

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
EGJ Director
Utilities Division

DATE: March 24, 2006

RE: STAFF REPORT FOR LIVCO WATER COMPANY AND LIVCO SEWER COMPANY APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NOS. W-02121A-05-0820 AND SW-02563A-05-0820).

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

EGJ:JCB:red

Originator: Jim Beechey

Attachment: Original and sixteen Copies

AZ CORP COMMISSION
DOCUMENT CONTROL

2006 MAR 24 / A 9:40

RECEIVED

Service List for: Livco Water Company and Livco Sewer Company
Docket Nos. W-02121A-05-0820 and SW-02563A-05-0820

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**LIVCO WATER COMPANY
DOCKET NO. W-02121A-05-0820**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

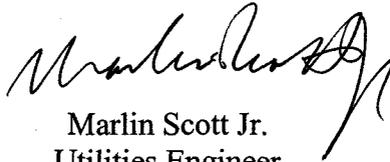
MARCH 24, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Livco Water Company, Docket No. W-02121A-05-0820 was the responsibility of the Staff members listed below. Jim Beechey was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, and rate design. Marlin Scott Jr. was responsible for the valuation of Plant in Service and for the engineering and technical analysis. Bradley Morton was responsible for reviewing customer complaints filed with the Commission.



Jim Beechey
Public Utilities Rate Analyst II



Marlin Scott Jr.
Utilities Engineer



Bradley Morton
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
LIVCO WATER COMPANY
DOCKET NO. W-02121A-05-0820**

Livco Water Company ("Company") is certificated to provide water service to the communities of Old Concho Townsite and Concho Valley, located 15 miles west and 18 miles southwest, respectively, of St. Johns, Apache County, along State Highway 61. The Company provided water service to approximately 353 customers during the test year. Its current rates and charges were approved in Decision No. 55892, dated February 19, 1988.

The Company's water rate application proposes an increase in total operating revenues of \$18,496, or a 19.48 percent increase over adjusted test year revenues of \$94,953. The Company's proposed rates will produce total operating revenues of \$113,449 and an operating income of \$20,707, for a 16.60 percent rate of return on an original cost rate base ("OCRB") of \$124,767. The Company claims that its proposed rate increase is necessary at this time due to the increased costs of operating and maintaining the water plant. The Company's proposed rates would increase the typical residential bill with a median usage of 3,423 gallons from \$14.15 to \$15.62 for an increase of \$1.47 or 10.39 percent.

Utilities Division Staff ("Staff") is recommending an increase in total operating revenues of \$10,546, or an 11.11 percent increase over adjusted test year total operating revenues of \$94,953. Staff's recommended rates will produce total operating revenues of \$105,499 and an operating income of \$15,513, for a 10.20 percent rate of return on an OCRB of \$152,145. Staff's recommended rates would increase the typical residential bill with a median usage of 3,423 gallons from \$14.15 to \$14.77 for an increase of \$0.62 or 4.38 percent.

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

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Engineering Report

FACT SHEET

COMPANY: LIVCO WATER COMPANY

Current rates: Decision No. 55892, dated February 19, 1988.

Type of ownership: Arizona "C" Corporation.

Location: Livco Water Company ("Company") is certificated to provide water service to the communities of Old Concho Townsite and Concho Valley, located 15 miles west and 18 miles southwest, respectively, of St. Johns, Apache County, along State Highway 61. The water system is not located in an Active Management Area ("AMA").

Rates:

(Customer class: Residential)

		Present Rates	-Proposed Rates-		
			Company	Staff	
<u>Monthly Usage Charge</u>					
5/8 Inch Meter		\$11.00	\$11.00	\$11.00	
Gallons in Minimum		1,000	N/A	N/A	
Commodity Rate:					
<u>5/8 Inch Meters</u>					
Excess of Minimum - per 1,000 Gallons		\$ 1.30	N/A	N/A	
Excess of Minimum - per 1,000 Gallons (0-4,000 Gallons)		N/A	\$ 1.35	\$ 1.10	
Excess of Minimum - per 1,000 Gallons (4,001-10,000 Gallons)		N/A	\$ 1.60	\$ 1.50	
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)		N/A	\$ 1.75	\$ 1.65	
<u>5/8 Inch Meter Company Proposed</u>					
Median Usage	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
	3,423	\$14.15	\$15.62	\$1.47	10.39%
<u>Staff Proposed</u>					
Median Usage	3,423	\$14.15	\$14.77	\$0.62	4.38%

Customers:

Average number of customers in prior test year (09/30/1986): 239

Average number of customers in current test year (12/31/2004): 353

Current test year customers by meter size:

5/8 - inch meter	315
1 - inch meter	31
1 1/2 - inch meter	3
2 - inch meter	3
3 - inch Old Concho	1

Complaints:

Number of customer complaints since rate application filed: 0
Percentage of complaints to customer base: 0 percent

Notification:

Customer notification was mailed on November 7, 2005.

SUMMARY OF FILING

Based on test year results as adjusted by Staff, the Company realized an operating income of \$7,174 for a rate of return of 4.71 percent on an original cost rate base ("OCRB") of \$152,145, as shown on Schedule JCB-W-1.

The Company's proposed rates would produce total operating revenues of \$113,449 and an operating income of \$20,707, for a 16.60 percent rate of return on an OCRB of \$124,767. The Company's proposed rates would increase the typical residential bill with a median usage of 3,423 gallons from \$14.15 to \$15.62 for an increase of \$1.47 or 10.39 percent.

Staff's recommended rates would produce total operating revenues of \$105,499 and an operating income of \$15,513 for a 10.20 percent rate of return on an OCRB of \$152,145. Staff's recommended rates would increase the typical residential bill with a median usage of 3,423 gallons from \$14.15 to \$14.77 for an increase of \$0.62 or 4.38 percent.

BACKGROUND

On November 4, 2004, the Company filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). The Company application was found deficient. After the Company filed corrections to its application, the application was deemed sufficient on January 4, 2006. The Company served approximately 353 customers in the test year. The Company's current rates were approved in Decision No. 55892, dated February 19, 1988.

The Company is a for-profit, "C" corporation. All Company shares are owned by Country Club Properties of Concho, Inc. The Company indicated that a rate increase is needed

because it has not requested rate increases in the last nineteen years. The Company serves primarily residential customers, and is expecting some future growth from new developments in the area, which the company claims will require significant plant investment to service. Projected plant investment from 2005 thru 2007 is estimated by the Company at \$272,000.

CONSUMER SERVICES

A review of Consumer Service's records indicates the following activity from the years 2003 thru 2006: zero Complaints; three Inquiries in 2003, and two Inquiries in 2005; two Opinions in 2005, and two Opinions in 2006. The three 2003 Inquiries consisted of one inquiry about the Company, one Certificate of Convenience and Necessity ("CC&N") extension request, and one billing question. The two 2005 Inquiries consisted of one inquiry about the Company, and one regarding intervention. The two Opinions in 2005 and two in 2006 were in opposition to the rate case increases. Donald O. Borg was granted intervention on January 3, 2006. All the above have been resolved and closed.

A review of the Company's bill format indicates compliance with R14-2-409.B.2.a thru R14-2-409.B.2.j of the Arizona Administration Code, Title 14, Chapter 4.

