ORIGINAL

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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

for

DATE: December 6, 2005

RE: STAFF REPORT FOR WHY UTILITY CO., INC'S. FINANCING AND RATE INCREASE APPLICATIONS (DOCKET NOS. W-02052A-05-0528 and W-02052A-05-0529)

Attached is the Staff Report for Why Utility Co., Inc's., applications for approval of financing and a permanent rate increase. Staff recommends approval of the applications using Staff's recommended rates and charges.

EGJ:ENZ:rdp

Originator: Elena Zestrijan

Attachment: Original and sixteen Copies

Service List for: Why Utility Co., Inc.
Docket Nos. W-02052A-05-0528 and W-02052A-05-0529

Ms. Kimberly A. Grouse
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Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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

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

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

WHY UTILITY CO., INC.

DOCKET NOS. W-02052A-05-0528 and W-02052A-05-0529

APPLICATIONS FOR APPROVAL OF FINANCING
AND A
PERMANENT RATE INCREASE

DECEMBER 6, 2005

STAFF ACKNOWLEDGMENT

The Staff Report for Why Utility Co., Inc. ("Company"), Docket Nos. W-02052A-05-0528 and W-02052A-05-0529 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. Jamie Moe was responsible for the evaluation of the Company's financing application and recommendations. Marlin Scott, Jr. was responsible for the engineering and technical analysis. John LaPorta was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.

Elena Zestrijan
Public Utilities Rate Analyst III

Jamie Moe
Public Utilities Rate Analyst V

Marlin Scott Jr.
Utilities Engineer

John LaPorta
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
WHY UTILITY CO., INC.
DOCKET NOS. W-02052A-05-0528 AND W-02052A-05-0529

Why Utility Co., Inc's. ("Company") rate application proposes an increase in revenues of $38,936 or a 107.96 percent increase over adjusted test year revenues of $36,064. The Company proposed rates will produce revenues of $75,000, and a negative operating income of $9,701, for no rate of return on an original cost rate base ("OCRB") of $409,460. The Company's proposed rates would increase the typical residential bill with a median usage of 6,100 gallons from $19.00 to $44.20 for an increase of $25.20 or 132.63 percent.

Staff is recommending an increase in revenues of $31,971 or an 88.65 percent increase over adjusted test year revenues of $36,064. Staff's recommended rates will produce revenues of $68,035, and operating income of $11,509, for a 49.90 percent rate of return on an OCRB of $23,064. Due to Staff's recommended reduction of rate base from $409,460 to $23,064, to reflect the true depreciated value of its plant, the resultant rate of return is abnormally high. Staff recommends an operating margin of 16.92 percent to provide the Company with sufficient funds to operate and for contingencies. Staff's recommended rates would increase the typical residential bill with a median usage of 6,100 gallons from $19.00 to $32.45 for an increase of $13.45 or 70.79 percent.

The Company is requesting approval of financing for a total of $1,349,178. Of this total, $1,164,178 are grants and only $185,000 needs to be re-paid by the Company. This financing covers arsenic treatment in excess of $200,000 plus numerous other plant improvements/replacements. Staff recommends approval. The Company is also requesting approval of a $30,000 existing note, used to purchase an additional 2.51 acres of adjoining land to the Company's existing campground. Staff recommends denial since the land is used to provide non-regulated revenue and has nothing to do with its regulated services.

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SCHEDULES

Attachments

FACT SHEET

Current rates: Decision No. 40053, dated June 9, 1969.

Type of ownership: Arizona "Non Profit Corporation"

Location: The Company serves the community of Why, Arizona, which is approximately 10 miles southeast of Ajo on Highway 85 within Pima County, covering approximately ½ square mile of certificated area. The Company serves approximately 87 customers. The water system is not located in any Arizona Department of Water Resources ("ADWR") Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: July 22, 2005
Current test year ended: December 31, 2004
Prior test year ended: This is Company's first rate increase application.

	Current Rates	Company Proposed Rates	Staff Recommended Rates
Monthly Minimum Charge			
Based on 5/8 x 3/4 - inch meter	$19.00	$40.00	$22.50
Residential Customers			
Gallons included in Minimum	9,000	4,000	0
Commodity Charge			
Excess of minimum, per 1,000 gallons:	$1.00	N/A	N/A
From 4,001 to 9,000 gallons	N/A	$2.00	N/A
From 9,001 to 14,000 gallons	N/A	$2.15	N/A
Over 14,000 gallons	N/A	$2.35	N/A
From 0 to 3,000 gallons	N/A	N/A	$1.25
From 3,001 to 10,000 gallons	N/A	N/A	$2.00
Over 10,000 gallons	N/A	N/A	$2.75
Typical residential bill			
(Based on median usage of 6,100 gallons)	$19.00	$44.20	$32.45

Customers:

Average number of customers in current test year: 87

Average number of customers in the prior test year: First rate case application

Current Test Year customers by meter size:

5/8 x 3/4 - inch - residential	68
5/8 x 3/4 - inch - commercial	10
1-1/2 -inch	1
2-inch	8

Complaints:

Numbers of customers concerns since rate application filed: 3

Percentage of complaints to customer base: 3.45 percent

Notification:

Customer notification was mailed on October 5, 2005.

Summary of Filing

Based on test year results as adjusted by Utilities Division Staff ("Staff"), Why Utility Co., Inc. ("Company") realized an operating loss of $18,696 on an original cost rate base ("OCRB") of $23,064 as shown on Schedule 1.

The Company's proposed rates would produce operating revenues of $75,000 and an operating loss of $9,701 for no rate of return on an OCRB of $409,460. The Company's proposed rates would increase the typical residential bill with a median usage of 6,100 gallons from $19.00 to $44.20, for an increase of $25.20 or 132.63 percent.

Staff's recommended rates would produce operating revenues of $68,035 and an operating income of $11,509, for a 49.90 percent rate of return on an OCRB of $23,064. Since Company's plant in service is fully depreciated with the exception of the $18,158 addition to the pumping equipment in the test year, Staff utilized an operating margin of 16.92 percent as its primary focus for setting its recommended revenue requirement. Staff's recommended rates would increase the typical residential bill with a median usage of 6,100 gallons from $19.00 to $32.45, for an increase of $13.45 or 70.79 percent.

Background

On July 22, 2005, the Company filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission") utilizing a test year ending December 31, 2004. On October 7, 2005, the application was deemed sufficient. The Company served approximately 87 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 and high levels of arsenic. The Company will construct an arsenic treatment system. It also contends that operating expenses have not allowed the Company to earn a fair rate of return.

Consumer Services

A review of the Commission's Consumer Service's records show that the Company was granted a Certificate of Convenience and Necessity per Decision No. 40053, dated June 9, 1969.

The record also reflects one complaint on service termination and one inquiry regarding service in the test year. There were three inquiries in 2005; one regarding the filing of the rate application, one regarding the customer notification, and one relating to the specific rates.

A review of the Commission's records found that the Company's cross-connection/backflow prevention tariff was filed and approved with the Arizona Corporation Commission ("Commission") effective September 6, 1996.

Financing

On July 22, 2005, the Company filed an application with the Commission requesting authorization for long-term debt in the amount of $185,000, which in return earns the utility grants in the amount of $1,164,178. This total $1,349,178 from the United States Department of Agriculture's ("USDA") Department of Rural Utility Services ("RUS") is for water treatment facilities, replacement of two storage tanks and replacement and installation of water distribution mains. Rural Community Assistance Corporation ("RCAC") has provided interim financing in the amount of $400,000 while the Company is awaiting this Commission's approval. Staff recommends approval.

The Company is also requesting financing approval on a $30,000 note signed by the Company in October 2002, which was used to purchase an additional 2.51 acres of land. Staff recommends denial.

For discussion and detailed analysis, please refer to Financing Report attachment.

Engineering Analysis

A complete discussion of Staff Engineering's findings, recommendations, and description of the water system is provided in the attached Engineering Report attachment.

The Company water system's current well and storage capacities are adequate to serve the present customer base.

The Company has an approved curtailment plan tariff that became effective on September 4, 2004.

The Company has a water loss of 14.5 percent and has estimated $830,743 in the financing application for a water distribution system project.

The Company reported its arsenic concentration for its two wells at 150 ppb. Based on this arsenic concentration, the Company has estimated $224,124 in the financing application for an arsenic treatment system. Staff recommends that the Company docket a copy of the ADEQ Certificate for Approval to Construct for its arsenic treatment system by June 30, 2006.

The Company has not filed a rate application since it received its CC&N and has not used depreciation rates recommended by Staff. Staff recommends that the Company use the depreciation rates delineated in Table B on a going-forward basis.

Compliance

The Company is current on its property and sales tax payments, and has no outstanding compliance issues.

Staff performed a regulatory 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"). Staff recommends that the Company be ordered to convert and maintain its records according to, NARUC's USOA.

The Company is not within an AMA, and is not subject to the ADWR monitoring and reporting requirements.

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 23, 2006. The most recent lab analysis by the Company is not in compliance with Arizona Department of Environmental Quality ("ADEQ") water quality standards and is not delivering water that meets water quality standards required by Arizona Administrative Code Title 18, Chapter 4. (See Page 8 of Engineering Report for discussion and details). The concurrent financing application will deal with this problem.

