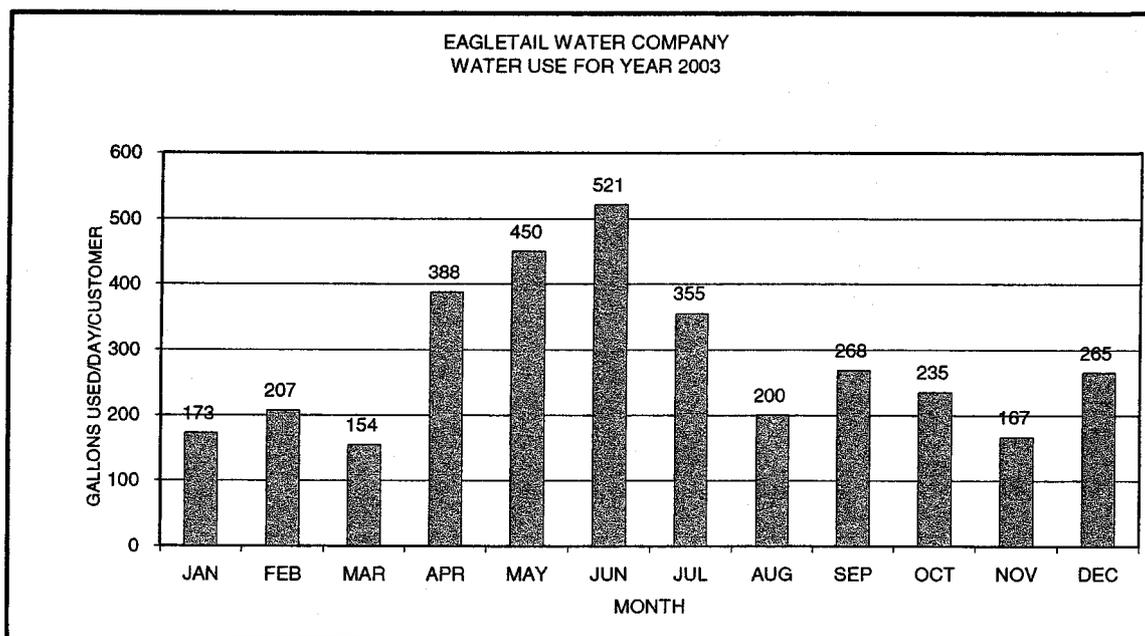
The following table shows the estimated annual monitoring expense, assuming participation in the Monitoring Assistance Program (“MAP”). Water testing expenses should be adjusted to the annual expense amount shown in Table 1, which is \$ 954.

Monitoring – one well (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Bacteriological – monthly	\$15	72	1080	360
Inorganics – Priority Pollutants	\$240	1	240	80
Nitrate – annual	\$25	3	75	25
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP	364
Lead & Copper - annual	\$25	5	15	125
Total				\$ 954.00

G. WATER USAGE

Water Sold

Based on the information provided by the Company, water use for the year 2003 is presented below. The high monthly domestic water use was 521 gal/day-service in June, and the low monthly domestic water use was 167 gal/day-service in November. The Average annual use was 282 gal/day-service.



Non-account Water

The Company reported pumping 11,787,800 gallons during 2003. During the same period, the Company reported selling 5,536,039 gallons of water. This equates to a water loss of over 53 percent. This is much higher than the 10 percent that Staff considers reasonable. And it is an increase from the 28 percent water loss reported in 2001. Since the last rate case, the Company reports that glue joints are separating at a faster rate.

The original CC&N was granted around 1969 to serve approximately 200 one-acre orchards. Land was subdivided in 1973 into a 900-lot development. After this, large acreage lots were added six miles north of the well site. Few homes have been built since that time and the orchard activity has ceased due to high water costs. The distribution mains have developed leaks, usually at the valves and at transitions. Many of the glued joints have failed. As the leaks are detected and the funds are available, the leaks are repaired. A typical valve replacement, which fixes one leak, costs approximately \$500. This is based on the \$350 cost of the valve, \$150 for related

fittings, hand digging and no charge for labor. A replacement using a backhoe and charging for labor would cost \$1,600 per valve. The Company has been repairing on average four to six leaks per year. As the Company is able to repair the most severe leaks, the water loss should go down. The new board members who have taken over the system recently have found a number of large leaks and have repaired them.

Once the majority of leaks are fixed on the distribution system, the Company should start a meter replacement program whereby meters are replaced over a ten or fifteen year period. As meters become old and worn, they usually begin to measure less water than is actually being used. This can contribute to an apparent water loss and can result in loss of revenue.