COMPLIANCE

The Utilities Division Compliance Section showed no outstanding compliance issues.

The Company is not within an AMA and is not subject to the Arizona Department of Water Resources ("ADWR") monitoring and reporting requirements for groundwater withdrawals.

Arizona Department of Environmental Quality ("ADEQ") reported that the Company's Public Water System ("PWS") #01-018, had no deficiencies and is currently delivering water which meets the quality standards required by the Arizona Administrative Code, Title 18 Chapter 4.

The Company's arsenic concentrations for its two wells are at 5 part per billion ("ppb") and 3 ppb. Based on these concentrations, the Company is currently in compliance with the new arsenic maximum contaminant level of 10 ppb.

The Corporations Division of the Commission indicates that the Company is in good standing.

Staff has received the Company's Certificate of Compliance Letter of Good Standing from the Arizona Department of Revenue, dated June 22, 2005.

Staff has confirmed with Apache County, as of March 8, 2006, that Livco Water is current on 2004 test year property tax, and has partially paid 2005 property tax.

ENGINEERING ANALYSIS

The water system was field inspected on December 16, 2005 by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Glen Garr, Jr., Maintenance Contractor for the Company. A complete discussion of Staff Engineering findings, recommendations, and description of the water system is provided in the attached Engineering Report.

In the last rate case, test year ending September 30, 1986, the Company operated two independent systems with each system having its own well, storage and pumping facilities. These two systems have now been interconnected and are identified under one ADEQ PWS #01-018. The Company's water systems consist of two wells, two storage tanks, and distribution system. The Company has adequate well and storage capacity to serve its present customer base and reasonable growth.

Non-account water should be 10 percent or less. The Company reported 40,037,000 gallons of water pumped and 22,167,000 gallons of water sold during the first nine months of the test year. The remaining three months of water pumped data was not provided due to a broken wellhead meter. This represents a water loss of 17.2 percent for the nine month period.

The Company is currently providing service to customers outside its CC&N, as described in the Engineering Report, and Staff recommends that the Company submit an application to extend the CC&N.

Staff has developed and recommends, on a going-forward basis, typical and customary depreciation rates within the range of anticipated equipment useful life as shown in Table B of the Engineering Report.

The Company has an approved curtailment tariff that became effective on May 11, 2005.

The Company has an approved backflow prevention tariff that became effective on May 11, 2005.

RATE BASE

As shown on Schedule JCB-W-2, page 1, Staff recommends a rate base of \$152,145. This rate base represents an increase of \$27,378 from the Company's proposed \$124,767 rate base, primarily due to Staff's adjustment to Accumulated Depreciation, Plant in Service, and Amortization of Contributions in Aid of Construction ("CIAC").

Adjustment A decreased plant in service by \$14,746, based on Staff's analysis.

Adjustment B decreased accumulated depreciation by \$27,160, due to Staff's calculation using approved depreciation rates for the intervening years since the prior rate case against adjusted Plant in Service.

Adjustment C increased Amortization of CIAC by \$8,457, based on Staff's beginning Amortization of CIAC balance of \$13,394, plus a 3 percent amortization rate for each succeeding year through the current December 31, 2004 test year, against Gross CIAC of \$139,985 as required in Decision No. 55892, dated February 19, 1988, the Company's prior rate case Decision.

Adjustment D increased Cash Working Capital by \$6,507 to reflect Staff's inclusion of a working capital allowance using the formula method.

OPERATING REVENUES

Staff concurs with the Company's test year total operating revenues of \$94,953.

OPERATING EXPENSES

Staff adjustments to operating expenses resulted in a decrease of \$4,963 from \$92,742 to \$87,779, as shown on Schedule JCB-SW-3, page 1. The adjustments are discussed below.

Adjustment A decreased Outside Services expenses by \$1,234 to eliminate expenses incurred outside the current test year.

Adjustment B decreased Water Testing costs by \$586 to reflect Staff's recommended annual monitoring expense subject to the Company's mandatory participation in the Monitoring Assistance Program ("MAP").

Adjustment C decreased Insurance - General Liability by \$740 to reflect Company provided insurance invoices totaling \$4,103, and Company statement that these costs are allocated at 50 percent between Livco Water Company and Livco Sewer Company.

Adjustment D increased Insurance - Workman's Compensation by \$741 to reflect workman's compensation expense incorrectly allocated to the Insurance - General Liability account.

Adjustment E decreased Miscellaneous Expense by \$216 to reflect the \$93 balance per Company books, plus transfer of a \$60 Water Utility Association fee and a \$13 Arizona Blue Stake fee incorrectly posted to Taxes Other than Income per Company books.

Adjustment F decreased test year depreciation expense by \$4,987 to reflect application of Staff's recommended depreciation rates, on a going-forward basis, to Staff's adjusted Plant in Service.

Adjustment G increased property tax by \$251 to reflect the Company's most recent property tax bill on a going-forward basis.

Adjustment H increased Income Tax by \$1,808 to reflect calculation of income tax based on Staff's adjusted test year taxable income.

RATE DESIGN

To encourage conservation, Staff concurs with the Company's proposal to reconfigure its current one-tier rate design to an inverted three-tier rate structure with zero gallons in the monthly minimum charge. Staff adopts the Company's proposed three-tier structure comprised of tier breaks at 4,000, 10,000, and over 10,000 gallons for meter sizes 1 1/2 inch and smaller. Staff recommends commodity rates of \$1.10, \$1.50, and \$1.65 for each of the three tiers, respectively. Staff adopts the Company's proposed three-tier structure comprised of tier breaks at 50,000, 100,000, and over 100,000 gallons for meter sizes 2 inch and larger. Staff recommends commodity rates of \$1.10, \$1.50, and \$1.65 for each of the three tiers, respectively.

The Company is proposing to increase its service line and meter installation charges. These proposed installation charges are within Staff's typical guidelines and therefore, should be adopted. Please see the rate design in detail on Schedule JCB-W-4.

STAFF RECOMMENDATIONS

Staff recommends approval of its recommended rates and charges as presented on Schedule JCB-W-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax.

Staff further recommends the Company adopt the depreciation rates shown on Table B of the attached Engineering Report, on a going-forward basis.

Staff further recommends that the Company submit an application to extend its CC&N within 90 days from the effective date of an order in this proceeding, to include Sections 29 and 33, as defined in Figure 2 - Certificated Areas in the Engineering Report.

Staff recommends that the Company monitor the system and submit the gallons pumped and sold to determine the actual water loss for one full year. If the reported water loss for the period is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed within 15 months of a decision in this matter as a compliance item for this proceeding for review and certification by Staff.

Staff further recommends that the Company be ordered to correct its plant accounts to reflect Staff's Plant in Service adjustments.

