

ORIGINAL



0000028133

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: September 2, 2005

RE: STAFF REPORT FOR MIRABELL WATER COMPANY'S RATE INCREASE
APPLICATION (DOCKET NO. W-02368A-05-0419)

Attached is the Staff Report for Mirabell Water Company's application for a permanent rate increase. Staff recommends approval of the application using Staff's recommended rates and charges.

EGJ:ENZ:rdp

Originator: Elena Zestrijan

Attachment: Original and sixteen Copies

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RECEIVED

Service List for: Mirabell Water Company
Docket No. W-02368A-05-0419

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

MIRABELL WATER COMPANY

DOCKET NO. W-02368A-05-0419

**APPLICATION FOR A
PERMANENT RATE INCREASE**

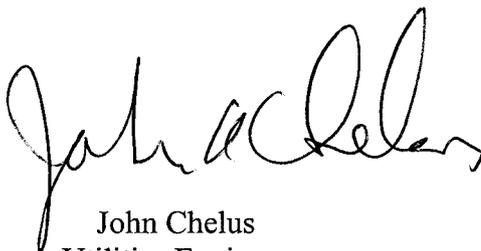
SEPTEMBER 2, 2005

STAFF ACKNOWLEDGMENT

The Staff Report for Mirabell Water Company ("Company"), Docket No. W-02368A-05-0419 was the responsibility of the Staff members listed below. Elena Zestrijan 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. Richard Martinez 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.



Elena Zestrijan
Public Utility Rate Analyst III



John Chelus
Utilities Engineer



Richard Martinez
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
MIRABELL WATER COMPANY
DOCKET NO. W-02368A-05-0419**

Mirabell Water Company ("Company") is engaged in the business of providing utility water service exclusively to Arizona customers in Pima County. The Company is located near the "three points" area, intersection of Highways 86 and 286, which is approximately 25 miles southwest of Tucson. The Mirabell subdivision was originally platted around 1979 and consists of a 240 acre tract and it provides service to approximately 62 customers within its certificated area. The Company's existing rates were approved by this Commission in Decision No. 62977 dated November 1, 2000.

The Company's rate application proposes an increase in revenues of \$7,411 or a 20.00 percent increase over adjusted test year revenues of \$37,056. The Company proposed rates will produce revenues of \$44,467, and operating income of \$3,475, for a 19.27 percent rate of return on an original cost rate base ("OCRB") of \$18,036. The Company's proposed rates would increase the typical residential bill with a median usage of 6,583 gallons from \$34.81 to \$43.60 for an increase of \$8.79 or 25.30 percent.

Staff is recommending an increase in revenues of \$3,855 or a 10.40 percent increase over adjusted test year revenues of \$37,056. Staff's recommended rates will produce revenues of \$40,911, and operating income of \$8,280, for a 40.66 percent rate of return on an OCRB of \$20,362. Staff's recommended rates would increase the typical residential bill with a median usage of 6,583 gallons from \$34.81 to \$37.10 for an increase of \$2.29 or 6.60 percent.

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Engineering Report

FACT SHEET

Current rates: Decision No. 62977, dated November 1, 2000.

Type of ownership: Arizona "C" Corporation

Location: The Company is located near the "three points" area, intersection of Highways 86 and 286, which is approximately 25 miles southwest of Tucson. The Company serves approximately 62 customers within a certificated area within Pima County. The water system is located in the Tucson Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: June 7, 2005

Current test year ended: December 31, 2004

Prior test year ended: December 31, 1999

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge Based on 3/4 - inch meter	\$20.00	\$25.50	\$22.00
Gallons included in Minimum	0	0	0
Commodity Charge			
Excess of minimum, per 1,000 gallons:			
From 0 to 10,000 gallons	\$2.25	N/A	N/A
From 0 to 8,000 gallons	N/A	\$2.75	N/A
From 0 to 4,000 gallons	N/A	N/A	\$2.00
Over 10,001 gallons	\$3.21	N/A	N/A
Over 8,000 gallons	N/A	\$3.85	N/A
From 4,001 to 12,000 gallons	N/A	N/A	\$2.75
Over 12,000 gallons	N/A	N/A	\$3.50
Typical residential bill (Based on median usage of 6,583 gallons)	\$34.81	\$43.60	\$37.10

Customers:

Average number of customers in current test year: 62

Average number of customers in the prior test year: 55

Current Test Year customers by meter size:

3/4 - inch 39

1-inch 23

Complaints:

Numbers of customers concerns since rate application filed: 7

Percentage of complaints to customer base: 11.3 percent

Notification:

Customer notification was mailed on June 2, 2005.

Summary of Filing

Based on test year results as adjusted by Utilities Division Staff ("Staff"), Mirabell Water Company ("Company") realized an operating income of \$2,169 on an original cost rate base ("OCRB") of \$20,362 for a rate of return of 10.65 percent and an operating margin of less than 6 percent as shown on Schedule 1.

The Company's proposed rates would produce operating revenues of \$44,467 and operating income of \$3,475 for a 19.27 percent rate of return on an OCRB of \$18,036. The Company's proposed rates would increase the typical residential bill with a median usage of 6,583 gallons from \$34.81 to \$43.60, for an increase of \$8.79 or 25.30 percent.

Staff's recommended rates would produce operating revenues of \$40,911 and an operating income of \$8,280, for a 40.66 percent rate of return on an OCRB of \$20,362 and an operating margin of 20.24 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 6,583 gallons from \$34.81 to \$37.10, for an increase of \$2.29 or 6.60 percent.

Background

On May 10, 2005, the Company filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission") utilizing a test year ending December 31, 2003. At Staff's urging the Company filed a request to withdraw and on June 1, 2005, a memo was filed by the Utilities Division Director recommending that the Company's request to withdraw be approved and the Docket should be administratively closed. Staff advised the Company to resubmit an application utilizing a test year ending December 31, 2004. On June 7, 2005, the Company submitted the instant application. On July 5, 2005, the application was deemed sufficient. The Company served approximately 62 customers in the test year.

The Company indicated that a rate increase is needed due to high costs relating to the maintenance and repairs of the infrastructure. It also contends that operating expenses have not allowed the Company to earn a fair rate of return.

Consumer Services

A review of Consumer Services' records show that the Company was granted a Certificate of Convenience and Necessity per Decision No. 52358 dated August 7, 1981.

The record also reflects no complaints or inquiries for 2002 or 2003, with seven complaints in the test year. These are, one for low water pressure, five for water outages, and one for inability to obtain water service due to moratorium per Decision No. 57114. There were three opinions against the proposed rate increase in 2005.