Rate Base

As shown on Schedule 2, page 1, Staff recommends a rate base of $23,064. This rate base represents a decrease of $386,396 from the Company's proposed $409,460 rate base, due to Staff's adjustment to reflect plant in service consistent with Staff audit findings. The original plant is fully depreciated and the only undepreciated plant is an addition to the electric pumping equipment in the amount of $18,158, as explained on Schedule 2, page 2 of 3.

Accumulated depreciation was calculated at the 5 percent standard rate for the intervening years. This account was also decreased for the full addition amount of $18,158 taken by the Company as depreciation expense. Staff's increase adjustment to the accumulated depreciation amounted to $404,521, as shown on Schedule 2, page 3 of 3.

Adjustment C, as shown in Schedule 2, page 1, reflects a decrease in operating and maintenance cash working capital component of $33 due to Staff adjustments to operating expenses.

Operating Revenues

Staff made no adjustment to the Company's test year operating revenue of $36,064. (Schedule 3, Page 1 of 3).

Operating Expenses

Staff adjustments to operating expenses resulted in a decrease of $29,941 from $84,701 to $54,760, as shown on Schedule 3, page 1 of 3. The adjustments are discussed below.

Adjustment A – Repairs and Maintenance – reclassification of $4,344 repairs expense and a credit of $1,000 charged to miscellaneous account.

Adjustment B – Contractual Services, Professional - reflects reclassification of $1,750 from water testing account.

Adjustment C is a reclassification from water testing to contractual services, professional account to reflect engineering fee.

Adjustment D reflects expense ($3,344) reclassification to repairs and maintenance account, disallowance of audit penalties and interest in the amount of $208 and $50 donation to a restaurant for food for a family bereavement.

Adjustment E reflects disallowance of depreciation expense on plant already fully depreciated and also addition of pumping equipment in the test year in the amount of $18,158 which the Company depreciated at 100 percent. Staff disallowed the Company's depreciation expense calculation. Staff's calculated depreciation expense reflects 12.5 percent on the $18,158 test year additions to the pumping equipment for a full year, amounting to $2,270 to reflect annual expense on a going forward basis. Staff recommends going forward depreciation calculation using Staff recommended rates (See Table B, Engineering Report).

Revenue Requirements

The Company is proposing an increase in revenues of $38,936 or 107.96 percent over adjusted test year revenues of $36,064. This increase would result in no rate of return.

Staff is recommending an increase in revenues of $31,971 or 88.65 percent over adjusted test year revenues of $36,064. The Staff recommended increase would result in a rate of return of 49.90 percent and an operating margin of 16.92 percent. In Staff's opinion, its recommended revenues would allow the Company to meet its obligations and provide a cushion for contingencies. Due to Staff's recommended rate base reduction (already discussed) the rate of return is abnormally high. Staff instead, recommends an operating margin of 16.92 percent to provide the Company sufficient operating revenue.

Rate Design

While Staff is very concerned about rate shock, Staff notes that rates have not changed for these ratepayers since 1969 - more that 36 years ago. Therefore, Staff is not recommending any phase-in or delay for new rates.

The Company's current rate structure consists of no block tiers in the commodity rates and 9,000 gallons included in the monthly minimum charge. The Company proposes three tiers and 4,000 gallons included in the monthly minimum charge. 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 9,000 gallon level, the second tier applies to consumption of 14,000 gallons and third tier at over 14,000 gallons.

Staff recommends, a first tier break at the 3,000 gallon level, a second tier break at 10,000 gallons, and the third tier applies to consumption in excess of 10,000 gallons.

The residential customer class served through a 5/8 x 3/4-inch meter used 78 percent of the total water sold. The commercial class served through 5/8 x 3/4, 1-1/2, and 2-inch meters consumed 22 percent of the total water sold. Consequently, Staff's recommended rate structure was designed recommending three tiers for the 5/8 x 3/4 inch meter, residential customers only. Two tiers were used for all other size meters, and all commercial customers.

Staff Recommendations

Staff recommends that the Company be required to convert and maintain records in accordance with the NARUC USOA.

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

Staff further recommends approval of the financing request, in the amount of $185,000.

Staff further recommends denial of the financing request for $30,000 used to purchase additional land.

Staff further recommends approval of granting liens in favor of the lender as required to secure the borrowings authorized.

Staff further recommends authorizing the applicant to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends ordering the Company to provide to Docket Control, as a compliance item, copies of all executed financing documents within 60 days after the loan agreement is signed.

Staff further recommends that the Company be ordered to use depreciation rates by individual NARUC category, as delineated in Table B, Page 10, of the Engineering Report, on a going forward basis.

Staff further recommends approval of meter and service line installation charges as shown in Table C, Page 11 of the Engineering Report.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the ADEQ Certificate for Approval to Construct for its water distribution system project by June 30, 2006.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the ADEQ Certificate for Approval to Construct for its arsenic treatment system by June 30, 2006.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a tariff schedule of its approved rates and charges within 30 days of the Decision in this matter.

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).

Why Utility Co., Inc.
Docket No. W-02052A-05-0528 and W-02052A-05-0529 Schedule 1
Test Year Ended December 31, 2004

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	$30,029	$30,029	$68,965	$62,000
Unmetered Water Revenue	5,655	5,655	5,655	5,655
Other Water Revenues	380	380	380	380
Total Operating Revenue	$36,064	**$36,064**	$75,000	**$68,035**
Operating Expenses:				
Operation and Maintenance	$50,004	$49,747	$50,004	$49,747
Depreciation	28,142	2,270	28,142	2,270
Property & Other Taxes	5,050	4,509	5,050	4,509
Income Tax	1,505	0	1,505	0
Total Operating Expense	$84,701	**$56,526**	$84,701	**$56,526**
Operating Income/(Loss)	($48,637)	**($20,462)**	($9,701)	**$11,509**
Rate Base O.C.L.D.	$409,460	$23,064	$409,460	$23,064
Rate of Return - O.C.L.D.	-11.88%	-88.72%	-2.37%	49.90%
Operating Margin	-134.86%	-56.74%	-12.93%	16.92%

Why Utility Co., Inc.
Docket No. W-02052A-05-0528 and W-02052A-05-0529
Test Year Ended December 31, 2004

RATE BASE

	----------- Original Cost --------------			
	Company	Adjustment		Staff
Plant in Service	$738,456	$18,158	A	$756,614
Less:				
Accum. Depreciation	334,389	404,521	B	738,910
Net Plant	$404,067	($386,363)		**$17,704**
Less:				
Plant Advances (Meter Deposits)	$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	$429	$0		$429
1/8 Operation & Maint.	4,964	(33)	C	4,931
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	$5,393	($33)		**$5,360**
Rate Base	**$409,460**	**($386,396)**		**$23,064**

Explanation of Adjustment:

A See Schedule 2 Page 2 of 3.
B See Schedule 2 Page 3 of 3.
C Based on Staff's adjustments to operating expenses.

Why Utility Co., Inc.
Docket No. W-02052A-05-0528 and W-02052A-05-0529
Test Year Ended December 31, 2004

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	2,895	0		2,895
307 Wells & Springs	400,110	(151,740)	A	248,370
311 Pumping Equipment	49,989	18,158	B	68,147
320 Water Treatment Equipment	7,297	0		7,297
330 Distribution Reservoirs & Standpipes	0	107,500	A	107,500
331 Transmission & Distribution Mains	156,986	0		156,986
333 Services	0	22,200	A	22,200
334 Meters & Meter Installations	0	8,040	A	8,040
335 Hydrants	0	14,000	A	14,000
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipment	2,268	0		2,268
340 Office Furniture & Equipment	0	0		0
341 Transportation Equipment	8,300	0		8,300
343 Tools Shop & Garage Equipment	0	0		0
344 Laboratory Equipment	0	0		0
345 Power Operated Equipment	36,842	0		36,842
346 Communication Equipment	0	0		0
347 Miscellaneous Equipment	73,769	0		73,769
348 Other Tangible Plant	0	0		0
105 C.W.I.P.	0	0		0
TOTALS	$738,456	$18,158		$756,614

Explanation of Adjustment:

A To record Staff Engineer's recommended plant to the proper categories.
B To record addition to the pumping equipment.

