

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
EGJ Director
Utilities Division

DATE: August 12, 2005

RE: STAFF REPORT FOR PINECREST WATER COMPANY, INC's RATE INCREASE APPLICATION (DOCKET NO. W-02091A-05-0172)

Attached is the Staff Report for Pinecrest Water Company, Inc.'s 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

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Service List for: Pinecrest Water Company, Inc.
Docket No. W-02091A-05-0172

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

PINECREST WATER COMPANY, INC.

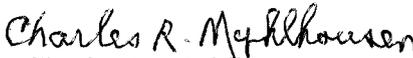
DOCKET NO. W-02091A-05-0172

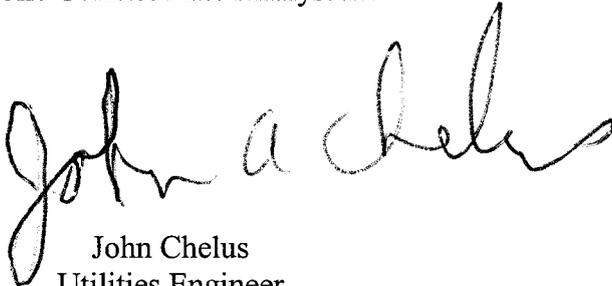
**APPLICATION FOR A
PERMANENT RATE INCREASE**

AUGUST 12, 2005

STAFF ACKNOWLEDGMENT

The Staff Report for Pinecrest Water Company, Inc., Docket No. W-02091A-05-0172, 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. Alfonso Amezcua 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 Utilities Rate Analyst III


John Chelus
Utilities Engineer


Alfonso Amezcua
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
PINECREST WATER COMPANY, INC.
DOCKET NO. W-02091A-05-0172**

Pinecrest Water Company, Inc. ("Company") is engaged in the business of providing utility water service exclusively to Arizona customers in Apache County. The Company operates a public water system near the city of Nutrioso. The Company provides service to approximately 41 residential customers. The Company's current rates were effective November 1, 1993.

The Company's rate application requested an increase in revenue of \$8,899 or an 81.26 percent increase over test year revenues of \$10,951. The Company's proposed rates will produce revenues of \$19,850 resulting in an operating income of \$8,093 for a 56.21 percent rate of return on an original cost rate base ("OCRB") of \$14,397. The Company's proposed rates would increase the typical residential bill with a median usage of 1,167 gallons from \$15.96 to \$33.50 for an increase of \$17.54 or 109.9 percent.

Staff's recommended rates would increase revenues by \$10,155 or a 99.12 percent increase over adjusted test year revenue of \$10,245. Staff's recommended revenues of \$20,400 result in an operating income of \$2,606 for a 9.92 percent rate of return on a OCRB of \$26,278. Staff's recommended rates would increase the typical residential bill with a median usage of 1,167 gallons from \$15.96 to \$33.79 for an increase of \$17.83 or 111.7 percent.

Staff recommends approval of its rates and charges as presented on Schedule CRM-4.

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Engineering Report

Fact sheet

Current Rates: Decision No. 58422, rates effective November 1, 1993.

Company Statistics: Arizona "C" Corporation

Location: The Company is located near Nutrioso, Arizona in Apache County. The water system is not located in an Active Management Area ("AMA").

Rates: Permanent rate increase application filed March 9, 2005, and amended on May 17, 2005.

Current Test Year Ended: December 31, 2003

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
<u>Monthly Minimum Charges:</u>			
Monthly Minimum Charge Based on ¾ inch meter	\$12.75	\$30.00	\$30.00
Gallons in minimum	0	0	0
Commodity charge			
Excess of minimum, per 1,000 gallons			
Tier one zero gallons to 3,500 gallons	2.75		
Tier two –all gallons over 3,500	3.25		
Tier one-zero gallons to 4,000 gallons		3.00	
Tier two-all gallons over 4,000 gallons		3.75	
Tier one-zero gallons to 3,000 gallons			3.25
Tier two-all gallons over 3,000 gallons			5.50

Customers:

Average number of customers in prior test year 31; 2003 test year 41.

Notifications:

Customer Notification was mailed on March 8, 2005.

Complaints:

Number of customers concerns since application filed: A search of Consumers Services complaint records revealed the following history of customers complaints for years 2002 through year 2005: Years 2002 through years 2004, zero complaints, zero inquires, zero opinions. For year 2005 to present, zero complaints, zero inquiries, one opinion, (opposed to rate increase).