A review of the Commission's records found that the Company's cross-connection/backflow tariff was approved on January 23, 1996, per Decision No. 59484.

Engineering Analysis

Staff inspected the Company's plant facilities on July 20, 2005. A complete discussion of Staff Engineering's findings, recommendations, and description of the water system is provided in the attached Engineering Report.

Water testing expenses are based upon participation in the Arizona Department of Environmental Quality ("ADEQ") Monitoring Assistance Program. Annual testing expenses should be adjusted to the level described in Table 1, §F of the Engineering Report.

The Company's water system consists of a single well which pumps to a 25,000 gallon and a 10,000 gallon storage tank. For more detailed information regarding the description of the water system, refer to §B of the Engineering Report

The water system has adequate water production and meets ADEQ storage requirements. Exhibit 3 of the Engineering Report provides a process schematic for the water system.

The Company is within the Tucson AMA. Since the Company has less than 500 customers and pumps less than 100 acre-feet per year, it is considered a "small provider" and is not subject to the gallons per capita per day ("GPCD") limit and conservation rules. The Company is only required to monitor and report water use. Arizona Department of Water Resources ("ADWR") indicated that the Company is in compliance with its monitoring and reporting requirements.

Staff recommends that within 120 days of a Decision in this case, the Company file a detailed plan in this Docket demonstrating how the Company will reduce its water loss to less than 10 percent from 11.3 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why a water loss reduction to less than 10 percent is not cost effective.

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. It is recommended that the Company use these depreciation rates, and on a component basis, rather than a composite basis.

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. Since the Company does not have a curtailment tariff, this rate application provides an opportune time to prepare and file such a tariff.

Staff recommends that the Company file in this docket a curtailment tariff within 45 days after the effective date of any Decision and Order pursuant to this application.

Compliance

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

Staff performed an audit of the Company's books and records. The Company is not using the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") as ordered by this Commission in Decision No.62977, dated November 1, 2000.

The Company is within an AMA, and is not subject to the ADWR monitoring and reporting requirements at this time since the Company is a small provider.

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 23, 2006. The most recent lab analysis by the Company indicated that the arsenic level in its source supply is 5.3 $\mu\text{g/l}$. Based, on that arsenic concentration, the Company is in compliance with the new arsenic MCL.

ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Rate Base

As shown on Schedule 2, page 1, Staff recommends a rate base of \$20,362. This rate base represents an increase of \$2,326 from the Company's proposed \$18,036 rate base, due to Staff's adjustment to reflect plant in service consistent with Decision No. 62977 and certain other adjustments as explained on Schedule 2, page 2 of 3.

Accumulated depreciation was calculated by adding depreciation expense at the 5 percent approved rate for the intervening years to the approved balance in Decision No. 62977 of \$110,410. This account was also decreased for plant retirements to arrive at the accumulated depreciation balance of \$144,069, resulting in an increase of \$11,094 as shown on Schedule 2, page 3 of 3.

Adjustment C as shown in Schedule 2, page 1, Staff adjustment to record meter deposits not reflected on the Company's application.

Adjustment D reflects a reduction in operating and maintenance cash working capital component of \$975 due to Staff adjustments to operating expenses.

Operating Revenues

Staff made no adjustment to the Company's test year operating revenue of \$37,056. (Schedule 3, Page 1 of 4).

Operating Expenses

Staff adjustments to operating expenses resulted in a decrease of \$6,105 from \$40,992 to \$34,887, as shown on Schedule 3, page 1 of 4. The adjustments are discussed below.

Adjustment A to reflect office clerical salary expense which resulted from Staff's audit findings, three hours per week @ \$15 per hour.

Adjustment B reflects Staff's reclassification from outside services to repairs and maintenance of \$760, to record expense to the correct account.

Adjustment C reflects Staff's reclassification from office supplies and expense of \$740 to the wells and springs, plant account.

Adjustment D reflects Staff's reclassification of \$1,200 to health and life insurance, \$924 to miscellaneous expense, \$1,260 to pumping equipment plant account and \$760 to repairs and maintenance expense account.

Adjustment E adjusts water testing expense to reflect Staff's recommended expense level.

Adjustment F reflects Staff's removal of the lease of a Saab vehicle not necessary for water company operations, in the amount of \$5,423, cash expense in the amount of \$290 incurred by the owner, and an unsubstantiated and not included on the Company's register report, expense in the amount of \$1,000. Based on Staff's audit findings, the operation of the water system is covered by an operator, meter reader and office clerk. Staff allowed the amount of \$1,868 to cover operator, meter reader and office clerk's mileage and other transportation miscellaneous expenses.

Adjustment G decreases insurance – general liability expense, by \$1,607 to remove two years of insurance coverage of leased vehicle used only by the owner of the Company.

Adjustment H reflects Staff's reclassification from outside services to record 1/3 of \$1,200 for the office clerk's life insurance expense as part of the fringe benefits.

Adjustment I reflects Staff's adjustment in the amount of \$667 representing 1/3 of \$2,000 amortized over three years for regulatory commission expense related to this rate application.

Adjustment J is made up of two parts. Part one represents a reclassification from outside services in the amount of \$924, and part two represents Staff's removal of \$1,081 of unsubstantiated expense.

Adjustment K is a combination of Staff's adjustments to plant in service and Staff's recommended depreciation rates. On a going forward basis, many plant in service items became fully depreciated at the end of the test year.

Adjustment L reflects Staff's removal of \$1,977 of sales tax paid by customers. As a pass-through tax, this should not be reflected as an expense for rate making purposes.

Adjustment M, corrects the property tax calculation based on Staff's use of the Arizona Department of Revenue ("ADOR") formula.

Adjustment N is to record income tax expense resulting from operations based on Staff's adjustments to operating expenses and the resulting operating income.

Adjustment O is to record Commission approved, existing Water Infrastructure Finance Authority of Arizona ("WIFA") loan payment (principal portion not reflected on Company's application).

Revenue Requirements

The Company is proposing an increase in revenues of \$7,411 or 20.00 percent over adjusted test year revenues of \$37,056. This increase would result in a rate of return of 19.27 percent and an operating margin of 7.81 percent.

Staff is recommending an increase in revenues of \$3,855 or 10.40 percent over adjusted test year revenues of \$37,056. The Staff recommended increase would result in a rate of return of 40.66 percent and an operating margin of 20.24 percent. In Staff's opinion, its recommended revenues would allow the Company to meet its obligations and provide a cushion for contingencies.

Rate Design

The Company's current rate structure consists of two inverted block tiers in the commodity rates and no gallons included in the monthly minimum charge. The Company proposes to maintain that same structure with new rates and break-over point. Staff recommends a rate design consisting of three inverted block tiers and no gallons included in the monthly minimum charge. The Company proposed a first tier break at the 8,000 gallon level and the second tier applies to consumption in excess of 8,000 gallons.