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 after the Decision in this matter is issued.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$94,444	\$94,444	\$112,940	\$104,990
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	509	509	509	509
Total Operating Revenue	\$94,953	\$94,953	\$113,449	\$105,499
Operating Expenses:				
Operation and Maintenance	\$70,082	\$68,047	\$70,082	\$68,047
Depreciation	17,906	12,919	17,906	12,919
Property & Other Taxes	4,664	4,915	4,664	4,915
Income Tax	90	1,898	90	4,105
Total Operating Expense	\$92,742	\$87,779	\$92,742	\$89,986
Operating Income/(Loss)	\$2,211	\$7,174	\$20,707	\$15,513
Rate Base O.C.L.D.	\$124,767	\$152,145	\$124,767	\$152,145
Rate of Return - O.C.L.D.	1.77%	4.71%	16.60%	10.20%
Operating Margin	2.33%	7.55%	18.25%	14.70%

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$481,145	(\$14,746)	A	\$466,399
Less:				
Accum. Depreciation	293,377	(27,160)	B	266,217
Net Plant	\$187,768	\$12,414		\$200,182
Less:				
Plant Advances	\$7,313	\$0		\$7,313
Accumulated Deferred Income Taxes	4,640	0		4,640
Total Advances	\$11,953	\$0		\$11,953
Contributions Gross	\$139,985	\$0		\$139,985
Less:				
Amortization of CIAC	88,937	8,457	C	97,394
Net CIAC	\$51,048	(\$8,457)		\$42,591
Total Deductions	\$63,001	(\$8,457)		\$54,544
Plus:				
1/24 Power	\$0	\$1,000	D	\$1,000
1/8 Operation & Maint.	0	5,507	D	5,507
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$6,507		\$6,507
Rate Base	\$124,767	\$27,378		\$152,145

Explanation of Adjustment:

- A See Schedule JCB-W-2, page 2 of 3.
- B See Schedule JCB-W-2, page 3 of 3.
- C Based on Staff's adjustments as a result of audit findings.
- D Working Capital allowance using the formula method.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$1,882	\$0	\$1,882
302 Franchises	0	0	0
303 Land & Land Rights	1,060	0	1,060
304 Structures & Improvements	11,660	(3,155) A	8,505
307 Wells & Springs	46,784	0	46,784
311 Pumping Equipment	50,149	511 A	50,660
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Star	62,170	2,850 A	65,020
331 Transmission & Distribution N	233,421	0	233,421
333 Services	0	0	0
334 Meters & Meter Installations	46,282	(750) A	45,532
335 Hydrants	8,326	775 A	9,101
336 Backflow Prevention Devices	775	(775) A	0
339 Other Plant and Misc. Equiprr	950	(623) A	327
340 Office Furniture & Equipment	1,853	0	1,853
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equiprr	1,530	0	1,530
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	1,825	(1,468) A	357
348 Other Tangible Plant	12,478	(12,111) A	367
105 C.W.I.P.	0	0	0
TOTALS	\$481,145	(\$14,746)	\$466,399

Explanation of Adjustment:

- A To record Staff Engineer's recommended plant in service.
The Company has no records or receipts to support original cost/additions for the plant in service per application.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$293,377
Accumulated Depreciation - Per Staff	266,217 A
Total Adjustment	\$ (27,160)

Explanation of Adjustment:

A -	Type explanation here.	
	Accumulated Depreciation per Staff Engineer	216,364
	2001 Depreciation Expense	11,324
	2002 Depreciation Expense	12,549
	2003 Depreciation Expense	13,298
	2004 Depreciation Expense	12,682
	Total Accumulated Depreciation	\$ 266,217

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$94,444	\$0	\$94,444
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	509	0	509
Total Operating Revenue	\$94,953	\$0	\$94,953
Operating Expenses:			
601 Salaries and Wages	\$15,436	\$0	\$15,436
610 Purchased Water	0	0	0
615 Purchased Power	23,988	0	23,988
618 Chemicals	40	0	40
620 Repairs and Maintenance	1,170	0	1,170
621 Office Supplies & Expense	6,888	0	6,888
630 Outside Services	15,825	(1,234) A	14,591
635 Water Testing	2,095	(586) B	1,509
641 Rents	300	0	300
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	2,791	(740) C	2,051
659 Insurance - Workman's Compensation	0	741 D	741
666 Regulatory Commission Expense - Rate Case	1,167	0	1,167
675 Miscellaneous Expense	382	(216) E	166
403 Depreciation Expense	17,906	(4,987) F	12,919
408 Taxes Other Than Income	883	0	883
408.11 Property Taxes	3,781	251 G	4,032
409 Income Tax	90	1,808 H	1,898
Total Operating Expenses	\$92,742	(\$4,963)	\$87,779
OPERATING INCOME/(LOSS)	\$2,211	\$4,963	\$7,174
Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	\$0	\$0	\$0
NET INCOME/(LOSS)	\$2,211	\$4,963	\$7,174

STAFF ADJUSTMENTS

A -	OUTSIDE SERVICES - Per Company Per Staff	\$15,825 <u>14,591</u>	<u><u>(\$1,234)</u></u>
	Dissallowed Outside Service expenses appearing outside the test year.		
B -	WATER TESTING - Per Company Per Staff	\$2,095 <u>1,509</u>	<u><u>(\$586)</u></u>
	Decreased Water Testing expense to \$1,509 to reflect Staff's normalized annual water testing cost as determined by Engineer.		
C -	INSURANCE - GENERAL LIABILITY - Per Company Per Staff	\$2,791 <u>2,051</u>	<u><u>(\$740)</u></u>
	Adjusted Insurance - General Liability by \$740 to reflect Company provided insurance invoices totalling \$4,103 and Company statement that insurance is divided equally between water and sewer companies.		
D -	INSURANCE - WORKMAN'S COMPENSATION - Per Company Per Staff	\$0 <u>741</u>	<u><u>\$741</u></u>
	Adjusted Insurance - Health/Life to add workman's compensation insurance incorrectly posted under General Liability Insurance.		
E -	MISCELLANEOUS EXPENSE - Per Company Per Staff	\$382 <u>166</u>	<u><u>(\$216)</u></u>
	Adjusted \$93 Miscellaneous Expense per company books, by \$60 Water Utility Assoc. fee and \$12 Ariz. Blue Stake fee incorrectly posted to Taxes Other than Income per Company books.		

STAFF ADJUSTMENTS (Cont.)

F -	DEPRECIATION - Per Company	\$17,906	
	Per Staff	<u>12,919</u>	<u>(\$4,987)</u>

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

Plant in Service	\$466,399
Less: Non Depreciable Plant	3,309
Fully Depreciated Plant	<u>0</u>
Depreciable Plant	\$463,090
Depreciation Expense using Staff Engineer Proposed rates	<u>\$18,518</u>
Less: Amort. of CIAC* @ 4.00%	<u>\$5,599</u>
Pro Forma Annual Depreciation Expense	<u><u>\$12,919</u></u>

*** Amortization of CIAC:**

Staff Proposed Depreciation Expense divided by	\$18,518
Dpreciable Assets	<u>\$463,090</u>
Composite Amortization Rate (going forward basis)	<u>4.00%</u>

CIAC	<u>\$139,985</u>
Amortization of CIAC	<u><u>\$5,599</u></u>

G -	PROPERTY TAX - Per Company	\$3,781	
	Per Staff	<u>4,032</u>	<u>\$251</u>

Increased Property Tax by \$251 to reflect current tax bill.

H -	INCOME TAX - Per Company	\$90	
	Per Staff	<u>1,898</u>	<u>\$1,808</u>

Increased Income Tax by \$1,808 to reflect calculation of income tax expense based on Staff's adjusted test year taxable income.