Summary of Filing

Based on test year results, as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission") Pinecrest Water Company, Inc. ("the Company") suffered an operating loss of \$6,910 on an original cost rate base ("OCRB") of \$26,278 for no rate of return as shown on Schedule CRM-1.

The Company proposed rates produce operating revenues of \$19,850 and an operating income of \$8,093 for a 56.21 percent rate of return on the Company's OCRB of \$14,397. The Company's proposed rates would increase the typical residential bill with a median usage of 1,167 gallons from \$15.96 to \$33.50 for an increase of \$17.54 or 109.9 percent.

Staff's recommended rates produce a revenue level of \$20,400 and an operating income of \$2,606 for a rate of return of 9.92 percent on Staff's adjusted OCRB of \$26,278. Staff's recommended rates would increase the typical bill with a median usage of 1,167 gallons from \$15.96 to \$33.79 for an increase of \$17.83 or 111.7 percent.

Company Background

On March 9, 2005, the Company filed an application for a permanent rate increase with the Commission. On April 8, 2005, the Company's filing was found deficient. On May 17, 2005, the Company submitted the deficient items. On June 13, 2005, the application was deemed sufficient. The Company indicated that a rate increase is needed because the Company is served by unpaid volunteers and will need to consider compensating their operator. Costs continue to increase due to inflation, testing requirements and repairs. The last rate increase was in 1993.

Consumer Services

A review of the Commission's records revealed the following: For years 2002 through 2004 there were zero complaints, zero inquiries, zero opinions. For year 2005, zero complaints, zero inquiries, one opinion (opposed to 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 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 2.9 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 and Arizona Department of Environmental Quality 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 totaling \$11,881. These adjustments were made to reflect Staff's increase to plant-in-service in the amount of \$14,474, accumulated depreciation in the amount of \$4,251, the addition of customer deposits of \$100 and the inclusion of the formula method for working capital allowance in the amount of \$1,758, resulting in a rate base of \$26,278. See Schedule CRM-2 page 1.

Plant-in-Service:

Staff made an adjustment to plant-in-service of \$14,474. This was to reflect the inclusion of additional structures and improvements. See Schedule CRM-2 page 2.

Accumulated Depreciation:

Staff increased the Company's proposed accumulated depreciation amount by \$4,251.

Staff's accumulated depreciation amount was calculated by adding depreciation expense for the years 1993 through the end of 2003, to the Commission approved accumulated depreciation balance in the prior test year ended December 31, 1992 of \$10,235. See Schedule CRM-2 page 3.

Working Capital:

The Company neglected to claim any working capital allowance. Staff included a working capital allowance of \$1,758 calculated using the formula method.

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.

Meter Deposit:

Staff reclassified \$100 from other water revenues to meter deposit. This is a refundable customer deposit.

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.

Adjustment A decreased Other Water Revenues by \$706. Staff removed sales taxes of \$606 and reclassified \$100 to meter deposits.

Operating Expenses

Staff adjustment to operating expenses results in a increase of \$5,398 from \$11,757 to \$17,155 as shown on Schedule CRM-3 page 1. Adjustments are discussed below.

Adjustment B increased Outside Services by a proforma adjustment in the amount of \$4,800 for payment of services to a certified operator.

Adjustment C increased Water Testing by \$1,448 to reflect Staff's recommended expense level.

Adjustment D decreased Miscellaneous Expense by \$495, removal of MAP invoice of \$331 and postage of \$164. Both of these amounts are included in water testing expense. Postage is for mailing of water samples.

Adjustment E increased Depreciation Expense by \$251. Staff adjustment reflects Staff's proposed depreciation rates on a going forward basis.

Adjustment F decreased Taxes Other Than Income by \$606 for the removal of sales taxes.

Rate of Return

Staff recommended rates and charges would provide an operating income of \$2,606 for a rate of return of 9.92 percent based on the Staff adjusted rate base of \$26,278.

Revenue Requirement

The Company's narrative portion of the application stated that it needs this rate increase because costs have continued to increase due to inflation, testing requirements and repairs. Costs of repairs have increased significantly.

Rate Design

The Company's proposed rates would increase the median residential usage customer's bill by 109.9 percent.

The Company is utilizing a two tier rate commodity charge. Staff is recommending an inverted two-tier rate structure. In this case Staff is recommending the continuation of the two-tier instead of three-tier rate due to the small size of the Company and the already low customer consumption. 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 proposes to increase service line and meter installation charges. Staff concurs.