Staff recommends, a first tier break at the 4,000 gallon level, second tier break at 12,000 gallons, and third tier applies to consumption in excess of 12,000 gallons.

The Company is serving two types of residential customers, one type through a 3/4-inch meter and the other type through a 1 inch meter for the small ranch/horse property type owners.

The residential customer class served through a 3/4-inch meter used 58 percent of the total water sold. The 1-inch meter residential customer class consumed 42 percent of the total water sold. Consequently, Staff's recommended rate structure was designed recommending three tiers for the 3/4-inch meter, and two tiers for the one-inch meter.

Staff's recommended rate design for the 3/4-inch meter set the first tier break at 4,000 gallons. This tier would apply to 37 percent of the residential bills that used 27 percent of the water sold. The second tier at the 12,000 gallon level would apply to 38 percent of the bills which consumed 40 percent of the water sold. The third tier in excess of 12,000 gallons would apply to 25 percent of the bills that consumed 33 percent of the water sold in the 3/4 inch meter residential customer class.

Staff's recommended rate design for the 1-inch meter set the first tier break at 12,000 gallons. This tier would apply to 64 percent of the bills that used 52 percent of the water sold. The second tier in excess of 12,000 gallon range would apply to 36 percent of the bills which consumed 48 percent of the water sold.

Staff Recommendations

Staff recommends that the Company be required to fully implement and maintain records in accordance with the NARUC USOA. The Company should be ordered to file an affidavit within 120 days of the effective date of the Order, in this Docket attesting to its completion of altering its accounting system to be in compliance with the NARUC USOA. The Company has failed to comply with Decision No. 62977, in which it was ordered to maintain its records in compliance with NARUC USOA.

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

Staff further recommends that the Company adopt the depreciation rates shown on Exhibit 4 of the attached Engineering Report, on a component basis not a composite basis.

Staff further recommends that the Company docket a curtailment tariff within 45 days after the effective date of any Decision and Order pursuant to this application.

Staff further recommends that, within 120 days of a Decision in this case, the Company docket a detailed plan demonstrating how the Company will reduce its water loss to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why a water loss reduction to less than 10 percent is not cost-effective.

Staff further recommends that the Company docket a tariff schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

Staff further recommends that, in addition to the collection of the Company's regular rates and charges, the Company shall collect from its customers their proportionate share of any privilege, sales or use tax as provided for in A.A.C. R14-2- 409(D).

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$37,056	\$37,056	\$44,467	\$40,911
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$37,056	\$37,056	\$44,467	\$40,911
Operating Expenses:				
Operation and Maintenance	\$34,086	\$26,289	\$34,086	\$26,289
Depreciation	2,537	5,124	2,537	951
Property & Other Taxes	4,369	3,007	4,369	3,307
Income Tax	0	467	0	2,084
Total Operating Expense	\$40,992	\$34,887	\$40,992	\$32,631
Operating Income/(Loss)	(\$3,936)	\$2,169	\$3,475	\$8,280
Rate Base O.C.L.D.	\$18,036	\$20,362	\$18,036	\$20,362
Rate of Return - O.C.L.D.	-21.82%	10.65%	19.27%	40.66%
Times Interest Earned Ratio (Pre-Tax)	-9.74	6.52	8.60	25.65
Debt Service Coverage Ratio (Pre-Tax)	N/A	3.48	2.69	5.07
Operating Margin	-10.62%	5.85%	7.81%	20.24%

- 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	\$147,474	\$14,650	A	\$162,124
Less:				
Accum. Depreciation	132,975	11,094	B	144,069
Net Plant	\$14,499	\$3,556		\$18,055
Less:				
Plant Advances (Meter Deposits)	\$0	\$255	C	255
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$0	\$255		\$255
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$0	\$255		\$255
Plus:				
1/24 Power	\$362	\$0		\$362
1/8 Operation & Maint.	3,175	(976)	D	2,200
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$3,537	(\$976)		\$2,562
Rate Base	\$18,036	\$2,325		\$20,362

Explanation of Adjustment:

- A See Schedule 2 Page 2 of 3.
- B See Schedule 2 Page 3 of 3.
- C Staff adjustment to reflect customer meter deposits.
- D Based on Staff's adjustments to 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	23,726	(21,420) A		2,306
307 Wells & Springs	0	20,065 B		20,065
311 Pumping Equipment	56,175	(33,954) C		22,221
320 Water Treatment Equipment	0	0		0
330 Distribution Reservoirs & Standpipes	0	34,677 D		34,677
331 Transmission & Distribution Mains	60,542	2,839 E		63,381
333 Services	0	14,308 F		14,308
334 Meters & Meter Installations	7,031	(2,580) G		4,451
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	715 H		715
341 Transportation Equipment	0	0		0
343 Tools Shop & Garage Equipment	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	\$147,474	\$14,650		\$162,124

Explanation of Adjustment:

- A To record Structures & Improvements as reflected in Decision No. 62977.
- B Staff's adjustment reclassified plant in Structures & Improvements as reflected in Decision No.62977. Staff also reclassified \$740 from operating expense.
- C To record correct plant amounts, reflected in Decision No. 62977.
- D To record Distribution Reservoirs as reflected in Decision No.62977. Includes additions of \$15,700 to the storage tanks.
- E To record Transmission & Distribution as reflected in Decision No.62977.
- F To record Services amount as reflected in Decision No. 62977.
- G To correct Meter & Meter Installation amount as reflected in Decision No. 62977.
- H To record Office Furniture & Equipment, not previously recorded.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$132,975
Accumulated Depreciation - Per Staff	144,069 A
Total Adjustment	<u>\$11,094</u>

Explanation of Adjustment:

A - Accumulated Depreciation per Decision No. 62977	110,410
2000 Depreciation Expense	7,218
2001 Depreciation Expense	7,384
2001 Retirements	(1,850)
2002 Depreciation Expense	7,777
2003 Depreciation Expense	8,006
2004 Depreciation Expense	<u>5,124</u>
 Total Accumulated Depreciation	 <u>\$ 144,069</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$37,056	\$0	\$37,056
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$37,056	\$0	\$37,056
Operating Expenses:			
601 Salaries and Wages	\$0	\$2,340 A	\$2,340
610 Purchased Water	0	0	0
615 Purchased Power	8,683	0	8,683
618 Chemicals	0	0	0
620 Repairs and Maintenance	0	760 B	760
621 Office Supplies & Expense	1,133	(740) C	393
630 Outside Services	7,454	(4,144) D	3,310
635 Water Testing	165	1,397 E	1,562
641 Rents	2,876	0	2,876
650 Transportation Expenses	8,581	(6,713) F	1,868
657 Insurance - General Liability	3,076	(1,607) G	1,469
659 Insurance - Health and Life	0	400 H	400
666 Regulatory Commission Expense - Rate Case	0	667 I	667
675 Miscellaneous Expense	2,118	(157) J	1,961
403 Depreciation Expense	2,537	2,587 K	5,124
408 Taxes Other Than Income	2,098	(1,977) L	121
408.11 Property Taxes	2,271	615 M	2,886
409 Income Tax	0	467 N	467
Total Operating Expenses	\$40,992	(\$6,105)	\$34,887
OPERATING INCOME/(LOSS)	(\$3,936)	\$6,105	\$2,169
Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
424 WIFA Loan Payment	0	1,827 O	1,827
427 Interest Expense	404	0	404
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	(\$404)	(\$1,827)	(\$2,231)
NET INCOME/(LOSS)	(\$4,340)	\$4,278	(\$62)

STAFF ADJUSTMENTS

A	SALARIES AND WAGES - Per Company	\$0	
	Per Staff	2,340	<u>\$2,340</u>

To record office clerical salary expense. Based on audit findings
3 hours per week @ \$15 per hour.

B	REPAIRS AND MAINTENANCE - Per Company	0	
	Per Staff	760	<u>\$760</u>

Reclassify \$760 from outside services to the appropriate
account, repairs and maintenance for parts and labor.

C	OFFICE SUPPLIES & EXPENSE - Per Company	1,133	
	Per Staff	393	<u>(\$740)</u>

Reclassify \$740 from office supplies and expense to the wells
and springs, plant account.

D	OUTSIDE SERVICES - Per Company	7,454	
	Per Staff	3,310	<u>(\$4,144)</u>

To reclassify life insurance expense in the amount of \$1,200, to health
and life insurance account, the amounts of \$194 and \$730 to miscellaneous
miscellaneous expense, \$1,260 to pumping equipment plant in service account
and \$760 to repairs & maintenance expense account.

E	WATER TESTING - Per Company	165	
	Per Staff	1,562	<u>\$1,397</u>

To adjust to Staff Engineer's recommended expense level of \$ 1,562.

F	TRANSPORTATION EXPENSE - Per Company	8,581	
	Per Staff	1,868	<u>(\$6,713)</u>

To remove lease of a SAAB vehicle in the amount of \$5,423,
cash expense of \$290 and an unsubstantiated amount of \$1,000.

STAFF ADJUSTMENTS

G	INSURANCE - GENERAL LIABILITY - Per Company	3,076	
	Per Staff	1,469	(\$1,607)

To remove two years of insurance on the leased Saab vehicle.

H	INSURANCE - HEALTH AND LIFE - Per Company	0	
	Per Staff	400	\$400

To record 1/3 of \$1,200 expense for office clerks life insurance expense.

I	REGULATORY COMM EXP - RATE CASE - Per Company	0	
	Per Staff	667	\$667

To record 1/3 of regulatory rate case expense.
\$2,000 amortized over three years.

J	MISCELLANEOUS EXPENSE - Per Company	2,118	
	Per Staff	1,961	(\$157)

To reclassify from outside services \$924, and remove \$1,081 of unsubstantiated expense.

K	DEPRECIATION - Per Company	\$2,537	
	Per Staff	5,124	\$2,587

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

Plant in Service	\$162,124	
Less: Non Depreciable Plant	0	
Fully Depreciated Plant	0	
Depreciable Plant	\$162,124	
Times: Staff Proposed Depreciation Rate	3.87%	
Credit to Accumulated Depreciation as of 12/31/03	\$8,106	
Additions to plant 6 months depreciation	\$51	
Credit to Accumulated Depreciation	\$6,363	
Less: Adjustment to Accumulated Depreciation	(1,239)	
Pro Forma Annual Depreciation Expense	\$5,124	

STAFF ADJUSTMENTS

L	TAXES OTHER THAN INCOME - Per Company	\$2,098	
	Per Staff	121	<u>(\$1,977)</u>

To remove sales taxes paid by customers.

M	PROPERTY TAX - Per Company	\$2,271	
	Per Staff	2,886	<u>\$615</u>

To correct property tax calculation.

N	INCOME TAX - Per Company	\$0	
	Per Staff	467	<u>\$467</u>

To record income taxes resulting from operating income based on Staff's adjustments to operating expenses.

O	WIFA LOAN PAYMENT - Per Company	\$0	
	Per Staff	1,827	<u>\$1,827</u>

To record Commission approved, Decision No. 62977 WIFA loan payment (principal only - not reflected on Company's application).

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$ 20.00	\$ 0.00	\$ 0.00
3/4" Meter	20.00	25.50	22.00
1" Meter	32.00	38.50	35.00
1½" Meter	60.00	0.00	62.00
2" Meter	100.00	0.00	105.00
Gallons included in the minimum:	0	0	0
Commodity Rate:			
3/4 Inch Meters			
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	\$ 2.25	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-8,000 Gallons)	N/A	\$ 2.75	N/A
Excess of Minimum - per 1,000 Gallons (0-4,000 Gallons)	N/A	N/A	\$ 2.00
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	3.21	N/A	N/A
Excess of Minimum - per 1,000 Gallons (Over-8,000 Gallons)	N/A	\$ 3.85	N/A
Excess of Minimum - per 1,000 Gallons (4001-12,000 Gallons)	N/A	N/A	\$ 2.75
Excess of Minimum - per 1,000 Gallons (Over 12,000 Gallons)	N/A	N/A	\$ 3.50
Commodity Rate:			
1" Meters			
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	\$ 2.25	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-8,000 Gallons)	N/A	\$ 2.75	N/A
Excess of Minimum - per 1,000 Gallons (0-12,000 Gallons)	N/A	N/A	\$ 2.75
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	\$ 3.21	N/A	N/A
Excess of Minimum - per 1,000 Gallons (Over 8,000 Gallons)	N/A	\$ 3.85	N/A
Excess of Minimum - per 1,000 Gallons (Over 12,000 Gallons)	N/A	N/A	\$ 3.50
Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	\$ 400.00	\$ 480.00	\$ 0.00
3/4" Meter	400.00	480.00	480.00
1" Meter	470.00	575.00	575.00
1½" Meter	780.00	0.00	780.00
2" Meter	1,340.00	0.00	1,340.00
Service Charges			
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	35.00	40.00	35.00
Reconnection (Delinquent)	25.00	25.00	25.00
Meter Test (If Correct)	40.00	40.00	40.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	25.00	25.00	25.00
Deferred Payment	0.00%	1.00%	1.00%
Meter Re-Read (If Correct)	15.00	15.00	15.00