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$11.00	\$11.00	\$11.00
3/4" Meter	11.00	11.00	11.00
1" Meter	14.00	18.00	14.00
1 1/2" Meter	20.00	36.00	20.00
2" Meter	34.00	58.00	50.00
3" Meter	40.00	200.00	116.00
4" Meter	100.00	181.00	181.00
6" Meter	0.00	362.00	362.00
2" Old Concho Int	100.00	200.00	120.00

Commodity Rate:

5/8 x 3/4 Inch Meters

Excess of Minimum - per 1,000 Gallons	\$ 1.30	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-4,000 Gallons)	N/A	\$ 1.35	\$ 1.10
Excess of Minimum - per 1,000 Gallons (4,001-10,000 Gallons)	N/A	\$ 1.60	\$ 1.50
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	\$ 1.75	\$ 1.65

Commodity Rate:

1 Inch Meters

Excess of Minimum - per 1,000 Gallons	\$ 1.30	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-4,000 Gallons)	N/A	\$ 1.35	\$ 1.10
Excess of Minimum - per 1,000 Gallons (4,001-10,000 Gallons)	N/A	\$ 1.60	\$ 1.50
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	\$ 1.75	\$ 1.65

Commodity Rate:

1 1/2 Inch Meters

Excess of Minimum - per 1,000 Gallons	\$ 1.30	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-4,000 Gallons)	N/A	\$ 1.35	\$ 1.10
Excess of Minimum - per 1,000 Gallons (4,001-10,000 Gallons)	N/A	\$ 1.60	\$ 1.50
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	\$ 1.75	\$ 1.65

Commodity Rate:

2 Inch Meters

Excess of Minimum - per 1,000 Gallons	\$ 1.30	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-50,000 Gallons)	N/A	\$ 1.35	\$ 1.10
Excess of Minimum - per 1,000 Gallons (50,001-100,000 Gallons)	N/A	\$ 1.60	\$ 1.50
Excess of Minimum - per 1,000 Gallons (Over 100,000 Gallons)	N/A	\$ 1.75	\$ 1.65

Commodity Rate:

Old Concho Interconnect

Excess of Minimum - per 1,000 Gallons	\$ 1.30	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-50,000 Gallons)	N/A	\$ 1.35	\$ 1.10
Excess of Minimum - per 1,000 Gallons (50,001-100,000 Gallons)	N/A	\$ 1.60	\$ 1.50
Excess of Minimum - per 1,000 Gallons (Over 100,000 Gallons)	N/A	\$ 1.75	\$ 1.65

Gallons Included in Minimum 1,000 0 0

Service Line and Meter Installation Charges

5/8" x 3/4" Meter	\$200.00	\$500.00	\$500.00
3/4" Meter	300.00	575.00	575.00
1" Meter	250.00	660.00	660.00
1 1/2" Meter	325.00	900.00	900.00
2" Meter-Turbo	400.00	1,525.00	1,525.00
2" Meter-Compound	0.00	2,220.00	2,220.00
3" Meter-Turbo	500.00	2,165.00	2,220.00
3" Meter-Compound	0.00	2,960.00	2,960.00
4" Meter-Turbo	600.00	3,360.00	3,360.00
4" Meter-Compound	0.00	4,265.00	4,265.00
6" Meter-Turbo	0.00	6,035.00	6,035.00
6" Meter-Compound	0.00	7,750.00	7,750.00

Service Charges

Establishment	\$10.00	\$25.00	\$25.00
Establishment (After Hours)	15.00	40.00	40.00
Reconnection (Delinquent)	10.00	40.00	40.00
Meter Test (If Correct)	10.00	25.00	25.00
Deposit	*	*	*
Deposit Interest	6.00%	1.50%	1.50%
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	10.00	25.00	25.00
Deferred Payment	***	1.50%	1.50%
Meter Re-Read (If Correct)	5.00	20.00	20.00

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** Per Commission Rules (R14-2-409.G)

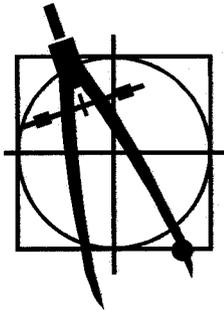
TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 316

<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	6,619	\$18.30	\$20.59	\$2.29	12.51%
Median Usage	3,423	\$14.15	\$15.62	\$1.47	10.39%
<u>Staff Proposed</u>					
Average Usage	6,619	\$18.30	\$19.33	\$1.03	5.63%
Median Usage	3,423	\$14.15	\$14.77	\$0.62	4.38%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$11.00	\$11.00	0.00%	\$11.00	0.00%
1,000	11.00	12.35	12.27%	12.10	10.00%
2,000	12.30	13.70	11.38%	13.20	7.32%
3,000	13.60	15.05	10.66%	14.30	5.15%
4,000	14.90	16.40	10.07%	15.40	3.36%
5,000	16.20	18.00	11.11%	16.90	4.32%
6,000	17.50	19.60	12.00%	18.40	5.14%
7,000	18.80	21.20	12.77%	19.90	5.85%
8,000	20.10	22.80	13.43%	21.40	6.47%
9,000	21.40	24.40	14.02%	22.90	7.01%
10,000	22.70	26.00	14.54%	24.40	7.49%
15,000	29.20	34.75	19.01%	32.65	11.82%
20,000	35.70	43.50	21.85%	40.90	14.57%
25,000	42.20	52.25	23.82%	49.15	16.47%
50,000	74.70	96.00	28.51%	90.40	21.02%
75,000	107.20	139.75	30.36%	131.65	22.81%
100,000	139.70	183.50	31.35%	172.90	23.77%
125,000	172.20	227.25	31.97%	214.15	24.36%
150,000	204.70	271.00	32.39%	255.40	24.77%
175,000	237.20	314.75	32.69%	296.65	25.06%
200,000	269.70	358.50	32.93%	337.90	25.29%



**Engineering Report
For
Livco Water Company**

**Docket No. W-02121A-05-0820
(Rates)**

February 22, 2006

CONCLUSIONS

- A. Livco Water Company ("Company") has adequate well and storage capacity to serve its present customer base and reasonable growth.
- B. The Arizona Department of Environmental Quality ("ADEQ") has reported no deficiencies and has determined that the Company's system, PWS No. 01-018, is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- C. The Company's arsenic concentrations for its two wells are at 5 part per billion ("ppb") and 3 ppb. Based on these concentrations, the Company is currently in compliance with the new arsenic maximum contaminant level of 10 ppb.
- D. The Company is not within an Active Management Area and consequently is not subject to reporting and conservation requirements.
- E. A check with the Utilities Division Compliance Section indicated that the Company had no outstanding Commission compliance issues.
- F. The Company has an approved curtailment tariff that became effective on May 11, 2005.
- G. The Company has an approved backflow prevention tariff that became effective on May 11, 2005.

RECOMMENDATIONS

- 1. Staff recommends that the Company submit an application to extend its Certificate of Convenience and Necessity within 90 days from the effective date of an order in this proceeding.
- 2. The Company's water system had a water loss of 17.2% for the first nine months of the test year. Staff recommends that the Company monitor the system and

submit the gallons pumped and sold to determine the actual water loss for one full year. If the reported water loss for the period is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed within 15 months of a decision in this matter as a compliance item for this proceeding for review and certification by Staff.