Why Utility Co., Inc.
Docket No. W-02052A-05-0528 and W-02052A-05-0529
Test Year Ended December 31, 2004

ACCUMULATED DEPRECIATION ADJUSTMENT

	Amount	
Accumulated Depreciation - Per Company	$334,389	
Accumulated Depreciation - Per Staff	738,910	A
Total Adjustment	**$404,521**	

Explanation of Adjustment:

A -	Accumulated Depreciation	738,456
	2004 Depreciation Expense	454
	Total Accumulated Depreciation	$ 738,910

Why Utility Co., Inc.
Docket No. W-02052A-05-0528 and W-02052A-05-0529
Test Year Ended December 31, 2004

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	$30,029	$0		$30,029
460 Unmetered Water Revenue	5,655	0		5,655
474 Other Water Revenues	380	0		380
Total Operating Revenue	$36,064	$0		**$36,064**
Operating Expenses:				
601 Salaries and Wages	$11,800	$0		$11,800
610 Purchased Water	246	0		246
615 Purchased Power	10,048	0		10,048
618 Chemicals	0	0		0
620 Repairs and Maintenance	605	3,344	A	3,949
621 Office Supplies & Expense	841	0		841
630 Outside Services	12,674	0		12,674
631 Contractual Services - Professional	0	1,750	B	1,750
635 Water Testing	3,283	(1,750)	C	1,533
641 Rents	0	0		0
650 Transportation Expenses	18	0		18
657 Insurance - General Liability	5,494	0		5,494
659 Insurance - Health and Life	0	0		0
666 Regulatory Commisssion Expense - Rate Case	0	0		0
675 Miscellaneous Expense	4,995	(3,601)	D	1,394
403 Depreciation Expense	28,142	(25,872)	E	2,270
408 Taxes Other Than Income	1,894	(194)	F	1,700
408.11 Property Taxes	3,156	(347)	G	2,809
409 Income Tax	1,505	(1,505)	H	0
Total Operating Expenses	$84,701	($28,175)		**$56,526**
OPERATING INCOME/(LOSS)	**($48,637)**	**$28,175**		**($20,462)**
Other Income/(Expense):				
419 Interest and Dividend Income	$430	$0		430
421 Non-Utility Income	173,012	0		173,012
424 WIFA Loan Payment	0	0		0
427 Interest Expense	0	0		0
4XX Reserve/Replacement Fund Deposit	0	0		0
426 Miscellaneous Non-Utility Expense	83,824	0		83,824
Total Other Income/(Expense)	$89,618	$0		$89,618
NET INCOME/(LOSS)	**$40,981**	**$28,175**		**$69,156**

Why Utility Co., Inc.
Docket No. W-02052A-05-0528 and W-02052A-05-0529
Test Year Ended December 31, 2004

STAFF ADJUSTMENTS

A	REPAIRS AND MAINTENANCE - Per Company	605	
	Per Sraff	3,949	$3,344

To reclassify from miscellaneous $4,344 expense and $1,000 credit.

B	CONTRACTUAL SERVICES - PROFESSIONAL - Per Company	$0	
	Per Staff	1,750	$1,750

To reclass engineering fees from water testing account.

C	WATER TESTING - Per Company	3,283	
	Per Staff	1,533	($1,750)

To reclassify $1750 to contractual services, professional for the engineering fees.

D	MISCELLANEOUS EXPENSE - Per Company	4,995	
	Per Staff	1,394	($3,601)

Reclassify $4,344 expense and $1,000 credit to repairs and maintenance, disallowance of Az. Department of Revenue, audit penalties and interest in the amount of $208 and $50 donation to the Coyote Bob's Deli for the food for family bereavement.

E	DEPRECIATION EXPENSE - Per Company	28,142	
	Per Staff	2,270	($25,872)

To disallow Company's depreciation expense. Plant is fully depreciated except for the $18,158 addition to the water mains expensed in 2004.

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

Plant in Service	$756,614
Less: Non Depreciable Plant	0
Fully Depreciated Plant	738,456
Depreciable Plant	$18,158
Times: Staff Proposed Depreciation Rate	12.50%
Pro Forma Annual Depreciation Expense	$2,270

STAFF ADJUSTMENTS

F	TAXES OTHER THAN INCOME - Per Company	1,894	
	Per Staff	1,700	($194)

Staff removed sales tax paid by the customers, no expense to the Company.

G	PROPERTY TAXES - Per Company	3,156	
	Per Staff	2,809	($347)

To correct property tax calculation.

H	INCOME TAXES - Per Company	1,505	
	Per Staff	0	($1,505)

To remove income taxes. The Company reported on the application exempt status.

Why Utility Co., Inc.
Docket No. W-02052A-05-0528 and W-02052A-05-0529
Test Year Ended December 31, 2004

RATE DESIGN

Monthly Usage Charge	Present Rates	-Proposed Rates- Company	Staff
5/8" x 3/4" Meter - Residential	$ 19.00	$ 40.00	$ 22.50
5/8" x 3/4" Meter -Commercial	21.00	40.00	27.50
1" Meter	23.00	42.50	32.00
1½" Meter	25.00	45.00	35.00
2" Meter	27.00	50.00	40.00
3" Meter	$ 31.00	N/A	120.00
4" Meter	N/A	N/A	220.00
6" Meter	N/A	N/A	450.00
Gallons included in the minimum:	9,000	4,000	0
Commodity Rate:			
5/8 x 3/4 Inch Meter - Residential			
Excess of Minimum - per 1,000 Gallons	$ 1.00	N/A	N/A
Excess of Minimum - per 1,000 Gallons (4,001-9,000 Gallons)	N/A	$ 2.00	N/A
Excess of Minimum - per 1,000 Gallons (9,001-14,000 Gallons)	N/A	$ 2.15	N/A
Excess of Minimum - per 1,000 Gallons (Over 14,000 Gallons)	N/A	$ 2.35	N/A
Excess of Minimum - per 1,000 Gallons (0-3,000 Gallons)	N/A	N/A	$ 1.25
Excess of Minimum - per 1,000 Gallons (3,001-10,000 Gallons)	N/A	N/A	$ 2.00
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	N/A	$ 2.75
Commodity Rate:			
5/8 x 3/4 Inch Meter - Commercial			
Excess of Minimum - per 1,000 Gallons	$ 1.00	N/A	N/A
Excess of Minimum - per 1,000 Gallons (4,001-9,000 Gallons)	N/A	$ 2.00	N/A
Excess of Minimum - per 1,000 Gallons (9,001-14,000 Gallons)	N/A	$ 2.15	N/A
Excess of Minimum - per 1,000 Gallons (Over 14,000 Gallons)	N/A	$ 2.35	N/A
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	N/A	N/A	$ 2.00
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	N/A	$ 2.75
Commodity Rate:			
1 1/5 Inch Meter			
Excess of Minimum - per 1,000 Gallons	$ 1.00	N/A	N/A
Excess of Minimum - per 1,000 Gallons (4,001-9,000 Gallons)	N/A	$ 2.00	N/A
Excess of Minimum - per 1,000 Gallons (9,001-14,000 Gallons)	N/A	$ 2.15	N/A
Excess of Minimum - per 1,000 Gallons (Over 14,000 Gallons)	N/A	$ 2.35	N/A
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	N/A	N/A	$ 2.00
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	N/A	$ 2.75
Commodity Rate:			
2 Inch Meter			
Excess of Minimum - per 1,000 Gallons	$ 1.00	N/A	N/A
Excess of Minimum - per 1,000 Gallons (4,001-9,000 Gallons)	N/A	$ 2.00	N/A
Excess of Minimum - per 1,000 Gallons (9,001-14,000 Gallons)	N/A	$ 2.15	N/A
Excess of Minimum - per 1,000 Gallons (Over 14,000 Gallons)	N/A	$ 2.35	N/A
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	N/A	N/A	$ 2.00
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	N/A	$ 2.75
Standpipe 2 Inch Meter — Commodity per 1,000 Gallons	1.50	4.00	4.00

Why Utility Co., Inc.
Docket No W-02052A-05-0528 and W-02052A-05-0529
Test Year Endec December 31, 2004

RATE DESIGN

Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	$ 100.00	$ 600.00	$ 520.00
3/4" Meter	120.00	600.00	600.00
1" Meter	160.00	650.00	690.00
1½" Meter	300.00	700.00	935.00
2" Meter	400.00	800.00	1,595.00
3" Meter	N/A	N/A	2,275.00
4" Meter	N/A	N/A	3,520.00
6" Meter	N/A	N/A	6,275.00

Service Charges			
Establishment	$10.00	$35.00	$25.00
Establishment (After Hours)	0.00	0.00	35.00
Reconnection (Delinquent)	20.00	35.00	25.00
Meter Test (If Correct)	0.00	0.00	0.00
Deposit	40.00	80.00	*
Deposit Interest	2.00%	2.00%	*
Re-Establishment (Within 12 Months)	10.00	35.00	**
NSF Check	25.00	25.00	25.00
Deferred Payment	0.00%	1.00%	1.00%
Meter Re-Read (If Correct)	0.00	0.00	0.00
Late Fee	0.00	0.00	0.00

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

Why Utility Co., Inc.
Docket No. W-02052A-05-0528 and W-02052A-05-0529
Test Year Ended December 31, 2004

Schedule 5

TYPICAL BILL ANALYSIS

General Service 5/8 - Inch Meter - Residential

Average Number of Customers: 68

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	12,318	$22.32	$57.13	$34.81	155.96%
Median Usage	6,100	$19.00	$44.20	$25.20	132.63%
Staff Proposed					
Average Usage	12,318	$22.32	$46.63	$24.31	108.92%
Median Usage	6,100	$19.00	$32.45	$13.45	70.79%