The Company only has residential customers and proposes to eliminate service line and meter installation charges on meter sizes of 1 ½ inch and larger. Staff concurs.

The Company proposes to increase Establishment Fees from \$20.00 to \$35.00. Staff concurs.

The Company proposed to increase Establishment (after hours) from \$30.00 to \$40.00. Staff concurs.

The Company proposes to increase Reconnection (delinquent) from \$30.00 to \$50.00. Subsequent to Staff's request, the Company did not provide adequate information to support its charge amount. Staff recommends \$40.00 as being reasonable and normal.

The Company proposes to increase reconnection (delinquent) after hours from zero to \$50.00. Subsequent to Staff's request, the Company did not provide adequate information to support its charge amount. Staff recommends \$45.00 as being reasonable and normal.

The Company proposes to increase Meter Test (If Correct) from \$10.00 to \$12.00. Staff concurs.

The Company proposes to increase Not Sufficient Funds ("NSF") from \$12.00 to \$25.00. Staff concurs.

The Company proposes to increase Meter Reread from \$10.00 to \$12.00. Staff concurs.

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 be ordered to use the depreciation rates delineated in Exhibit 4 of the Engineering Report on a going forward basis.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$9,686	\$9,686	\$18,585	\$19,841
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	1,265	559	1,265	559
Total Operating Revenue	\$10,951	\$10,245	\$19,850	\$20,400
Operating Expenses:				
Operation and Maintenance	\$8,871	\$14,624	\$8,871	\$14,624
Depreciation	1,913	2,164	1,913	2,164
Property & Other Taxes	923	317	923	317
Income Tax	50	50	50	689
Total Operating Expense	\$11,757	\$17,155	\$11,757	\$17,794
Operating Income/(Loss)	(\$806)	(\$6,910)	\$8,093	\$2,606
Rate Base O.C.L.D.	\$14,397	\$26,278	\$14,397	\$26,278
Rate of Return - O.C.L.D.	-5.60%	-26.30%	56.21%	9.92%
Times Interest Earned Ratio (Pre-Tax)	NMN	NMN	NMN	NMN
Debt Service Coverage Ratio (Pre-Tax)	NMN	NMN	NMN	NMN
Operating Margin	-7.36%	-67.45%	40.77%	12.77%

NMN: Not a meaningful number.

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$41,164	\$14,474	A	\$55,638
Less:				
Accum. Depreciation	26,767	4,251	B	31,018
Net Plant	\$14,397	\$10,223		\$24,620
Less:				
Plant Advances	\$0	\$0		\$0
Customer Deposits	0	100	C	100
Total Advances	\$0	\$100		\$100
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$0	\$100		\$100
Plus:				
1/24 Power	0	\$35	D	\$35
1/8 Operation & Maint.	0	1,723	D	1,723
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$1,758		\$1,758
Rate Base	\$14,397	\$11,881		\$26,278

- A See Schedule CRM-2 page 2
- B See Schedule CRM-2 page 3
- C Customer deposit reclassified from other water revenue.
- D Staff's inclusion of formula working capital, based on recommended operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$750	\$0	\$750
302 Franchises	0	0	0
303 Land & Land Rights	6,000	0	6,000
304 Structures & Improvements	480	14,474 A	14,954
307 Wells & Springs	4,800	0	4,800
311 Pumping Equipment	1,895	0	1,895
320 Water Treatment Equipment	505	0	505
330 Distribution Reservoirs & Standpipes	4,091	0	4,091
331 Transmission & Distribution Mains	17,743	0	17,743
333 Services	3,200	0	3,200
334 Meters & Meter Installations	1,600	0	1,600
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	100	0	100
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	\$41,164	\$14,474	\$55,638

A Structures and Improvements added in 1993 and 2000 in the amounts of \$1,478 and \$12,996.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$26,767
Accumulated Depreciation - Per Staff	31,018
Total Adjustment	<u>4,251</u>

Explanation of Adjustment "B"