3. Staff recommends its annual water testing expense of \$1,509 be used for purposes of this application.
4. Staff recommends that the Company use the depreciation rates delineated in Table B on a going-forward basis.
5. Staff recommends approval of the Company's proposed Service Line and Meter Installation Charges as delineated in Table C.

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A. LOCATION OF COMPANY

Livco Water Company ("Company") serves the community of Concho Valley, which is located approximately 18 miles southwest of St. Johns along State Highway 61. Figure 1 shows the location of the Company within Apache County and Figure 2 shows the Certificate of Convenience and Necessity ("CC&N") covering approximately 2-1/4 square-miles.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on December 16, 2005, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Glen Garr, Jr., Maintenance Contractor for the Company.

The Company operates a distribution system serving the Concho Valley Subdivisions and the surrounding area. In the last rate case in 1988, the Company operated two independent systems with each system having its own well, storage and pumping facilities. These two systems have now been interconnected and are identified under one ADEQ Public Water System ("PWS") #01-018.

The Company also provides water service to the Old Concho Townsite by a 1-1/2 mile transmission main with a 3-inch master-meter. Figure 3 provides a water system schematic for the system.

Table 1. Well Data

Well Information	Well No. 1	Well No. 2
Casing Size	12-inch	6-inch
Casing Depth	875 ft.	80 feet
Pump Size	60-Hp	5-Hp
Pump Type	Submersible	Submersible
Pump Yield	325 GPM	60 GPM
Wellhead meter	4-inch	2-inch
Treatment	None	None

Table 2. Storage Tanks

Storage Capacity	Location
250,000 gallons	Near Well No. 1
24,000 gallons	Near Well No. 2