Present & Proposed Rates (Without Taxes)
General Service 5/8 - Inch Meter - Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$19.00	$40.00	110.53%	$22.50	18.42%
1,000	19.00	40.00	110.53%	23.75	25.00%
2,000	19.00	40.00	110.53%	25.00	31.58%
3,000	19.00	40.00	110.53%	26.25	38.16%
4,000	19.00	40.00	110.53%	28.25	48.68%
5,000	19.00	42.00	121.05%	30.25	59.21%
6,000	19.00	44.00	131.58%	32.25	69.74%
7,000	19.00	46.00	142.11%	34.25	80.26%
8,000	19.00	48.00	152.63%	36.25	90.79%
9,000	19.00	50.00	163.16%	38.25	101.32%
10,000	20.00	52.15	160.75%	40.25	101.25%
15,000	25.00	63.10	152.40%	54.00	116.00%
20,000	30.00	74.85	149.50%	67.75	125.83%
25,000	35.00	86.60	147.43%	81.50	132.86%
50,000	60.00	145.35	142.25%	150.25	150.42%
75,000	85.00	204.10	140.12%	219.00	157.65%
100,000	110.00	262.85	138.95%	287.75	161.59%
125,000	135.00	321.60	138.22%	356.50	164.07%
150,000	160.00	380.35	137.72%	425.25	165.78%
175,000	185.00	439.10	137.35%	494.00	167.03%
200,000	210.00	497.85	137.07%	562.75	167.98%

MEMORANDUM

TO: Elena Zestrijan
Public Utilities Analyst III
Utilities Division

FROM: Jamie R. Moe JM
Public Utilities Analyst V
Utilities Division

DATE: December 6, 2005

RE: WHY UTILITY COMPANY, INC.
DOCKET No. W-02052A-05-0528 (Financing)
(Consolidated with W-02052A-05-0529 Rates)

Introduction

On July 22, 2005, Why Utility Company, Inc. ("Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization for long-term debt in the amount of $185,000, which in turn earns the utility grants in the amount of $1,164,178. This total $1,349,178 from the United States Department of Agriculture's ("USDA") Department of Rural Utility Services ("RUS") is for water treatment facilities, replacement of two storage tanks and replacement and installation of water distribution mains. Rural Community Assistance Corporation ("RCAC") has provided interim financing in the amount of $400,000 while the Company is awaiting approval from the Commission on the rate increase and financing approval. Payoff of the RCAC loan will be provided by the permanent financing from USDA and will occur within a three to six-month timeframe. The Company is also requesting financing approval on a $30,000 note that was signed by the Company in October of 2002 which was used to purchase an additional 2.51 acres of adjoining land to the Company's existing campground.

Notice

Notice of a financing application was mailed to customers on November 23, 2005. The affidavit of mailing is attached along with a copy of the notice.

Background

The Company is an Arizona non-profit corporation located in Why, Arizona that provides service to approximately 87 service connections in Pima County. The Company's current rates were approved in Decision No. 40053 dated June 9, 1969.

Purpose of the Financing

The purpose of the $1,349,178 of financing from RUS is to provide the Company with sufficient funds to purchase/construct the necessary arsenic removal equipment to comply with the federal arsenic rule. The Company also has capital improvement projects related to storage tank replacements and distribution system water main replacement.

The cost estimates for the capital improvements are as follows:

A. Arsenic Treatment System	$ 219,124
B. Lower Storage Tank and Piping	$ 64,905
C. Upper Storage Tank and Piping	$ 99,132
D. Water Distribution System	$ 629,350
Subtotal	$1,012,511
E. Engineering Design/Pilot Testing	$ 93,664
F. Administration/Certifications	$ 70,876
G. Survey, Const. Insp. & Testing	$ 70,876
H. Contingencies	$ 101,251
Total	$1,349,178

On January 23, 2001, the Environmental Protection Agency ("EPA") reduced the drinking water maximum contaminant level for arsenic from 50 parts per billion ("ppb") to 10 ppb. All community water systems and non-transient non-community water systems need to comply with the new federal rule by the January 23, 2006 deadline.

Engineering Analysis

See Engineering Report.

Description of the Proposed Financing

Financing for the total water system project is $1,349,178 to be received from the USDA RUS. This amount will be covered by an RUS Grant of $864,178, a Colonia Grant of $300,000, and an RUS loan of $185,000. The RUS loan of $185,000 must be paid back. The terms of the proposed $185,000 RUS loan is 40 years at an interest rate of 4.25 percent. For the first two years, one annual interest payment is due from the utility. Beginning in the third year of the loan, principal and interest payments in the amount of $820 will be due monthly. The loan will be secured by a lien on the Company's water well and water tanks.

The Company is also requesting financing approval on a $30,000 note that was signed by the Company in October of 2002 which was used to purchase an additional 2.51 acres of adjoining land to the Company's existing campground. The terms of the loan are 5 years at 4.50

percent. Staff notes that the rental of campground spaces (the purpose of this land purchase) is not a regulated service; therefore Staff recommends denial of this loan.

Financial Analysis

The financial analysis is based on Staff's recommended rates in the concurrent rate proceeding. Schedule JRM-1, attached, presents selected financial information reflecting Staff's recommended rates along with the Company's existing capital structure and pro forma adjustments reflecting the inclusion of the $185,000 RUS loan at 4.25 percent per annum. The Company's capital structure before the RUS financing is composed of 1.7 percent short-term debt, 3.2 percent long-term debt, and 95.1 percent equity. The Company's capital structure after the RUS financing would be composed of 0.5 percent short-term debt, 10.7 percent long-term debt, and 88.8 percent equity. It should be noted that $1,164,178 of the equity will be contributions and a deduction from rate base.

Although Staff recommends denial of the $30,000 loan, it is included in long-term debt in Staff's calculation of the capital structure to reflect a complete financial picture.

The debt service coverage ("DSC") ratio represents the number of times internally generated cash will cover required principal and interest payments on long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations.

The times interest earned ratio ("TIER") represents the number of times earnings will cover interest expense on long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense.

Schedule JRM-1, column B, shows that the pro forma effect on the Company's financial ratios of obtaining the grants for $1,164,178$, the $185,000 RUS loan at an interest rate of 4.25 percent and implementation of Staff's recommended permanent rates is to produce a TIER of 1.42 and a DSC of 1.36. These ratios indicate that the Company will have sufficient earnings and operating cash flow to meet its obligations.

Compliance

There were no compliance issues at the Commission with the Company as of November 21, 2005.

Conclusion and Recommendations

Staff concludes that the purchase and/or construction of arsenic removal equipment is necessary for the Company to comply with the federal rule that requires reducing the arsenic level in the drinking water to a maximum of 10 ppb by January 23, 2006.

Staff concludes that the proposed use of funds is appropriate and that authorization to incur up to $185,000 of long-term debt for these purposes is lawful and within the corporate powers of the Company, would be compatible with the public interest, consistent with sound financial practices, and not impair the Company's ability to provide service if the Commission authorizes an operating income no less than recommended by Staff in the Company's concurrent rate case.

Staff further recommends approval of the Company's request for authorization to obtain financing from RUS on the terms and conditions described in the application.

Staff further recommends denial of the Company's request for authorization of financing related to the purchase of 2.51 acres of land.

Staff further recommends approval of granting liens in favor of the lender as required to secure the borrowings authorized.

Staff further recommends authorizing the Applicant to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends ordering the Company to provide to Docket Control as a compliance item in this matter, copies of all executed financing documents within 60 days after the loan agreement is signed.

Why Utility Company, Inc.
Docket No. W-02052A-05-0528
Application For Financing

Schedule JRM-1

FINANCIAL ANALYSIS

Selected Financial Data
Including Immediate Effects of the Proposed Debt

Line		[A] Staff Recommended		[B] Staff Recommended with Debt	
1	Operating Income	$ 11,132		$ 11,132	
2	Depreciation & Amort.	2,270		2,270	
3	Income Tax Expense	50		50	
4					
5	First Two Years - Interest Only				
6	Interest Expense	0		8,017	
7	Repayment of Principal	0		0	
8					
9	**TIER**				
10	[1+3] ÷ [6]	N/A		1.39	
11	**DSC**				
12	[1+2+3] ÷ [6+7]	N/A		1.68	
13					
14	Third Year - Principal + Interest				
15	Interest Expense	0		7,824	
16	Repayment of Principal	0		1,998	
17					
18	**TIER**				
19	[1+3] ÷ [15]	N/A		1.43	
20	**DSC**				
21	[1+2+3] ÷ [15+16]	N/A		1.37	
22					
23					
24					
25					
26					
27					
28	Short-term Debt	$ 9,481	1.7%	$ 9,481	0.5%
29					
30	Long-term Debt	$ 17,822	3.2%	$ 202,822	10.7%
31					
32	Contributions	$ -	0.0%	$ 1,164,178	61.2%
33					
34	Equity	$ 525,384	95.1%	$ 525,384	27.6%
35					
36	Total Capital	$ 552,687	100.0%	$ 1,901,865	100.0%
37					
38					
39					

[A] Calendar Year 2004 financial information with Staff adjustments and recommended revenues
[B] Calendar Year 2004 financial information with Staff adjustments and recommended revenues including the proposed debt

Attachment MSJ-1

Engineering Report for Why Utility Co., Inc.