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)

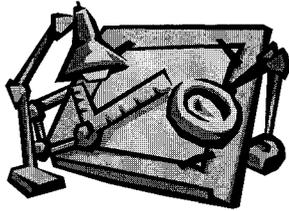
TYPICAL BILL ANALYSIS
General Service 3/4 - Inch Meter
Residential

Average Number of Customers: 39

<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	9,171	\$40.63	\$52.01	\$11.38	28.0%
Median Usage	6,583	\$34.81	\$43.60	\$8.79	25.3%
<u>Staff Recommended</u>					
Average Usage	9,171	\$40.63	\$44.22	\$3.59	8.8%
Median Usage	6,583	\$34.81	\$37.10	\$2.29	6.6%

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 Recommended Rates</u>	<u>% Increase</u>
0	\$20.00	\$25.50	27.5%	\$22.00	10.0%
1,000	22.25	28.25	27.0%	24.00	7.9%
2,000	24.50	31.00	26.5%	26.00	6.1%
3,000	26.75	33.75	26.2%	28.00	4.7%
4,000	29.00	36.50	25.9%	30.00	3.4%
5,000	31.25	39.25	25.6%	32.75	4.8%
6,000	33.50	42.00	25.4%	35.50	6.0%
7,000	35.75	44.75	25.2%	38.25	7.0%
8,000	38.00	47.50	25.0%	41.00	7.9%
9,000	40.25	51.35	27.6%	43.75	8.7%
10,000	42.50	55.20	29.9%	46.50	9.4%
15,000	58.55	74.45	27.2%	62.50	6.7%
20,000	74.60	93.70	25.6%	80.00	7.2%
25,000	90.65	112.95	24.6%	97.50	7.6%
50,000	170.90	209.20	22.4%	185.00	8.3%
75,000	251.15	305.45	21.6%	272.50	8.5%
100,000	331.40	401.70	21.2%	360.00	8.6%
125,000	411.65	497.95	21.0%	447.50	8.7%
150,000	491.90	594.20	20.8%	535.00	8.8%
175,000	572.15	690.45	20.7%	622.50	8.8%
200,000	652.40	786.70	20.6%	710.00	8.8%



Engineering Report For
Mirabell Water Company
for a Rate Increase
Docket No. W-02368A-05-0419

EXECUTIVE SUMMARY

Conclusions

- I. The Arizona Department of Environmental Quality reported that the water system is delivering water that does not exceed any maximum contaminant level ("MCL") 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 5.3 $\mu\text{g/l}$. 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 (\$1,562.00). (See §F of report for discussion and details.)
- II. Staff recommends that within 120 days of a Decision in this case, the Company file a detailed plan in this docket demonstrating how the Company will reduce its water loss to less than 10%. If the Company finds that reduction of water loss to less than 10% is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why a water loss reduction to less than 10% is not cost effective.
- 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.
- IV. Staff recommends that the Company file in this docket a curtailment tariff within 45 days after the effective date of any decision and order pursuant to this application.

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A. LOCATION OF WATER SYSTEM

Mirabell Water Company (“Company/Mirabell”) serves about 62 customers near the “three points” area (intersection of Highways 86 and 286), which is approximately 25 miles southwest of Tucson. Mirabell subdivision was originally platted around 1979 and consists of a 240 acre tract.

Exhibit 1 and 2 show the certificated area and the location of the water system within Pima County.

B. DESCRIPTION OF WATER SYSTEM

The plant facilities were inspected on July 20, 2005 by John A Chelus, Marlin Scott Jr., and Richard Martinez in the accompaniment of Mr. Edward Straughn, the certified operator of the water company. All facilities appeared to be well maintained. The system serves approximately 62 metered customers

The water system consists of a single well which pumps to a 25,000 gallon and a 10,000 gallon storage tank. Two 5-horsepower booster pumps take suction from the storage tank and discharge through a 2,000 gallon pressure tank to the distribution system. At the top of the subdivision, there is also an upper pressure zone, consisting of three 300-gallon captive air pressure tanks and one 1-horsepower booster pump, which serves 12 homes.

At the bottom elevation of the subdivision, operating pressures vary from 80 to 100 psi. In order to mitigate these high pressures, impacted homes in the lower part of the service area are provided with individual pressure reducing valves.

The water system has adequate water production and meets Department of Environmental Quality (“ADEQ”) storage requirements. Exhibit 3 provides a process schematic for the water system.

Well Data

	Well No. 1
ADWR ID No.	55-624580
Casing Size	8 inch
Casing Depth	760 ft.
Meter Size	2 inch
Pump Size	15 hp Turbine
Pump Yield	50 gpm
Date Drilled	1980
Storage Tanks	1 – 10,000 gallon, 1-25,000 gallon
Pressure Tank	1- 2,000 gallon, 3-300 gallon
Booster Pumps	2- 5 hp 1-1 hp

Mains

Diameter (inches)	Material	Length (feet)
2 "	PVC	3,722
3 "	PVC	2,690
4"	PVC	4,435
1 ¼"	PVC	2,800

Meters

Size	Quantity
¾"	39
1 "	23

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 5.3 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

Mirabell is within the Tucson Active Management Area. Since Mirabell has less than 500 customers and pumps less than 100 acre-feet per year, it is considered a "small provider" and is not subject to the gallons per capita per day (GPCD) limit and conservation rules. Mirabell is only required to monitor and report water use. ADWR indicated that the water company is in compliance with its monitoring and report requirements.