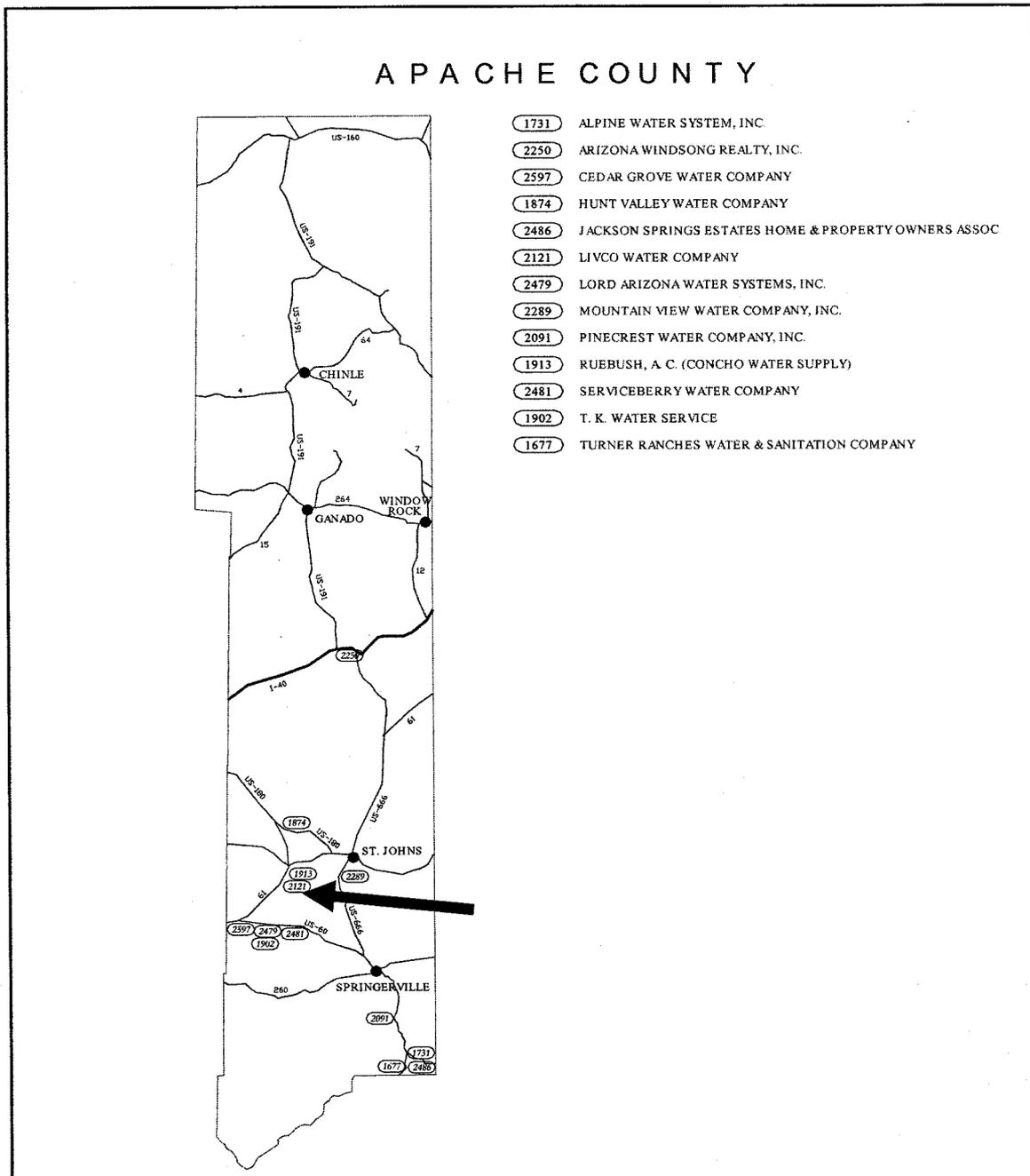


Figure 1. County Map

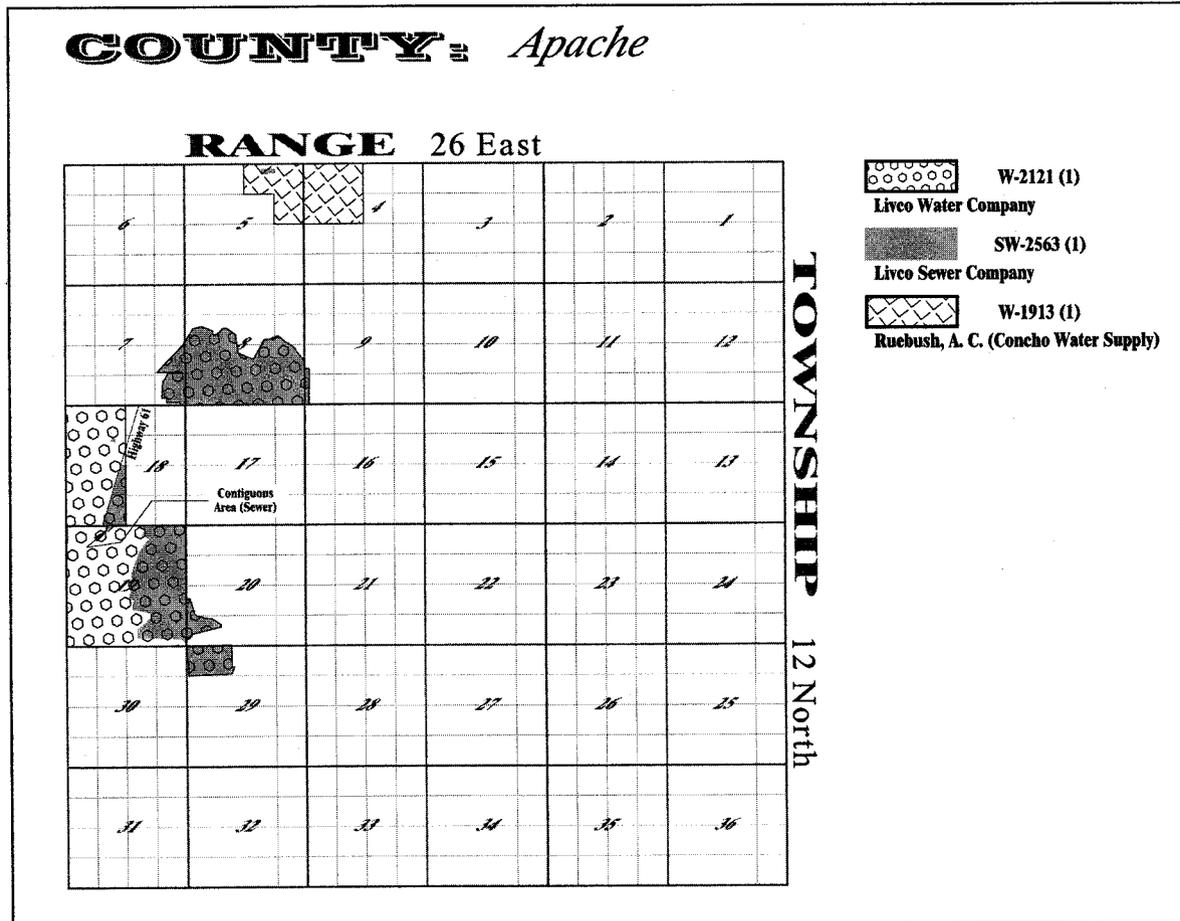


Figure 2. Certificated Areas

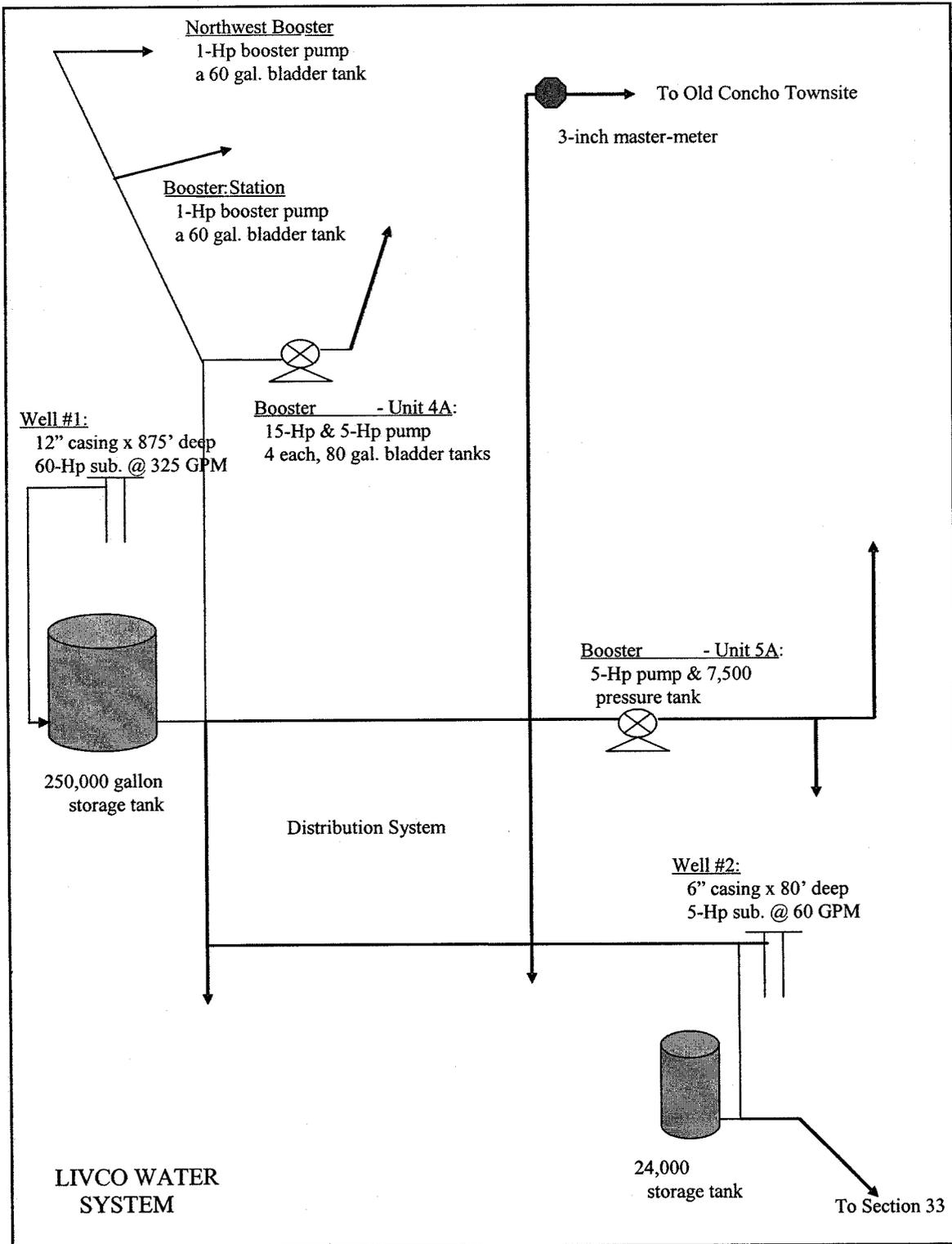


Figure 3. Water System Schematic

Table 3. Booster Systems

Booster Station ("B.S.")	Booster Pump	Pressure Tank	Serving # of Connections
B.S. Unit 4A	15-Hp & 5-Hp	4 each, 80 gallon bladder tanks	13
B.S. #2	1-Hp	60 gallon bladder tank	5
Northwest B.S.	1-Hp	60 gallon bladder tank	1
B.S. Unit 5A	5-Hp	7,500 gallon tank	4

Table 4. Water Mains

Diameter	Material	Length
2-inch	PVC	5,237 ft.
3-inch	PVC	2,060 ft.
4-inch	PVC	89,269 ft.
6-inch	PVC	76,259 ft.
8-inch	PVC	1,184
8-inch	AC	2,910

Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	363
3/4-inch	18
1-inch	36
1-1/2-inch	3
2-inch	4
3-inch master-meter	1

Table 5. Structures

Structures	Quantity
Well No. 1 fencing	10 ft. x 15 ft.
250k Tank site fencing	100 ft. x 100 ft.
Booster Sta. Unit 4A building	10 ft. x 18 ft.
B.S. #2 building	7 ft. x 9 ft.
Northwest B.S. building	4 ft. x 6 ft.

Well No. 2 building	8 ft. x 8 ft.
24,000 gal. tank site fencing	50 ft. x 50 ft.
Booster Sta. Unit 5A building	10 ft. x 30 ft.