Docket No. W-02052A-05-0529 (Rates)

By: Marlin Scott, Jr.
Utilities Engineer

September 26, 2005

CONCLUSIONS

A. The Why Utility Co., Inc. ("Company") water system's current well and storage capacities are adequate to serve the present customer base.

B. The Company is not located in an Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements.

C. The Company has no outstanding Commission compliance issues.

D. The Company has an approved curtailment plan tariff that became effective on September 4, 2004.

E. The Company has an approved backflow prevention tariff that became effective on September 6, 1996.

RECOMMENDATIONS

1. The Company's system has a water loss of 14.5 percent and has estimated $830,743 in the financing application for a water distribution system project. Staff recommends that the Company docket a copy of the ADEQ Certificate for Approval to Construct for its water distribution system project by June 30, 2006.

2. The ADEQ has reported major deficiencies in monitoring and reporting requirements for arsenic. Also, this system is delivering water that exceeds the Maximum Contaminant Level ("MCL") for arsenic and has not installed the best available technology in accordance with R18-4-220 to achieve compliance with the MCL. Therefore, ADEQ has determined that the Company's system, PWS #10-118, is currently delivering water that does not meet the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

   The Company reported its arsenic concentration for its two wells at 150 ppb. Based on this arsenic concentration, the Company has estimated $224,124 in the financing application for an arsenic treatment system. Staff recommends that the Company docket a copy of the ADEQ Certificate for Approval to Construct for its arsenic treatment system by June 30, 2006.

3. Staff recommends its annual water testing expense of $890 be used for purposes of this application and further recommends the water operator's fees of $1,750 be reclassified to Account No. 631 – Contractual Services-Professional and the additional testing analysis for an arsenic pilot study of $643 be reclassified to Account No. 635 – Contractual Services-Testing (additional).

4. Staff recommends that the Company use the depreciation rates delineated in Table B on a going-forward basis.

5. Staff recommends approval of Staff's requested Service Line and Meter Installation Charges as delineated in Table C.

TABLE OF CONTENTS

PAGE

A. LOCATION OF COMPANY

Why Utility Co., Inc. ("Company") serves the community of Why, Arizona, which is approximately 10 miles southeast of Ajo on Highway 85. Figure 1 shows the location of the Company within Pima County and Figure 2 shows the certificated area covering approximately 1/2 square-mile.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on August 25, 2005, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Vern Denning, Operator for the Company. The current system consists of a pumping site, tank site and a distribution system. The pumping site is a two-well system operation; each well having separate storage and booster systems. The tank site has two storage tanks located on a hilltop that maintains storage for a gravity-fed system serving 90 service connections.

A system schematic is shown as Figure 3 and a detailed plant facility listing is as follows:

Table 1. Pumping Site

Plant Items	Well #1(West)	Well #2 (East)
Submersible Pump	25-Hp	25-Hp
Pumping Rate	65 GPM	92 GPM
Casing Size	8"	8"
Casing Depth	1,180'	1,000'
Year Drilled	1964	1993
Meter Size	3"	3"
Storage Tank	30,000 gallon	33,000 gallon
Booster Pump	7-1/2-Hp	7-1/2-Hp
Chlorination	None	Gas
Building	8' x 12'	6' x 8'
Fencing, entire site	75' x 75' chain link	

Table 2. Tank Site

Location	Storage Tanks	Year Installed	Structures
On hill top	20,000 gallon	1969	Fencing, 50' x 80'
	125,000 gallon	n/a	Radio-telemetry

Table 3. Water Mains

Diameter	Material	Length	Year Installed
2-inch	PVC	13,000 ft.	1964
3-inch	PVC	7,100 ft.	1964
6-inch	PVC	4,800 ft.	2001
	Total:	24,900 ft.	

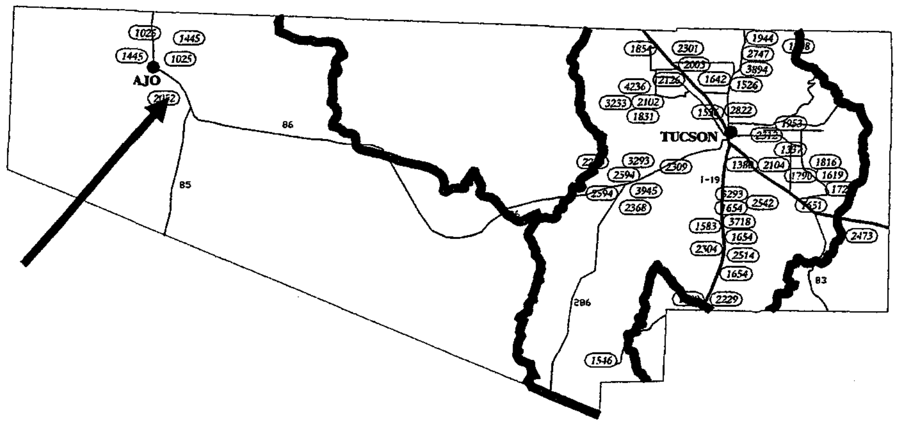
Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	97
3/4-inch	-
1- inch	-
1-1/2-inch	1
2-inch	7
Total:	105

Table 5. Fire Hydrants

Size	Quantity
Standard	14

PIMA COUNTY



1025	AJO IMPROVEMENT COMPANY
2473	ANDERSON WATER COMPANY, INC.
3233	ANWAY MANVILLE L.L.C. WATER COMPANY
1546	ARIVACA TOWNSITE COOPERATIVE WATER COMPANY
1445	ARIZONA WATER COMPANY (AJO HEIGHTS)
2126	AVRA WATER COOPERATIVE, INC.
2304	COMMUNITY WATER COMPANY OF GREEN VALLEY
1642	DESPOBLADO WATER COMPANY
2309	DIABLO VILLAGE WATER COMPANY
1654	FARMERS WATER COMPANY
3945	FRANCESCA WATER COMPANY, INC.
2312	HALCYON ACRES ANNEX #2 WATER COMPANY, INC.
1953	HALCYON ACRES WATER USERS ASSOCIATION
2542	LA CASITA WATER COMPANY, INC.
1944	LAGO DEL ORO WATER COMPANY
1809	LAKEWOOD WATER COMPANY
1583	LAS QUINTAS SERENAS WATER COMPANY
1536	LAZY C WATER SERVICE
2747	LOS CERROS WATER COMPANY, INC.
1854	LYN-LEE WATER COMPANY
1526	MESALAND WATER COMPANY, INC.
2368	MIRABELL WATER COMPANY, INC.
1408	MT. LEMMON COOPERATIVE WATER COMPANY, INC.
2514	QUAIL CREEK WATER COMPANY, INC.
2102	RANCHO DEL CONEJO WATER COMMUNITY COOPERATIVE
3718	RANCHO SAHUARITA WATER COMPANY
1380	RAY WATER COMPANY
2003	RILLITO WATER USERS
1619	RINCON CREEK WATER COMPANY
1337	RINCON RANCH ESTATES WATER COMPANY, INC.
1723	RINCON WATER COMPANY
1790	SAGUARO WATER COMPANY
1831	SANDARIO WATER COMPANY
2822	SLEEPY HOLLOW MOBILE HOME ESTATES
1816	SPANISH TRAIL WATER COMPANY
3894	STEAM PUMP INVESTORS, L.L.C.
3293	THIM UTILITY COMPANY
2594	THIM WATER CORPORATION
4236	TIERRA LINDA HOMEOWNERS ASSOCIATION, INC.
2301	TORTOLITA WATER COMPANY, INC.
1651	VAIL WATER COMPANY
2229	VIVA DEVELOPMENT CORPORATION
2104	VOYAGER WATER COMPANY
2052	WHY UTILITY COMPANY
2221	WORDEN WATER COMPANY