F. WATER TESTING EXPENSES

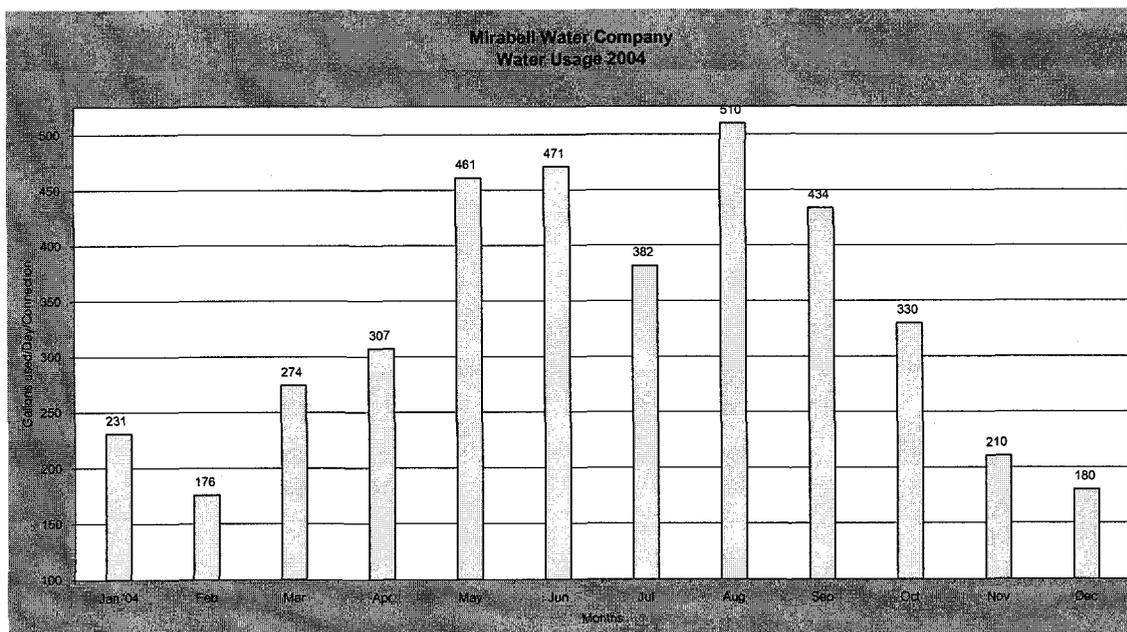
The following table shows the estimated annual monitoring expense, assuming participation in the Monitoring Assistance Program ("MAP"). Staff is assuming two Microbial tests per month. Water testing expenses should be adjusted to the annual expense amount shown in Table 1, which is \$ 1,562.

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	\$30	72	2160	720
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	379
Total				\$1,562.00

G. WATER USAGE

Water Sold

Based on the information provided by the Company, water use for the year 2004 is presented below. The high monthly domestic water use was 510 gal/day-service in August, and the low monthly domestic water use was 176 gal/day-service in December. The average annual use was 331 gal/day-service.



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 8,320,831 gallons during 2004. During the same period, the Company reported selling 7,377,084 gallons of water. This equates to a water loss of 11.3 percent.

Since the water loss is less than 15%, but greater than 10%, Staff recommends that within 120 days of a Decision in this case, the Company file a detailed plan in this docket demonstrating how the Company will reduce its water loss to less than 10%. If the Company finds that reduction of water loss to less than 10% is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why a water loss reduction to less than 10% is not cost effective.

H. GROWTH

The Company currently has 62 customers. Mirabell expects no more than nine or ten new customers to build out 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

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. Since Mirabell does not have a curtailment tariff, this rate application provides an opportune time to prepare and file such a tariff. Staff recommends that the Company file in this docket a curtailment tariff within 45 days after the effective date of any decision and order pursuant to this application. Staff also recommends that the tariff shall generally conform to the sample tariff found in Exhibit 5 of this report. Exhibit 5 is offered as a template only. The Company may modify Exhibit 5 according to its specific management, operational, and design requirements as necessary and appropriate.