Table 6. Fire Hydrants

Size	Quantity
Standard	15

Service Outside CC&N

The Company is currently providing service to customers outside its CC&N in Sections 29 and 33, as these Sections can be seen in Figure 2 - Certificated Areas. Staff recommends that the Company submit an application to extend its CC&N within 90 days from the effective date of an order in this proceeding.

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the test year 2004 is presented below. The high monthly water use was 562 gallons per day (“GPD”) per connection in June, and the low monthly water use was 139 GPD per connection in December. The average monthly use was 298 GPD per connection.

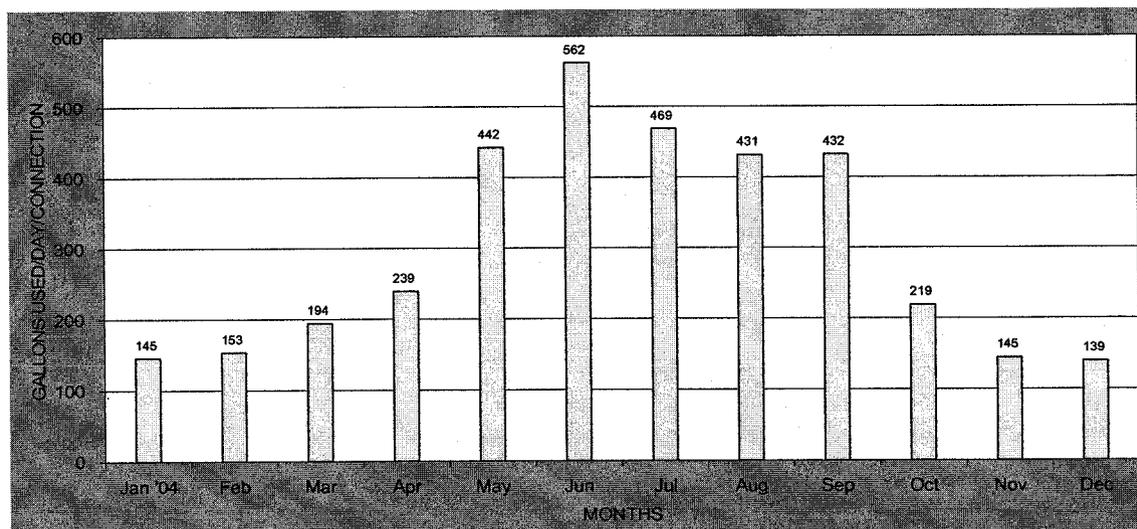


Figure 4. Water Use

Non-Account Water

Non-account water should be 10% or less and never more than 15%. The Company reported 40,037,000 gallons of water pumped and 33,167,000 gallons of water sold during the first nine months of the test year. The remaining three months of water pumped data was not provided due to a broken wellhead meter. This represents a water loss of 17.2% for the nine month period.

Staff recommends that the Company monitor the system and submit the gallons pumped and sold to determine the actual water loss for one full year. If the reported water loss for the period is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed within 15 months of a decision in this matter as a compliance item for this proceeding for review and certification by Staff.

System Analysis

The current well capacity of 385 GPM and storage capacity of 274,000 gallons could adequately serve up to approximately 460 service connections, plus fire flow protection. The system served 358 connections during the test year 2004. Therefore, the Company has adequate well and storage capacity to serve its present customer base and reasonable growth.

D. GROWTH

Figure 5 details the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year 2004, the Company had 358 customers and it is projected that the Company could have approximately 390 customers by 2009.

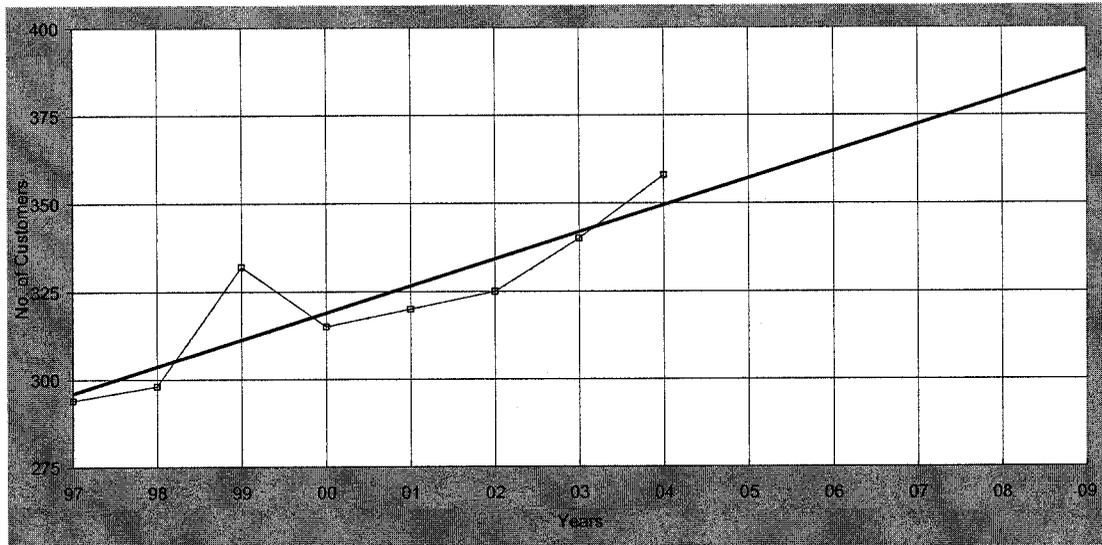


Figure 5. Growth Projection

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

Compliance

The ADEQ reported the Company’s system, PWS #01-018, had no deficiencies and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

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 member fee, plus an additional fee of \$2.07 per service connection for participation in MAP. Participation in the MAP program is mandatory for water systems that serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing cost at \$2,095 during the test year. Table A shows the estimated annual monitoring expense with participation in the MAP. Water testing expenses should be adjusted to the annual expense amount shown in Table A, which is \$1,509.

Table A. Water Testing Cost

Monitoring – 2 POEs (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total coliform – monthly	\$17	72	\$1224	\$408
Inorganics – Priority Pollutants	MAP	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP	MAP
Phase II and V:				
Nitrate - annual	\$20	6	\$120	\$40
Nitrite – once per period	MAP	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP	MAP
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP	\$978
Lead & Copper – per 3 years	\$25	10	\$250	\$83
Total				\$1,509

Note: ADEQ’s MAP invoice for the 2005 Calendar Year was \$977.70.

Arsenic

The Company indicated that the arsenic levels in its source supply is 5 part per billion (“ppb”) for Well #1 and 3 µg/l for Well #2. Based on these arsenic concentrations, the Company is in compliance with the new arsenic maximum contaminant level of 10 µg/l.

F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

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

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

A check with the Utilities Division Compliance Section showed that the Company had no outstanding Commission compliance issues.

H. DEPRECIATION RATES

The Company has been using a depreciation rate of 3.00% 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 3% 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 these 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 is proposing to increase its service line and meter installation charges. These proposed installation charges are within Staff's typical guidelines and therefore, should be adopted.