Accumulated depreciation per Decision No. 58422	\$ 10,235
Plus: Depreciation Exp. From year 1993 through year 2003	<u>20,783</u>
Total	<u>\$ 31,018</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$9,686	\$0	\$9,686
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	1,265	(706) A	559
Total Operating Revenue	\$10,951	(\$706)	\$10,245
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	838	0	838
618 Chemicals	0	0	0
620 Repairs and Maintenance	4,774	0	4,774
621 Office Supplies & Expense	0	0	0
630 Outside Services	375	4,800 B	5,175
635 Water Testing	140	1,448 C	1,588
641 Rents	0	0	0
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	1,750	0	1,750
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	994	(495) D	499
403 Depreciation Expense	1,913	251 E	2,164
408 Taxes Other Than Income	606	(606) F	0
408.11 Property Taxes	317	0	317
409 Income Tax	50	0	50
Total Operating Expenses	\$11,757	\$5,398	\$17,155

OPERATING INCOME/(LOSS)	(\$806)	(\$6,104)	(\$6,910)
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Other Income/(Expense):			
419 Interest and Dividend Income	\$121	\$0	\$121
421 Non-Utility Income	0	0	0
427 Interest Expense	0	0	0
428 Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	\$121	\$0	\$121

NET INCOME/(LOSS)	(\$685)	(\$6,104)	(\$6,789)
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STAFF ADJUSTMENTS

A -	OTHER WATER REVENUES - Per Company	\$1,265	
	Per Staff	559	(\$706)

Staff removed sales taxes of \$606 and reclassified customer deposit of \$100 to meter deposit.

B -	OUTSIDE SERVICES - Per Company	\$375	
	Per Staff	5,175	\$4,800

Staff made a proforma adjustment of \$4,800 to allow payment for a certified operator services.

C -	WATER TESTING - Per Company	\$140	
	Per Staff	1,588	\$1,448

To reflect Staff Engineering's recommended expense level.

D -	MISCELLANEOUS EXPENSE - Per Company	\$994	
	Per Staff	499	(\$495)

Staff removed MAP yearly invoice amount of \$331 which is included in water testing expense and postage of \$164 included in water testing for mailing the water samples.

E -	DEPRECIATION - Per Company	\$1,913	
	Per Staff	2,164	\$251

Staff recommended amount reflects its recommended rates on a going forward basis.

Pro Forma Annual Depreciation Expense:

Plant in Service	\$55,638	
Less: Non Depreciable Plant	6,750	
Fully Depreciated Plant	0	
Depreciable Plant	\$48,888	
Times: Staff Proposed Depreciation Rate	4.43%	
Depreciation Expense	\$2,164	
Less: Amort. of CIAC @ 4.43%	0	
Pro Forma Annual Depreciation Expense	\$2,164	

STAFF ADJUSTMENTS (Cont.)

F - TAXES OTHER THAN INCOME - Per Company	\$606	
Per Staff	<u>0</u>	<u>(\$606)</u>

Staff removed sales taxes of \$606 from other water revenue and as an expense.

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$8.50	\$30.00	\$30.00
3/4" Meter	12.75	30.00	30.00
1" Meter	21.25	30.00	75.00
1½" Meter	42.50	0.00	150.00
2" Meter	68.00	0.00	240.00
3" Meter	127.50	0.00	450.00
4" Meter	212.50	0.00	750.00
6" Meter	425.00	0.00	1,500.00
Gallons Included in Minimum	0	0	0
<u>For 5/8X3/4 inch and 3/4 inch meters</u>			
Tier one from zero gallons to 3,500 gallons	2.75		
Tier two all gallons over 3,500 gallons	3.25		
Tier one from zero gallons to 4,000 gallons		3.00	
Tier two all gallons over 4,000 gallons		3.75	
Tier one from zero gallons to 3,000 gallons			3.25
Tier two all gallons over 3,000 gallons			5.50
<u>Service Line and Meter Installation Charges</u>			
5/8" x 3/4" Meter	\$285.00	\$625.00	\$625.00
3/4" Meter	320.00	675.00	675.00
1" Meter	360.00	810.00	810.00
1½" Meter	545.00	n/a	n/a
2" Meter	915.00	n/a	n/a
3" Meter	1,150.00	n/a	n/a
4" Meter	1,885.00	n/a	n/a
6" Meter	3,780.00	n/a	n/a
<u>Service Charges</u>			
Establishment	\$20.00	\$35.00	\$35.00
Establishment (After Hours)	30.00	40.00	40.00
Reconnection (Delinquent)	30.00	50.00	40.00
Reconnection (Delinquent) after hours	0.00	50.00	45.00
Meter Test (If Correct)	10.00	12.00	12.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	12.00	25.00	25.00
Deferred Payment	18.00%	18.00%	***
Meter Re-Read (If Correct)	10.00	12.00	12.00
Late Fee	n/a	n/a	n/a
<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 (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