Figure 1. Pima County Map

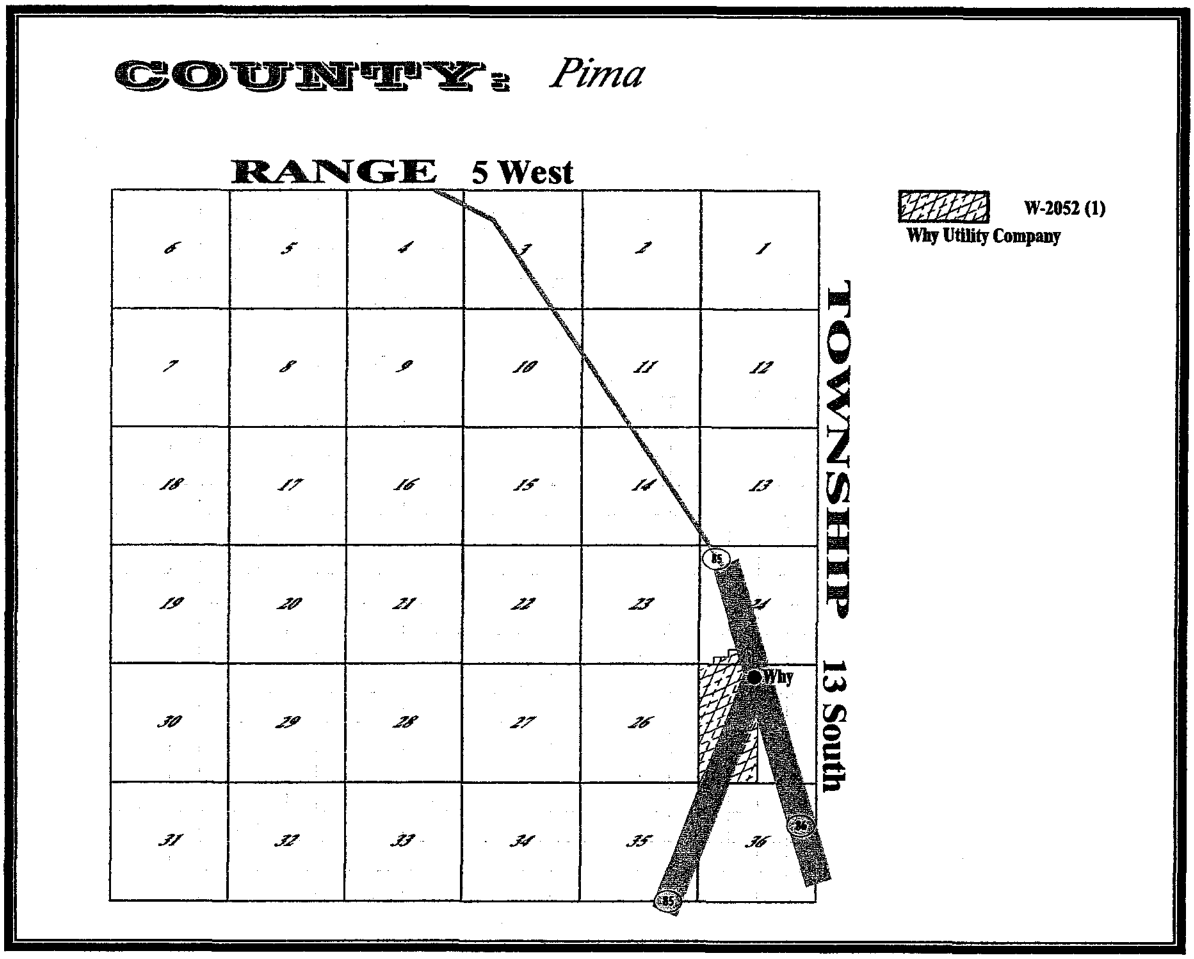


Figure 2. Certificated Area

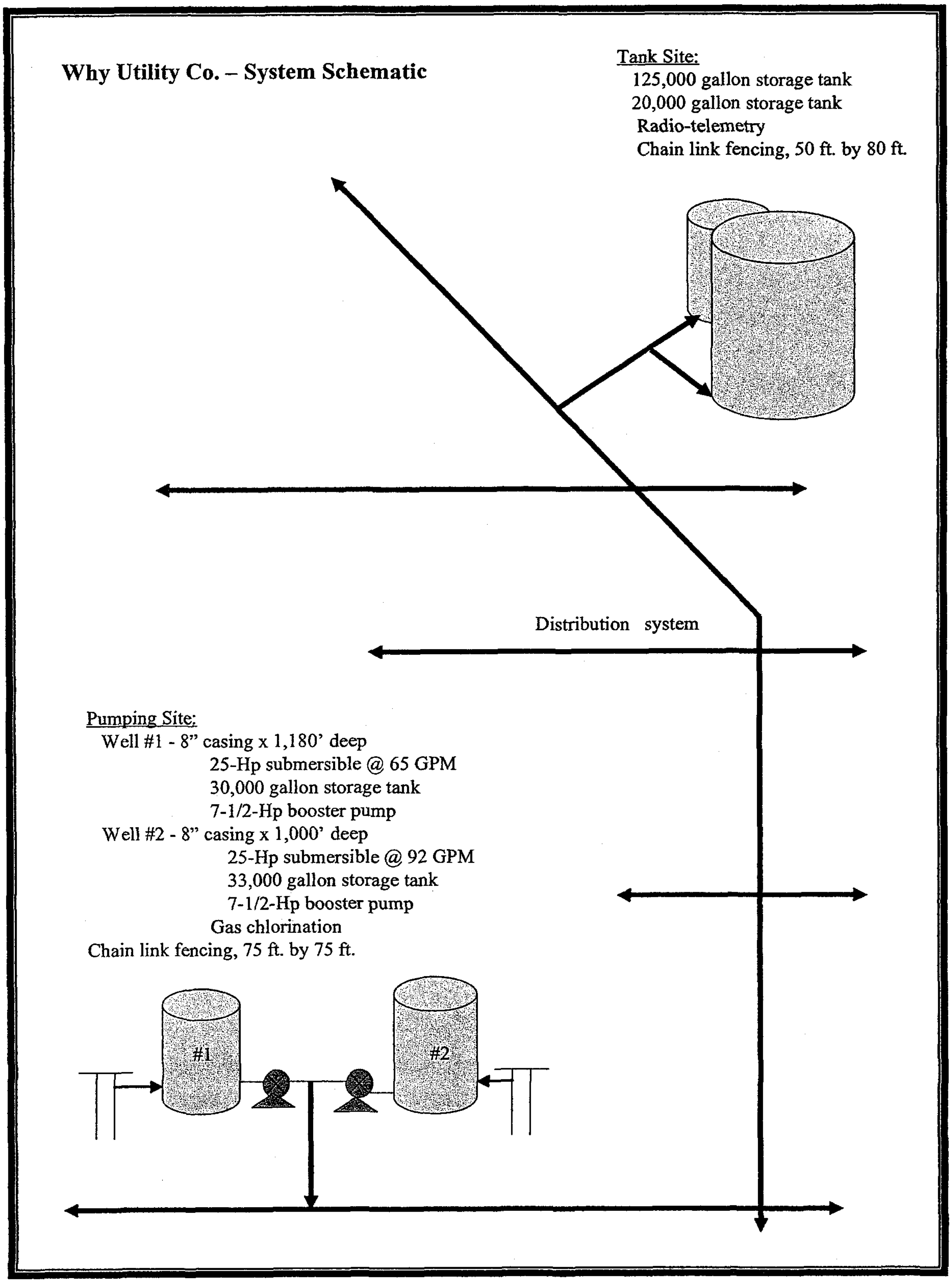


Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 represents the water consumption data provided by the Company in its Water Use Data Sheet. Customer consumption experienced a high monthly water use of 965 gallons per day ("GPD") per connection in January (winter visitors) and a low monthly water use of 282 GPD per connection in December for an average monthly use of 575 GPD per connection.

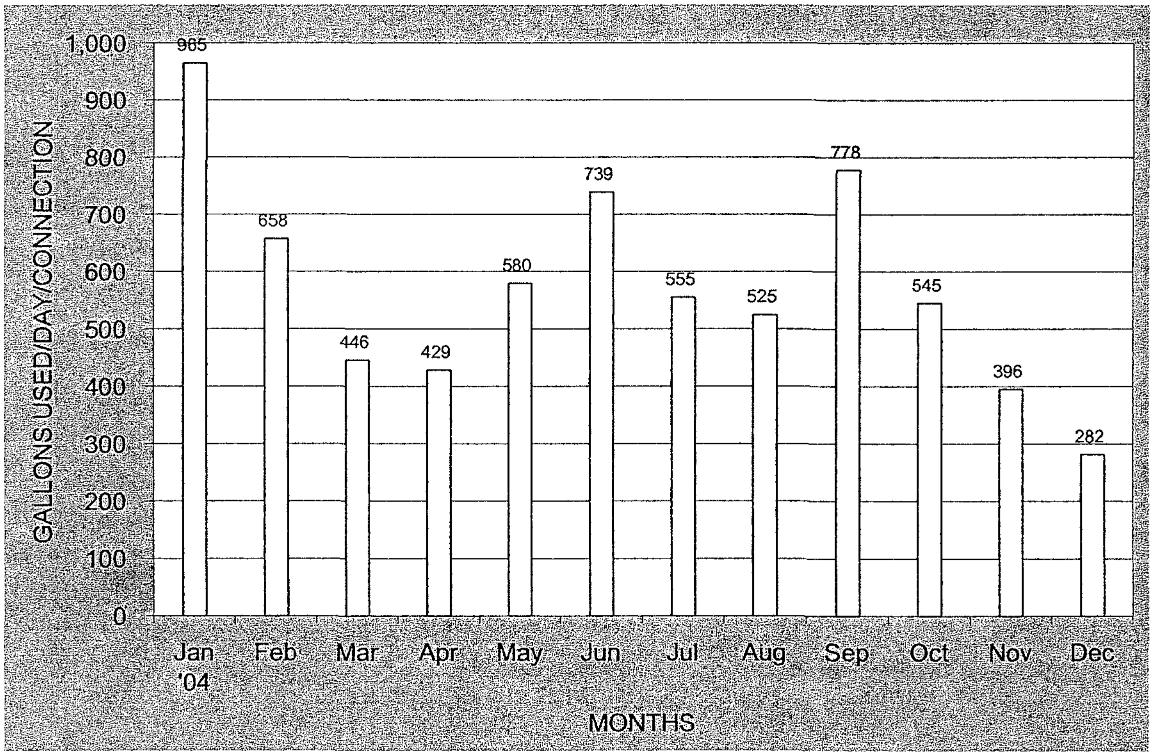


Figure 4. Water Use

Non-Account Water

Non-account water should be 10% or less. The Company reported 21,326,000 gallons pumped and 18,232,000 gallons sold, resulting in a water loss of 14.5 percent. The Company is aware of this water loss percentage and believes the majority of its aged water mains (installed in 1968) are losing water and need to be replaced. For this reason, the Company has estimated $830,743 in the financing application for a water distribution system project. See Section I.4 for financing application information.