Staff believes that the Company should increase its surveillance of the service area to find more of the system leaks. Staff recommends that after the effective date of the Decision, the Company file yearly reports within 30 days after the end of each calendar year, with the Compliance Section of the Utilities Division, indicating the quantity of water pumped and sold each month during the year and the efforts made to reduce water loss, such as number of leaks repaired. Staff also recommends that the Company come up with a plan to reduce water loss to less than ten percent before the next rate case.

H. GROWTH

The Company currently has 54 customers. The base has declined from 61 customers since 2000. There are a total of nine hundred 1.25-acre lots in the Harquahalla Ranches subdivision, which the Company serves. However, many customers own more than one lot. There are also 50 or 60 large 10 acre and larger lots that are located six miles north of the well site. Company Board members feel there could be some growth in the next few years.

I. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Exhibit 4. It is recommended that the Company use these depreciation rates.

J. CURTAILMENT PLAN

The Company has a curtailment plan on file with the Commission.

EXHIBITS

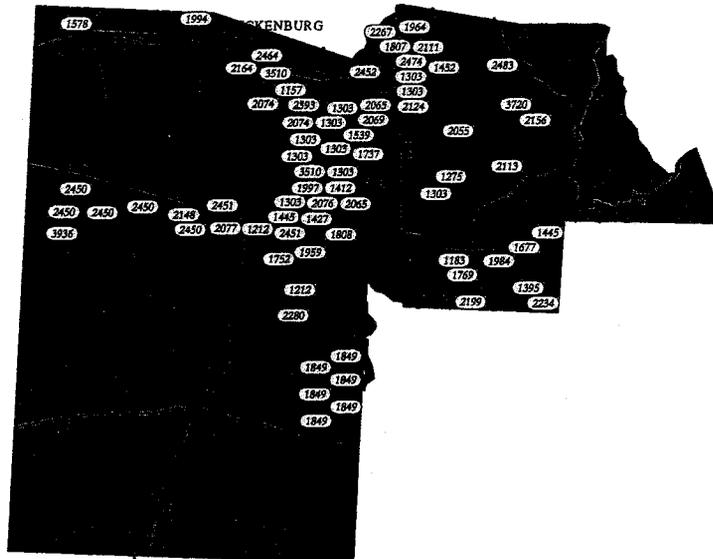
CERTIFICATED AREA AND LOCATION OF COMPANY EXHIBIT 1 (& 2)