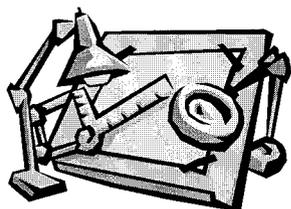
TYPICAL BILL ANALYSIS
General Service 3/4 - Inch Meter Monthly

Average Number of Customers: 41

<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	2,663	\$20.07	\$37.99	\$17.92	89.3%
Median Usage	1,167	\$15.96	\$33.50	\$17.54	109.9%
<u>Staff Proposed</u>					
Average Usage	2,663	\$20.07	\$38.65	\$18.58	92.6%
Median Usage	1,167	\$15.96	\$33.79	\$17.83	111.7%

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

<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	\$12.75	\$30.00	135.3%	\$30.00	135.3%
1,000	15.50	33.00	112.9%	33.25	114.5%
2,000	18.25	36.00	97.3%	36.50	100.0%
3,000	21.00	39.00	85.7%	39.75	89.3%
4,000	22.63	42.00	85.6%	45.25	100.0%
5,000	25.88	45.75	76.8%	50.75	96.1%
6,000	29.13	49.50	70.0%	56.25	93.1%
7,000	32.38	53.25	64.5%	61.75	90.7%
8,000	35.63	57.00	60.0%	67.25	88.8%
9,000	38.88	60.75	56.3%	72.75	87.1%
10,000	42.13	64.50	53.1%	78.25	85.8%
15,000	58.38	83.25	42.6%	105.75	81.2%
20,000	74.63	102.00	36.7%	133.25	78.6%
25,000	90.88	120.75	32.9%	160.75	76.9%
50,000	172.13	214.50	24.6%	298.25	73.3%
75,000	253.38	308.25	21.7%	435.75	72.0%
100,000	334.63	402.00	20.1%	573.25	71.3%
125,000	415.88	495.75	19.2%	710.75	70.9%
150,000	497.13	589.50	18.6%	848.25	70.6%
175,000	578.38	683.25	18.1%	985.75	70.4%
200,000	659.63	777.00	17.8%	1,123.25	70.3%



Engineering Report For
Pinecrest Water Company, Inc.
for a Rate Increase
Docket No. W-02091A-05-0172

EXECUTIVE SUMMARY

Conclusions

- I. ADEQ 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.
- II. The most recent lab analysis by the Company indicated that the arsenic level in its source supply is 2.9 $\mu\text{g/l}$. Based on this arsenic concentration, the Company is in compliance with the new arsenic MCL.

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 (\$1,588.00). (See §F of report for discussion and details.)
- II. Staff recommends that an amount be included in expenses going forward for the payment of a part time operator.
- III. 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.

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EXHIBITS

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A. LOCATION OF WATER SYSTEM

Pinecrest Water Company ("Pinecrest/Company") is reached by traveling about 18 miles south on Highway 180 from Springerville to Nutrioso, and then turning right onto County Road 2108. The Certificated area covers part of Township 7 North, Range 29 East, Section 36. Figures 1 & 2 show the location of the Company in relation to other regulated companies in Apache County.

B. DESCRIPTION OF WATER SYSTEM

The system serves approximately 41 metered customers. The system consists of one well located in a well vault, one well control panel vault, three 80 gallon pressure tanks and one 1-1/2 hp booster pump located in a wooden shed, one 10,000 gallon storage tank, and distribution system.

John A. Chelus, Utilities Engineer, inspected the water system on June 23, 2005. The Company was represented by Elsa Castillo, operator and Board Secretary.

Well Data

	Well No. 1
ADWR ID No.	55-806312
Casing Size	10 inch
Casing Depth	36 ft.
Meter Size	3/4 inch
Pump Size	1 hp Turbine
Pump Yield	35 gpm
Date Drilled	1967
Storage Tank	1 - 10,000 gallon
Pressure Tank	3-80 gallons
Booster Pumps	1- 1-1/2 hp

Mains

Diameter (inches)	Material	Length (feet)
2 "	PVC	2,760
3 "	PVC	1,630
4"	PVC	4,435
1 1/4"	PVC	2,800

Meters

Size	Quantity
3/4"	41

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 2.9 µg/l. Based on this arsenic concentration, the Company is in compliance with the new arsenic MCL.

D. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE

ADEQ regulates the water system under Public Water System I.D. No. 01-010. Based on data submitted by the Company, ADEQ has 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”). An extra amount of \$15 per month is added to cover the overnight shipping cost of bacteriological samples. Water testing expenses should be adjusted to the annual expense amount shown in Table 1, which is \$ 1,588.

Monitoring – one well (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Shipping Per Year	Annual Cost
Bacteriological – monthly	\$30	72	2160	180	900
Inorganics – Priority Pollutants	\$275	1	275		92
Nitrate – annual	\$40	3	120		40
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP		331
Lead & Copper - annual	\$45	5	225		225
Total					\$1,588.00

G. WATER USAGE

Water Sold

Based on the information provided by the Company, average daily water use for the year 2003 was 86 gallons per day per customer. During the 2003 test year, the Company was only billing customers quarterly. Since then they have resumed billing their customers monthly.

Non-account Water

Non-account water should be 10% or less and never more than 15%. 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. The Company reported pumping 1,366,838 gallons during 2003. During the same period, the Company reported selling 1,286,260 gallons of water. This equates to a water loss of 5.9 percent, which Staff considers reasonable and within acceptable limits.

H. GROWTH

The Company currently has 41 customers. Pinecrest expects no more than four new customers in the next two years and only nine to build out of its certificated area.

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 that has been in effect since September 2004.

K. OTHER

Operator Salaries

Pinecrest is currently being served by unpaid volunteers and is having difficulty finding anyone to provide their free time. Pinecrest requested in their application that at least in the near future, that compensation be given to its operators. Staff recommends that an amount be included in expenses going forward for the payment of a part time operator.

EXHIBITS

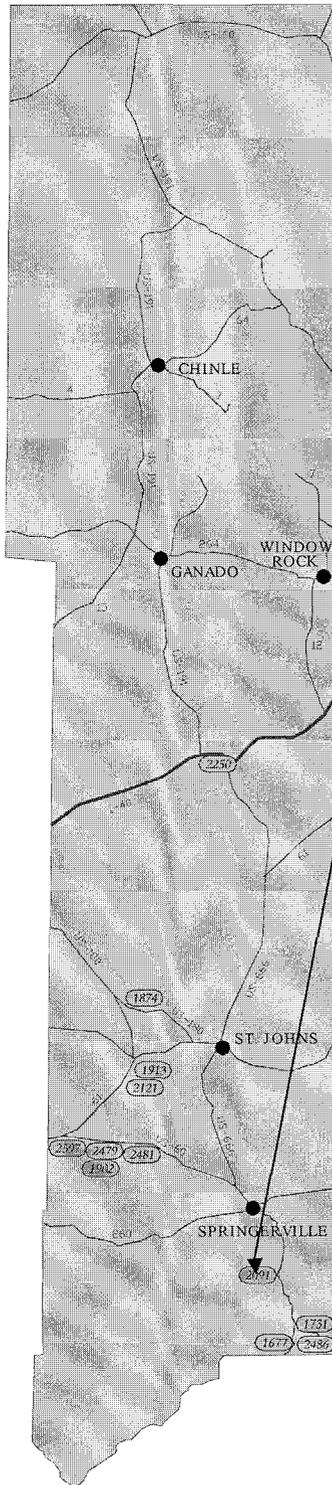
CERTIFICATED AREA AND LOCATION OF COMPANY EXHIBIT 1 (& 2)

PROCESS SCHEMATIC EXHIBIT 3

DEPRECIATION RATES EXHIBIT 4

Exhibit 1

APACHE COUNTY



- 1731 ALPINE WATER SYSTEM, INC.
- 2250 ARIZONA WINDSONG REALTY, INC.
- 2597 CEDAR GROVE WATER COMPANY
- 1874 HUNT VALLEY WATER COMPANY
- 2486 JACKSON SPRINGS ESTATES HOME & PROPERTY OWNERS ASSOC
- 2121 LIVCO WATER COMPANY
- 2479 LORD ARIZONA WATER SYSTEMS, INC.
- 2091 PINECREST WATER COMPANY, INC.
- 1913 RUEBUSH, A. C. (CONCHO WATER SUPPLY)
- 2481 SERVICEBERRY WATER COMPANY
- 1902 T. K. WATER SERVICE
- 1677 TURNER RANCHES WATER & SANITATION COMPANY