Staff recommends that the Company docket a copy of the ADEQ Certificate for Approval to Construct for its water distribution system project by June 30, 2006.

System Analysis

The system's current well capacity of 157 GPM and storage capacity of 208,000 gallons could adequately serve approximately 140 service connections. The system currently has 90 connections.

D. GROWTH

Based on customer data obtained from the Company's Annual Reports, it is projected that the Company could have approximately 100 customers by 2009. Figure 5 depicts actual growth from 1996 to 2004 and projects an estimated growth for the next five years using linear regression analysis.

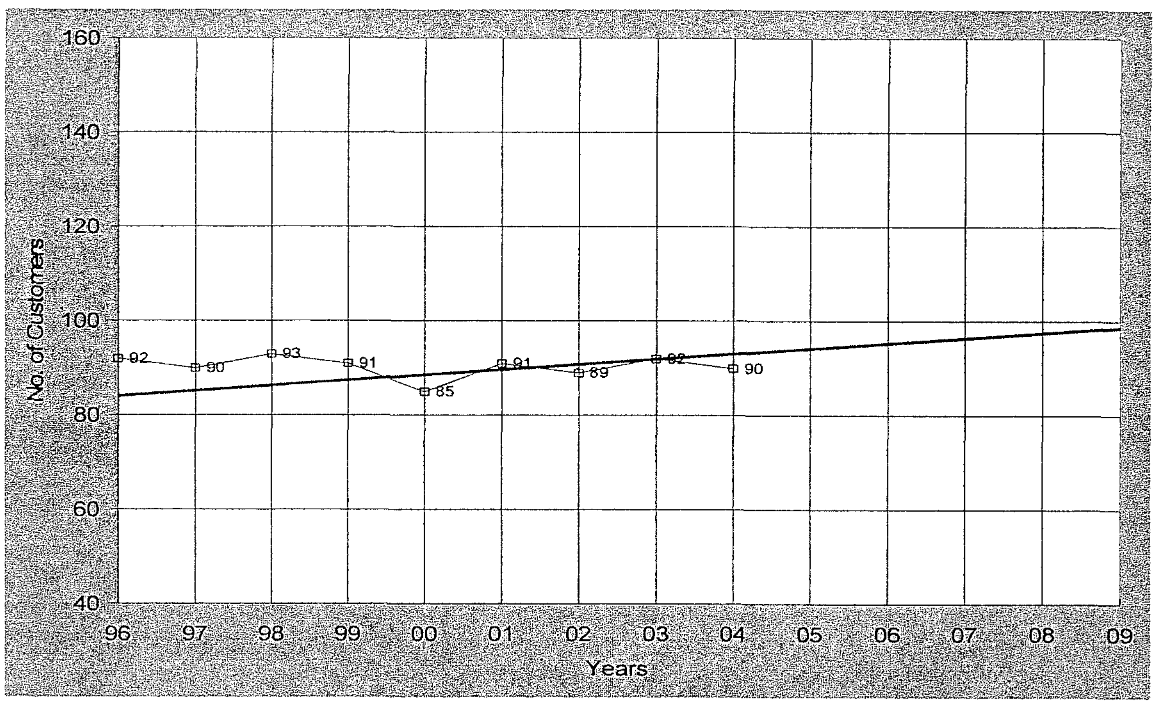


Figure 5. Growth Projection

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

ADEQ reported major deficiencies in monitoring and reporting requirements for arsenic. Also, this system is delivering water that exceeds the Maximum Contaminant Level ("MCL") for arsenic and has not installed the best available technology in accordance with R18-4-220 to achieve compliance with the MCL. Therefore, ADEQ has determined that the Company's system, PWS #10-118, is currently delivering water that does not meet the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arsenic

The U.S. Environmental Protection Agency has reduced the arsenic MCL in drinking water from 50 parts per billion ("ppb") to 10 ppb. The date for compliance with the new MCL is January 23, 2006.

The Company reported its arsenic concentration for its two wells at 150 ppb. Based on this arsenic concentration, the Company has estimated $224,124 in the financing application for an arsenic treatment system. See Section I.4 for financing application information.

Staff recommends that the Company docket a copy of the ADEQ Certificate for Approval to Construct for its arsenic treatment system by June 30, 2006.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed $250 per year fee, plus an additional fee of $2.07 per service connection, regardless of meter size for participation in MAP. Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at $3,283 during the test year by combining the testing costs, water operator's fees and additional testing analysis for an arsenic pilot study. Staff has reviewed the Company's testing expense and has recalculated the testing costs, reclassified the water operator's fees of $1,750 into Account No. 631 – Contractual Services-Professional and also reclassified the additional testing analysis for an arsenic pilot study of $643 into Account No. 635 – Contractual Services-Testing (additional). Table A shows Staff's annual monitoring expense estimate of $890 with participation in the MAP.

Table A. Water Testing Cost

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests per year	Annual Cost
Total coliform – monthly	$15	12	$180
Inorganics – Priority Pollutants	MAP	MAP	MAP

Radiochemical – per 4 years	MAP	MAP	MAP
Phase II and V:			
Nitrate – annual	$40	3	$120
Nitrite – once per period	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP
MAP – IOCs, SOCs, & VOCs	MAP	MAP	$440
Lead & Copper – per year	$30	5	$150
Total			**$890**

Note: ADEQ - MAP invoice for the 2005 Calendar Year is $440.44 for 92 connections.

Staff recommends its annual water testing expense of $890 be used for purposes of this application and further recommends the water operator's fees of $1,750 be reclassified to Account No. 631 – Contractual Services-Professional and the additional testing analysis for an arsenic pilot study of $643 be reclassified to Account No. 635 – Contractual Services-Testing (additional).

F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

The Company is not located in an Active Management Area ("AMA") and therefore, is not subject to any AMA reporting and conservation requirements.

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

A check with the Utilities Division Compliance Section indicated this Company has no outstanding compliance issues.

H. DEPRECIATION RATES

It appears the Company has been using a depreciation rate of 5.00% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by NARUC category. (For example, a uniform 5% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B and it is recommended that the

Company use depreciation rates by individual NARUC category on a going-forward basis.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.

2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has requested changes in its service line and meter installation charges. These charges are refundable advances and the Company's requested charges are not within Staff's customary range of charges. The Company provided no detailed cost justification for its requested amounts.

After Staff discussions with the Company, the Company agreed to the higher end of Staff's customary range of charges. Therefore, Staff recommends approval of its charges as shown in Table C below.

Table C. Service Line and Meter Installation Charges

Meter Size	Company Current Charges	Company Requested Charges	Staff's Recommendation
5/8 x 3/4-inch	$100	$600	$520
3/4-inch	$120	$600	$600
1-inch	$160	$650	$690
1-1/2-inch	$300	$700	$935
2-inch	$400	$800	$1,595
3-inch	NT	$0	$2,275
4-inch	NT	$0	$3,520
6-inch	NT	$0	$6,275

Note: NT means no tariff.

2. Curtailment Plan Tariff

The Company has an approved curtailment plan tariff that became effective on September 4, 2004.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff that became effective on September 6, 1996.

4. Application for financing, Docket No. W-02052A-05-0528

On July 22, 2005, the Company filed a financing application to fund capital improvement projects totaling $1,349,178 for; 1) an arsenic treatment system, 2) storage tank replacements, and 3) distribution system water main replacements.

The Company is requesting financing approval in the amount of $1,349,178 for capital improvement funding from the following; 1) Colonia Grant in the amount of $300,000 as a grant, 2) Rural Utilities Service ("RUS") of United States Department of Agriculture in the amount of $864,178 as a grant, and 3) RUS in the amount of $185,000 as a loan. The capital improvement project recommendations and cost estimates in this financing request were produced by Miller Brooks Environmental, Inc. ("Miller Brooks"), a consulting firm hired by the Company.

Based on the above recommendations, Miller Brooks has provided cost estimates for the following capital improvements:

A.	Arsenic Treatment System	$ 219,124
B.	Lower Storage Tank and Piping	$ 64,905
C.	Upper Storage Tank and Piping	$ 99,132
D.	Water Distribution System	$ 629,350
	Subtotal:	$1,012,511
E.	Engineering Design/Pilot Testing	$ 93,664
F.	Administration/Certifications	$ 70,876
G.	Survey, Construction Inspections & Testing	$ 70.876
H.	Contingencies	$ 101,251
	Sub-total cost:	$1,349,178

For detailed discussion of the capital improvement projects, see the financing application, Docket No. W-02052A-05-0528.