PROCESS SCHEMATIC EXHIBIT 3

DEPRECIATION RATES EXHIBIT 4

Exhibit 1

MARICOPA COUNTY

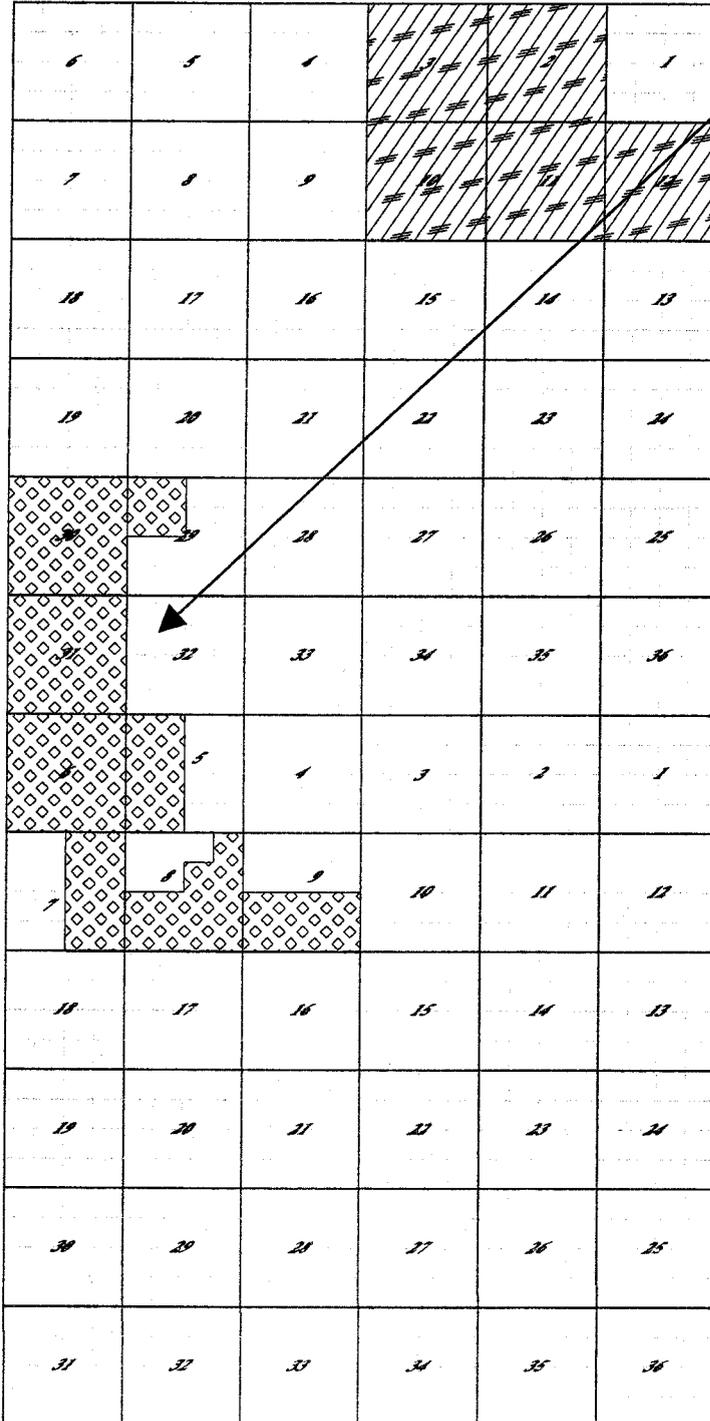


- | | | | |
|------|------------------------------------|------|--|
| 1997 | ADAMAN MUTUAL WATER COMPANY | 2164 | MORRISTOWN WATER COMPANY |
| 1578 | AGUILA WATER SERVICES, INC. | 1737 | NEW RIVER UTILITY COMPANY |
| 2077 | ALLENVILLE WATER COMPANY, INC. | 2199 | PIMA UTILITY COMPANY |
| 1303 | ARIZONA-AMERICAN WATER COMPANY | 2464 | PUESTA DEL SOL WATER COMPANY |
| 1445 | ARIZONA WATER COMPANY | 1395 | QUEEN CREEK WATER COMPANY |
| 2074 | BEARDSLEY WATER COMPANY, INC. | 1808 | RIGBY WATER COMPANY |
| 1275 | BERNEIL WATER COMPANY | 2156 | RIO VERDE UTILITIES, INC. |
| 1964 | BLACK CANYON RETREAT WATER COMPANY | 1539 | ROSE VALLEY WATER COMPANY |
| 1994 | CABALLEROS WATER COMPANY, INC. | 2111 | SABROSA WATER COMPANY |
| 1452 | CAVE CREEK WATER COMPANY | 1183 | SENDE VISTA WATER COMPANY, INC. |
| 2113 | CHAPARRAL CITY WATER COMPANY | 2474 | SHANGRI-LA ASSOCIATES, INC. |
| 2393 | CHAPARRAL WATER COMPANY | 2280 | SOUTH RAINBOW VALLEY WATER COOPERATIVE |
| 3510 | CIRCLE CITY WATER COMPANY L.L.C. | 2069 | SUNRISE WATER COMPANY, INC. |
| 1752 | CLEARWATER UTILITIES COMPANY, INC. | 2076 | TIERRA BUENA WATER COMPANY |
| 1984 | DAIRYLAND WATER CORPORATION | 2483 | TONTO HILLS UTILITY COMPANY |
| 2124 | DESERT HILLS WATER COMPANY, INC. | 1677 | TURNER RANCHES WATER & SANITATION COMPANY |
| 3936 | EAGLETAIL WATER COMPANY LC | 1212 | VALENCIA WATER COMPANY |
| 1959 | GRANDVIEW WATER COMPANY, INC. | 1412 | VALLEY UTILITIES WATER COMPANY, INC. |
| 2234 | H2O, INC. | 2148 | VALLEY VIEW WATER COMPANY, INC. |
| 2055 | JAMES P. PAUL WATER COMPANY | 2451 | WATER UTILITY OF GREATER BUCKEYE, INC. |
| 1769 | KYRENE WATER COMPANY | 2450 | WATER UTILITY OF GREATER TONOPAH, INC. |
| 2452 | LAKE PLEASANT WATER COMPANY | 3720 | WATER UTILITY OF NORTHERN SCOTTSDALE, INC. |
| 1427 | LITCHFIELD PARK SERVICE COMPANY | 1157 | WEST END WATER COMPANY |
| 2267 | MCADAMS WATER COMPANY | 2065 | WILHOIT WATER COMPANY, INC. |
| 1849 | MOBILE WATER COMPANY | 1807 | WRANGLERS ROOST WATER COMPANY |