COUNTY: *Apache*

RANGE 29 East

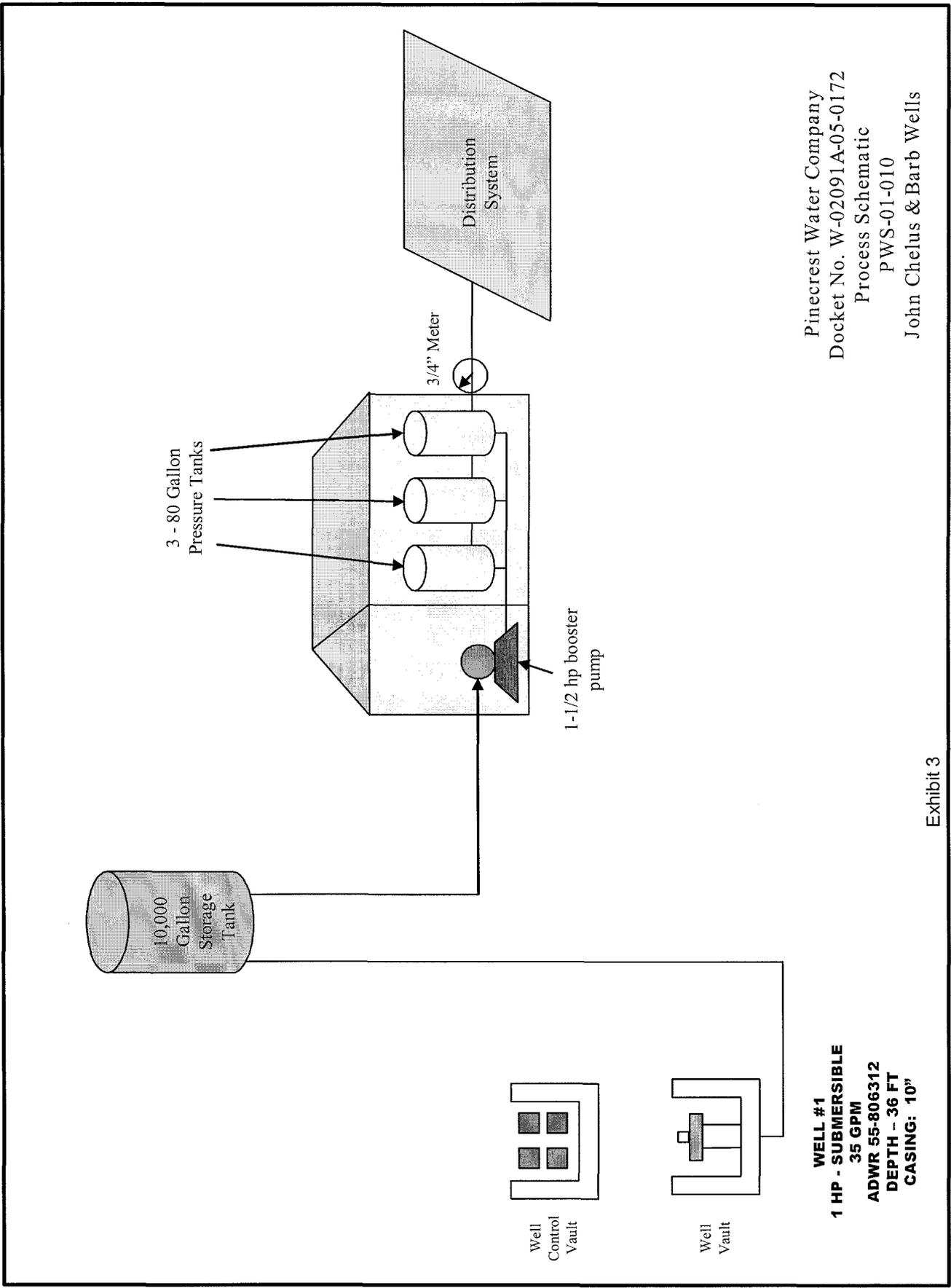
6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

TOWNSHIP 7 North



W-2091 (1)

Pinecrest Water Company, Inc.



Pinecrest Water Company
 Docket No. W-02091A-05-0172
 Process Schematic
 PWS-01-010
 John Chelus & Barb Wells

WELL #1
1 HP - SUBMERSIBLE
35 GPM
ADWR 55-806312
DEPTH - 36 FT
CASING: 10"

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.