EXHIBITS

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

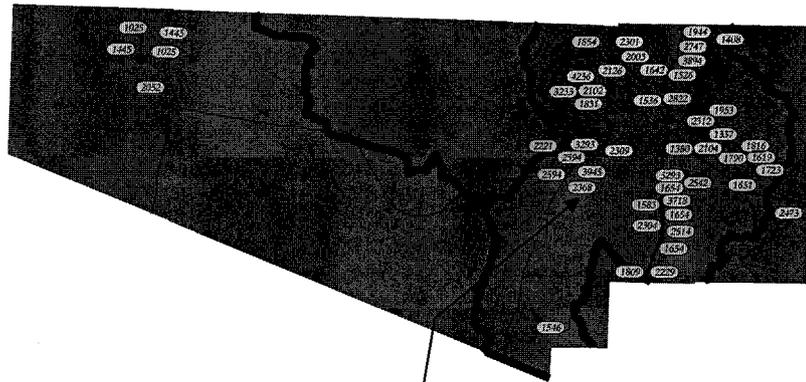
PROCESS SCHEMATIC EXHIBIT 3

DEPRECIATION RATES EXHIBIT 4

CURTAILMENT TARIFF EXHIBIT 5

Exhibit 1

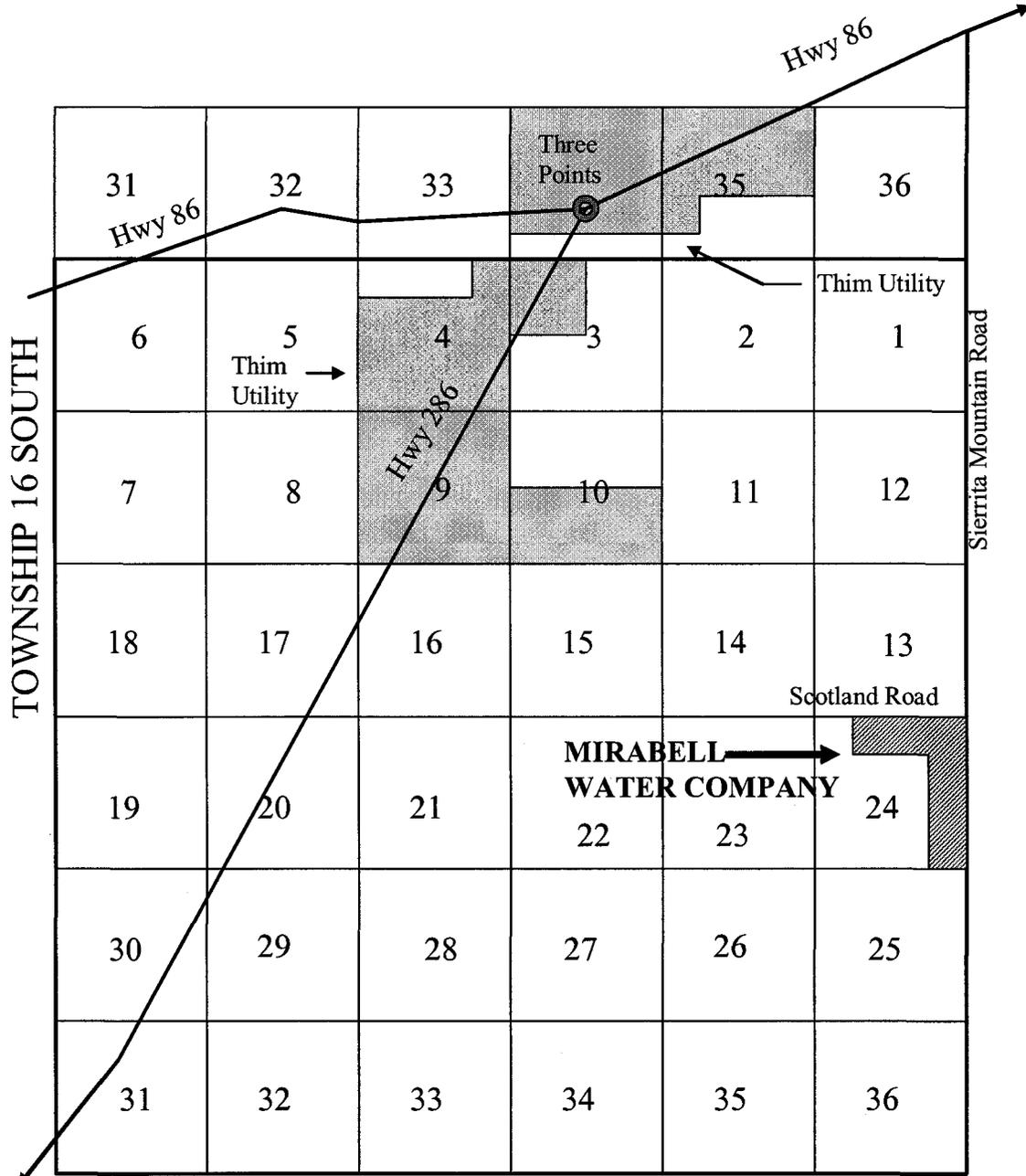
PIMA COUNTY



- | | | | |
|------|---|------|---|
| 1025 | AJO IMPROVEMENT COMPANY | 2514 | QUAIL CREEK WATER COMPANY, INC. |
| 2473 | ANDERSON WATER COMPANY, INC. | 2102 | RANCHO DEL CONEJO WATER COMMUNITY COOPERATIVE |
| 3233 | ANWAY MANVILLE L.L.C. WATER COMPANY | 3718 | RANCHO SAHUJARITA WATER COMPANY |
| 1546 | ARIVACA TOWNSITE COOPERATIVE WATER COMPANY | 1380 | RAY WATER COMPANY |
| 1445 | ARIZONA WATER COMPANY (AJO HEIGHTS) | 2003 | RILLITO WATER USERS |
| 2126 | AVRA WATER COOPERATIVE, INC. | 1619 | RINCON CREEK WATER COMPANY |
| 2304 | COMMUNITY WATER COMPANY OF GREEN VALLEY | 1337 | RINCON RANCH ESTATES WATER COMPANY, INC. |
| 1642 | DESPOBLADO WATER COMPANY | 1723 | RINCON WATER COMPANY |
| 2309 | DIABLO VILLAGE WATER COMPANY | 1790 | SAGUARO WATER COMPANY |
| 1654 | FARMERS WATER COMPANY | 1831 | SANDARIO WATER COMPANY |
| 3945 | FRANCESCA WATER COMPANY, INC. | 2822 | SLEEPY HOLLOW MOBILE HOME ESTATES |
| 2312 | HALCYON ACRES ANNEX # 2 WATER COMPANY, INC. | 1816 | SPANISH TRAIL WATER COMPANY |
| 1953 | HALCYON ACRES WATER USERS ASSOCIATION | 3894 | STEAM PUMP INVESTORS. L.L.C. |
| 2542 | LA CASITA WATER COMPANY, INC. | 3293 | THIM UTILITY COMPANY |
| 1944 | LAGO DEL ORO WATER COMPANY | 2594 | THIM WATER CORPORATION |
| 1809 | LAKEWOOD WATER COMPANY | 4236 | TIERRALINDA HOMEOWNERS ASSOCIATION, INC. |
| 1583 | LAS QUINTAS SERENAS WATER COMPANY | 2301 | TORTOLITA WATER COMPANY, INC. |
| 1536 | LAZY C WATER SERVICE | 1651 | VAIL WATER COMPANY |
| 2747 | LOS CERROS WATER COMPANY, INC. | 2229 | VIVA DEVELOPMENT CORPORATION |
| 1854 | LYN-LEE WATER COMPANY | 2104 | VOYAGER WATER COMPANY |
| 1526 | MESALAND WATER COMPANY, INC. | 2052 | WHY UTILITY COMPANY |
| 2366 | MIRABELL WATER COMPANY, INC. | 2221 | WORDEN WATER COMPANY |
| 1408 | MT. LEMMON COOPERATIVE WATER COMPANY, INC. | | |