Exhibit 2

COUNTY: *Maricopa*

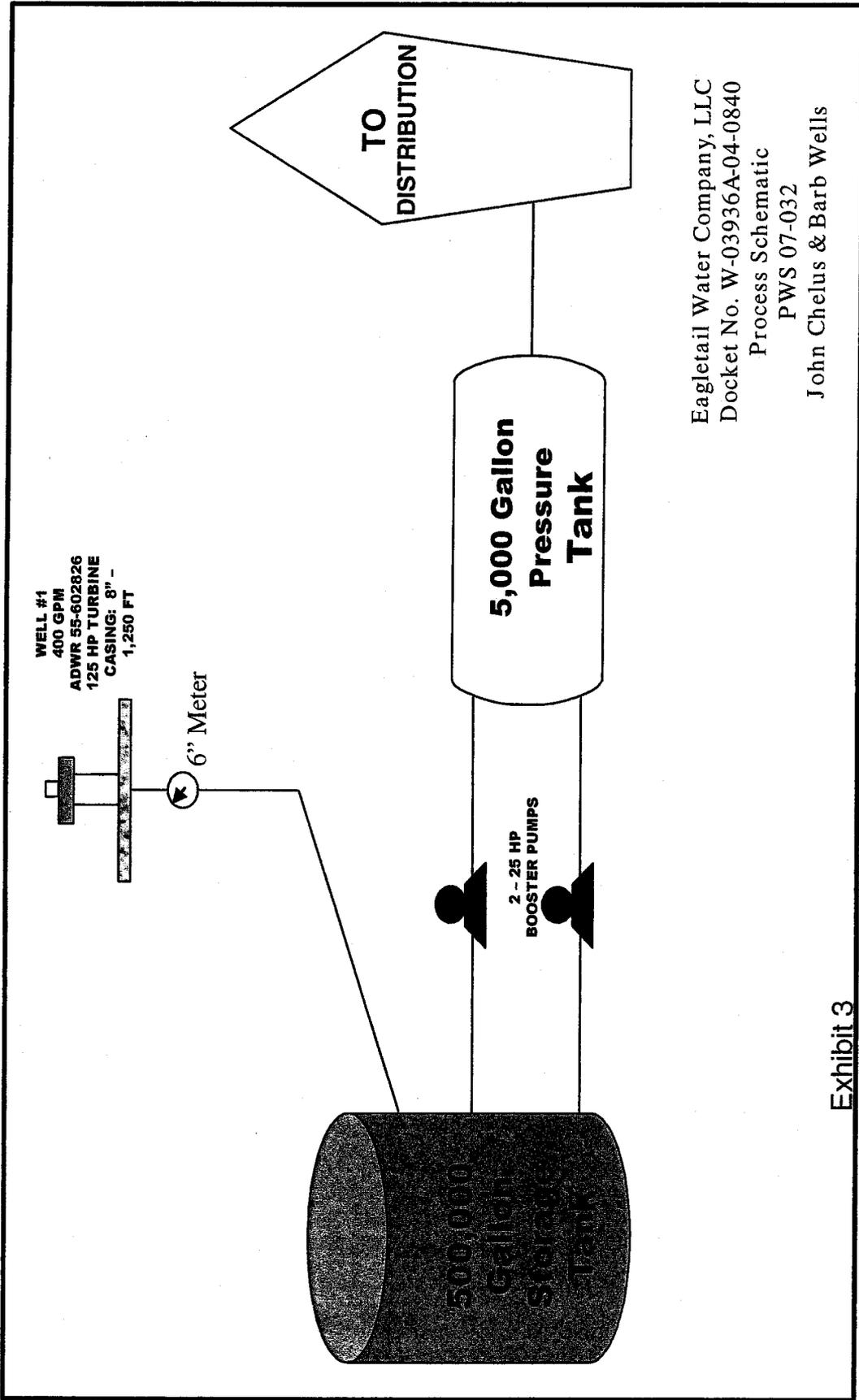
RANGE 9 West



-  W-3936 (3)
Eagletail Water Company LC
-  W-2450 (11)
Water Utility of Greater Tonopah, Inc.
(Garden City)

TOWNSHIP 1 North

TOWNSHIP 1 South



Eagletail Water Company, LLC
 Docket No. W-03936A-04-0840
 Process Schematic
 PWS 07-032
 John Chelus & Barb Wells

Exhibit 3

EXHIBIT 4
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.