MEMORANDUM

DATE: September 26, 2005

TO: Jamie Moe
Public Utilities Analyst III
Utilities Division

FROM: Marlin Scott, Jr.
Utilities Engineer
Utilities Division

RE: Why Utility Company, Inc.
Docket No. W-02052A-05-0528 (Financing)

Introduction

Why Utility Company, Inc. ("Company") has submitted a financing application to fund capital improvement projects totaling $1,349,178 for; 1) an arsenic treatment system, 2) storage tank replacements, and 3) distribution system water main replacements. The Company operates a water system in Why, Arizona, a community 10 miles southeast of Ajo, in Pima County.

Existing Water System

The water system consists of a pumping site, tank site and a distribution system. The pumping site is a two-well system operation; each well having separate storage and booster systems. The tank site has two storage tanks located on a hilltop that maintains storage for a gravity-fed system serving 90 service connections. The majority of the water infrastructure was installed in 1968 and has a water loss of 14.5%. The most current arsenic concentration reported from the well source is 150 parts per billion ("ppb"), which exceeds the current maximum contaminant level ("MCL") of 50 ppb and the new arsenic MCL of 10 ppb starting on January 23, 2006.

Financing Application

The Company is requesting financing approval in the amount of $1,349,178 for capital improvement funding from the following; 1) Colonia Grant in the amount of $300,000 as a grant, 2) Rural Utilities Service ("RUS") of United States Department of Agriculture in the amount of $864,178 as a grant, and 3) RUS in the amount of $185,000 as a loan.

These grants and loan are needed to finance the construction of; a) an arsenic treatment system, b) replacement of two storage tanks, and c) replacement and installation of 17,600 feet of water distribution mains. The capital improvement project recommendations and cost estimates in this financing request were produced by Miller Brooks Environmental, Inc. ("Miller Brooks"), a consulting firm hired by the Company, in its "Preliminary Engineering Report", dated October 15, 2004.

Preliminary Engineering Report ("PER")

Miller Brooks provided Staff a copy of the PER that provided a preliminary study of some issues with the water quality and water distribution system. Miller Brooks was hired to conduct a water system evaluation and provide the Company with its recommendations. Miller Brooks conclusions and recommendations are as follows:

Conclusions:

1. The only available water supply source for the Company is an aquifer with dissolved arsenic concentrations above the Arizona Water Quality Standards ("AWQS").
2. The most cost-effective alternative to provide the Company customers with water meeting the AWQS for arsenic is coagulation/filtration.
3. The present water distribution system does not meet the current State standards for configuration and pipe sizes.

Recommendations:

1. Contract for a pilot test for coagulation/filtration to remove arsenic from the drinking water.
2. Replace the existing gas chlorinators with a liquid chlorine addition system for each well.
3. Replace existing floating tank, upper firewater storage tank, associated piping for both tanks, and install a new bulk water-loading manifold.
4. Replace 15,600 feet of existing water line with new and larger-diameter pipe.
5. Install 1,800 feet of new water lines and 200 feet of roadway boring/crossing.
6. Install 16 new fire hydrants (for a total of 28 hydrants, including replacement of two existing hydrants).

Based on the above recommendations, Miller Brooks has provided cost estimates for the following capital improvements:

A.	Arsenic Treatment System	$ 219,124
B.	Lower Storage Tank and Piping	$ 64,905
C.	Upper Storage Tank and Piping	$ 99,132

D.	Water Distribution System	$ 629,350
	Subtotal:	$1,012,511
E.	Engineering Design/Pilot Testing	$ 93,664
F.	Administration/Certifications	$ 70,876
G.	Survey, Construction Inspections & Testing	$ 70.876
H.	Contingencies	$ 101,251
	Sub-total cost:	$1,349,178

In the PER, Miller Brooks provided detailed breakdown costs of each capital improvement project as shown in Attachments – Table 7, Table 8 and Table 9.

Alternatives Considered – Arsenic Treatment

Miller Brooks evaluated five treatment alternatives for arsenic removal; 1) reverse osmosis at point of use, 2) activated alumina at point of use, 3) iron oxide filters, 4) coagulation/filtration, and 5) hydrid iron media. Each treatment was considered likely to be successful in reducing arsenic concentrations to below 10 ppb. To choose between the different arsenic removal treatments, Miller Brooks compared the present-value of the capital costs and annual operation & maintenance costs for each alternative. Based on this present-value analysis, Miller Brooks recommended the coagulation/filtration arsenic treatment system.

Pilot Study Report

Filtronics, Inc. conducted an arsenic pilot study for the Company from February 2005 to April 2005. The intent of the study was to; 1) determine chemical pretreatment requirements, 2) determine the most effective and most cost-effective filter rate to effectively reduce arsenic in the raw water to be in accordance the new arsenic MCL, and 3) confirm for the Company the feasibility of reducing the arsenic in the water from the two wells with Filtronics' Electronmedia 1 filtration system. The results of this pilot study concluded that:

1. The arsenic treatment system will be designed to de-chlorinate to reduce the free chlorine to acceptable levels (the chlorine feed at 5.2 mg/l).
2. 4.5 mg/l of ferric chloride is needed.
3. A 6.5 pH level is sufficient.
4. The Electromedia 1 filter system coupled with a polishing filter was found to be effective in the removal of arsenic (from 150 ppb to below 5 ppb).

Therefore, the pilot study recommended the installation of a Filtronics Electromedia 1, Model FVD-08 and a polishing filtration system to handle the total flow of 200 GPM from the wells.

Conclusion and Recommendation

Miller Brooks conducted an engineering evaluation of the Company's water system to produce its Preliminary Engineering Report for recommendations of capital improvement projects totaling $1,349,178. Filtronics conducted an arsenic pilot study to confirm the selected treatment method; coagulation/filtration with a polishing filter.

Staff concludes that the capital improvement projects for; 1) an arsenic treatment system, 2) storage tank replacements, and 3) distribution system water main replacement, are appropriate and the cost estimates presented herein are reasonable for purposes of this financing request. However, no "used and useful" determination of the proposed project items was made and no particular treatment should be inferred for rate making or rate base purposes.

MEMORANDUM

To: Elena Zestrijan
Public Utilities Analyst III
Utilities Division

From: John La Porta JL
Public Utilities Consumer Analyst I
Utilities Division

Thru: Connie Walczak
Consumer Services Supervisor CW
Utilities Division

Date: November 2, 2005

RE: Why Utility Co. Inc.
Docket No. W-02052A-05-0529

COMPANY HISTORY

Why Utility Co. Inc. ("Why Utility" or "Company") is an existing corporation under the laws of the State of Arizona and is a public utilities corporation subject to the jurisdiction of the Arizona Corporation Commission ("Commission"). The Company was granted a Certificate of Convenience and Necessity ("CC&N") pursuant to Commission Decision No. 40053 on June 9, 1969.

Per Why Utility's 2004 Annual Report, the Company provides water service to 90 water customers in Pima County, Arizona. Why Utility's current rates and charges were authorized by the Commission on June 9, 1969 per Decision No. 40053.

COMPLAINT HISTORY

A search of Consumer Services complaint files reveals the following customer complaints against Why Utility the last three years.

2002 - Zero Complaints
Zero Inquiries
Zero Opinions

2003 - Zero Complaints
Zero Inquiries
Zero Opinions

2004 - One Complaint – Service Termination
One Inquiry - Service
Zero Opinions

2005 - Zero Complaints
Three Inquiries - All from the company, (one) question on where to file their rate application, (one) question about their customer notification, and (one) questions relating to specific rates
Three Opinions – All customers against the pending rate increase

As of November 2, 2005 all complaints and inquiries have been resolved.

SUFFICIENCY STATUS

Why Utility met sufficiency status on October 7, 2005.

AFFIDAVIT OF MAILING

Why Utility's Affidavit of Mailing of the Customer Notification was filed on October 5, 2005.

ANNUAL REPORT FOR UTILITIES DIVISION

Records indicate that Why Utility filed its Utilities Annual Report for 2004 on May 3, 2005.

BILL FORMAT COMPLIANCE

On November 1, 2005, Betty Tibbett from Why Utility provided a sample of a customer bill. The sample bill reflects that Why is in compliance with R14-2-409.B.2.a thru R14-2-409.B.2.j, of the Arizona Administrative Code, Title 14, Chapter 2. The sample bill has been filed in Why Utility's tariff folder.

CORPORATIONS DIVISION STATUS

Per the Corporations Division of the Commission, Why Utility is in Good Standing as of November 1, 2005.

CROSS-CONNECTION/BACKFLOW TARIFF

Why Utility's Cross-Connection/Backflow Tariff was filed with the Commission on September 6, 1996.

HEARING DATE

No hearing dates have been set on this matter as of this date.

INTERVENORS

As of November 1, 2005 there have been no interveners in this rate application.

cc: Engineering
File