**CERTIFICATED AREA
MIRABELL WATER COMPANY**

To Tucson
25 miles



To Sasabe
Border Station

RANGE 10 EAST

Exhibit 2

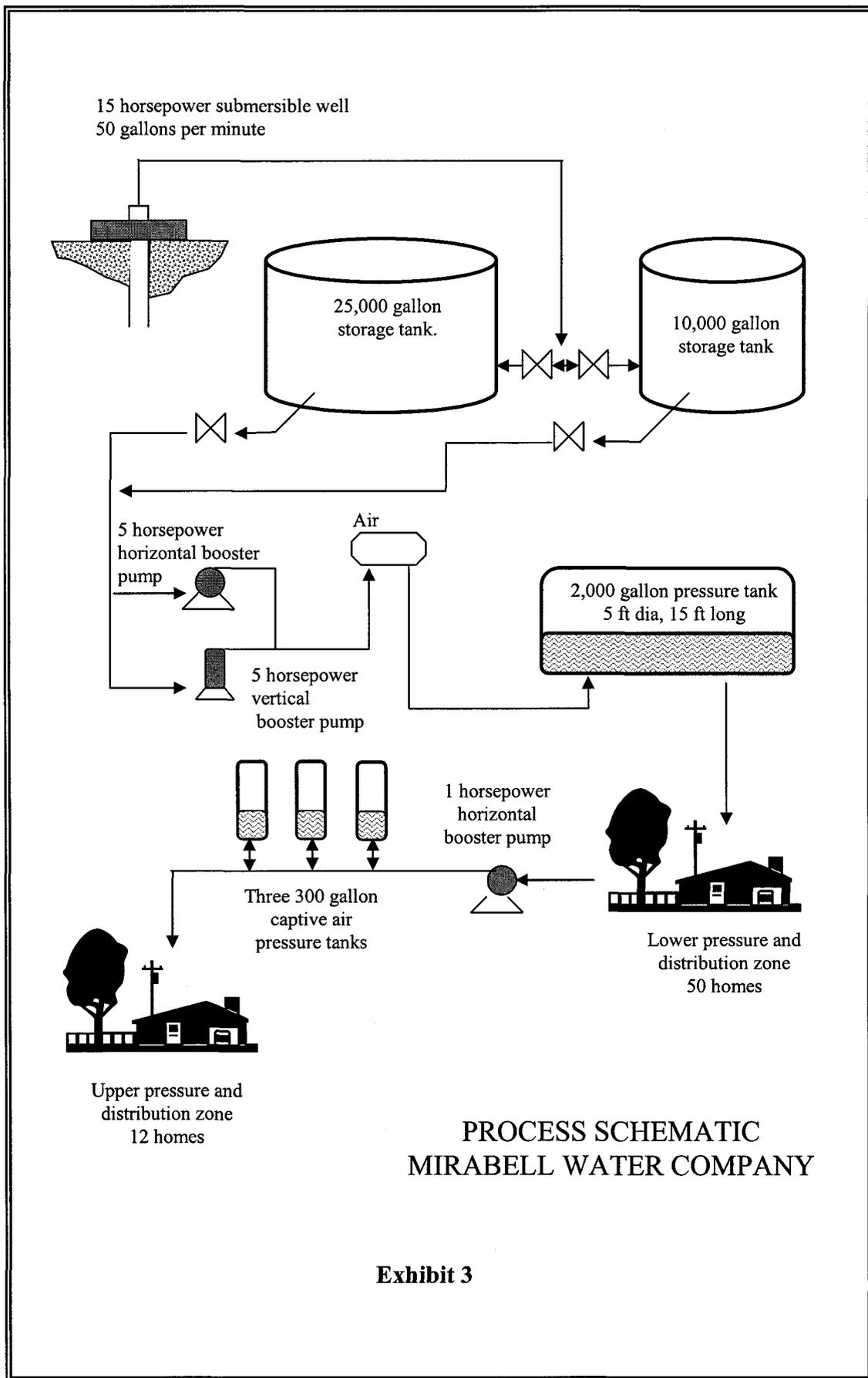


EXHIBIT 4
TYPICAL DEPRECIATION RATES FOR WATER COMPANIES

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.

TARIFF SCHEDULE

Exhibit 5

Utility: _____
Docket No.: _____
Phone No.: _____

Tariff Sheet No.: 1 of 4
Decision No.: _____
Effective: _____

CURTAILMENT PLAN FOR MIRABELL WATER COMPANY

ADEQ Public Water System No: 10-178

Mirabell Water Company ("Company"), is authorized to curtail water service to all customers within its certificated area under the terms and conditions listed in this tariff.

This curtailment plan shall become part of the Arizona Department of Environmental Quality Emergency Operations Plan for the Company.

The Company shall notify its customers of this new tariff as part of its next regularly scheduled billing after the effective date of the tariff or no later than sixty (60) days after the effective date of the tariff.

The Company shall provide a copy of the curtailment tariff to any customer, upon request.

Stage 1 Exists When:

Company is able to maintain water storage in the system at 100 percent of capacity and there are no known problems with its well production or water storage in the system.

Restrictions: Under Stage 1, Company is deemed to be operating normally and no curtailment is necessary.

Notice Requirements: Under Stage 1, no notice is necessary.

Stage 2 Exists When:

- a. **Company's water storage or well production has been less than 80 percent of capacity for at least 48 consecutive hours, and**
- b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 2, the Company may request the customers to voluntarily employ water conservation measures to reduce water consumption by approximately 50 percent. Outside watering should be limited to essential water, dividing outside watering on some uniform basis (such as even and odd days) and eliminating outside watering on weekends and holidays.

TARIFF SCHEDULE

Exhibit 5

Utility: _____

Tariff Sheet No.: 2 of 4

Docket No.: _____

Decision No.: _____

Phone No.: _____

Effective: _____

Notice Requirements: Under Stage 2, the Company is required to notify customers by delivering written notice door to door at each service address, or by United States first class mail to the billing address or, at the Company's option, both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

Stage 3 Exists When:

- a. Company's total water storage or well production has been less than 50 percent of capacity for at least 24 consecutive hours, and
- b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 3, Company shall request the customers to voluntarily employ water conservation measures to reduce daily consumption by approximately 50 percent. All outside watering should be eliminated, except livestock, and indoor water conservation techniques should be employed whenever possible. Standpipe service shall be suspended.

Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option, both. Such Notice shall notify the customers of the general nature of the problem and the need to conserve water.
2. Beginning with Stage 3, Company shall post at least 2 signs showing the curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to major subdivisions served by the Company.
3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 3.

Once Stage 3 has been reached, the Company must begin to augment the supply of water by either hauling or through an emergency interconnect with an approved water supply in an attempt to maintain the curtailment at a level no higher than Stage 3 until a permanent solution has been implemented.

Stage 4 Exists When:

TARIFF SCHEDULE

Exhibit 5

Utility: _____

Tariff Sheet No.: 3 of 4

Docket No.: _____

Decision No.: _____

Phone No.: _____

Effective: _____

- a. Company's total water storage or well production has been less than 25 percent of capacity for at least 12 consecutive hours, and
- b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 4, Company shall inform the customers of a **mandatory** restriction to employ water conservation measures to reduce daily consumption. Failure to comply will result in customer disconnection. The following uses of water shall be prohibited:

- ◆ Irrigation of outdoor lawns, trees, shrubs, or any plant life is prohibited
- ◆ Washing of any vehicle is prohibited
- ◆ The use of water for dust control or any outdoor cleaning uses is prohibited
- ◆ The use of drip or misting systems of any kind is prohibited
- ◆ The filling of any swimming pool, spas, fountains or ornamental pools is prohibited
- ◆ The use of construction water is prohibited
- ◆ Restaurant patrons shall be served water only upon request
- ◆ Any other water intensive activity is prohibited

The Company's operation of its standpipe service is prohibited. The addition of new service lines and meter installations is prohibited.

Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option, both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.
2. Company shall post at least 2 signs showing curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to major subdivisions served by the Company.
3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 4.

TARIFF SCHEDULE

Exhibit 5

Utility: _____

Tariff Sheet No.: 4 of 4

Docket No.: _____

Decision No.: _____

Phone No.: _____

Effective: _____

Once Stage 4 has been reached, the Company must augment the supply of water by hauling or through an emergency interconnect from an approved supply or must otherwise provide emergency drinking water for its customers until a permanent solution has been implemented.

Customers who fail to comply with the above restrictions will be given a written notice to end all outdoor use. Failure to comply within two (2) working days of receipt of the notice will result in temporary loss of service until an agreement can be made to end unauthorized use of outdoor water. To restore service, the customer shall be required to pay all authorized reconnection fees. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.