Table C. Service line and Meter Installation Charges

Meter Size	Current Charges	Proposed Charges
5/8 x3/4-inch	\$200	\$500
3/4-inch	\$200	\$575
1-inch	\$250	\$660
1-1/2-inch	\$325	\$900
2-inch Turbo	\$400	\$1,525
2-inch Compound	\$0	\$2,220
3-inch Turbo	\$500	\$2,165
3-inch Compound	\$0	\$2,960
4-inch Turbo	\$600	\$3,360
4-inch Compound	\$0	\$4,265
6-inch Turbo	\$0	\$6,035
6-inch Compound	\$0	\$7,750

2. Curtailment Plan Tariff

The Company has an approved curtailment tariff that became effective on May 11, 2005.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff that became effective on May 11, 2005.

**STAFF REPORT
UTILITY DIVISION
ARIZONA CORPORATION COMMISSION**

**LIVCO SEWER COMPANY
DOCKET NO. SW-02563A-05-0820**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

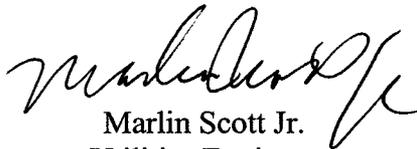
MARCH 24, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Livco Sewer Company, Docket No. SW-02563A-05-0820 was the responsibility of the Staff members listed below. Jim Beechey was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, and rate design. Marlin Scott Jr. was responsible for the valuation of Plant in Service and for the engineering and technical analysis. Bradley Morton was responsible for reviewing customer complaints filed with the Commission.



Jim Beechey
Public Utilities Rate Analyst II



Marlin Scott Jr.
Utilities Engineer



Bradley Morton
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
LIVCO SEWER COMPANY
DOCKET NO. SW-02563A-05-0820**

Livco Sewer Company ("Company") is certificated to provide sewer service to the communities of Old Concho Townsite and Concho Valley, located 15 miles west and 18 miles southwest, respectively, of St. Johns, Apache County, along State Highway 61. The Company provided sewer service to approximately 22 customers during the test year. Its current rates and charges were approved in Decision No. 55765, dated October 21, 1987.

The Company's rate application proposes an increase in total operating revenues of \$19,050, or a 476.25 percent increase over adjusted test year total operating revenues of \$4,000, to be phased in over a three-year period. The Company's proposed rates will not produce total operating revenues of \$23,050 as indicated in its application for a permanent rate increase. Staff has determined that the Company's proposed rates will produce total operating revenues of \$19,050, not \$23,050. For purposes of consistency, Staff will utilize \$23,050 as the proposed revenue. Total operating revenues of \$23,050 will produce an operating income of \$861, for a 0.82 percent rate of return on original cost rate base ("OCRB") of \$104,644, and an operating margin of 3.74 percent. The Company claims that its proposed rate increase is necessary due to increases in operating expenses since Livco Sewer Company first started operating in 1991. The Company's proposed rates would increase the typical residential bill from \$8.60 to \$45.00 for an increase of \$36.40 or 423.3 percent, at the end of the proposed third year phase-in period; however, note that these rates do not produce the proposed revenue.

Staff is recommending an increase in total operating revenues of \$18,140, or a 453.5 percent increase over adjusted test year total operating revenues of \$4,000. Staff's recommended rates will produce total operating revenues of \$22,140, an operating income of \$38.00 for a 0.13 percent rate of return on an OCRB of \$29,077, and a 0.17 percent operating margin. Staff's recommended rates would increase the typical residential bill from \$8.60 to \$35.00 for an increase of \$26.40 or 307 percent, at the end of the proposed third year phase-in period.

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

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Attachments

Engineering Report

FACT SHEET

COMPANY: LIVCO SEWER COMPANY

Current rates: Decision No. 55765, dated October 21, 1987.

Type of ownership: Arizona "C" Corporation.

Location: Livco Sewer Company ("Company") is certificated to provide sewer service to the communities of Old Concho Town site and Concho Valley, located 15 miles west and 18 miles southwest, respectively, of St. Johns, Apache County, along State Highway 61.

Rates:

Monthly Flat Rate Charge (RESIDENTIAL)

Phase I (based on 1 year phase in periods)

	<u>Present</u> <u>Rates</u>	<u>Company</u> <u>Proposed</u>	<u>Staff</u> <u>Recommended</u>
"5/8 - Inch Meter"	\$8.60	\$20.61	\$16.00

Phase II (year 2)

	<u>Present</u> <u>Rates</u>	<u>Company</u> <u>Proposed</u>	<u>Staff</u> <u>Recommended</u>
"5/8 - Inch Meter"	\$8.60	\$32.62	\$25.00

Phase III (year 3)

	<u>Present</u> <u>Rates</u>	<u>Company</u> <u>Proposed</u>	<u>Staff</u> <u>Recommended</u>
"5/8 - Inch Meter"	\$8.60	\$45.00	\$35.00

<u>5/8 Inch Meter Residential</u>	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
PHASE I				
Company	\$8.60	\$20.61	\$12.01	139.7 %
Staff	\$8.60	\$16.00	\$7.40	86.1 %
PHASE II				
Company	\$8.60	\$32.62	\$24.02	279.3 %
Staff	\$8.60	\$25.00	\$16.40	190.7 %

<u>5/8 Inch Meter Residential</u>	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
PHASE III				
Company	\$8.60	\$45.00	\$36.40	423.3 %
Staff	\$8.60	\$35.00	\$26.40	307.0%

Please see Schedule JCB-SW-4 for a complete listing of all rates.

Customers:

Average number of customers in prior test year: (N/A, no prior test year)

Average number of customers in current test year (12/31/2004): 22

Current test year customers by meter size:

5/8 - inch meter residential	15
1 - inch meter residential	3
1 - inch meter commercial	1
1 1/2 - inch meter commercial	1
1 1/2 - inch meter Country Club	1
3 - inch meter Country Club	1

Complaints:

Number of customer complaints since rate application filed: 0

Percentage of complaints to customer base: 0 percent

Notification:

Customer notification was mailed on November 7, 2005.

SUMMARY OF FILING

Based on test year results as adjusted by Staff, the Company suffered an operating loss of \$18,102 on an OCRB rate base of \$29,077, for no rate of return as shown on Schedule JCB-SW-1.

The Company's proposed rates will not produce total operating revenues of \$23,050 as indicated in its application for a permanent rate increase. Staff has determined that the Company's proposed rates will produce total operating revenues of \$19,050, not \$23,050. For purposes of consistency, Staff will utilize \$23,050 as the proposed revenue. Total operating revenues of \$23,050 will produce an operating income of \$861, for a 0.82 percent rate of return on original cost rate base ("OCRB") of \$104,644. The Company's proposed rates would increase the typical residential bill from \$8.60 to \$45.00 for an increase of \$36.40 or 423.3 percent, at the end of the proposed third year phase-in period; however, note that these rates do not produce the proposed revenue.

Staff recommends adoption of its proposed rates which would produce total operating revenues of \$22,140, an operating income of \$38.00 for a 0.13 percent rate of return on an OCRB of \$29,077, and a 0.17 percent operating margin. Staff's proposed rates would increase the typical residential bill from \$8.60 to \$35.00 for an increase of \$26.40 or 307 percent, at the end of the proposed third year phase-in period.

BACKGROUND

On November 4, 2004, the Livco Water Company and Livco Sewer Company filed joint applications for a permanent rate increase with the Arizona Corporation Commission ("Commission"). The Livco Sewer Company application was found deficient. After the Company filed corrections to its application, the application was deemed sufficient on January 4, 2006. The Company served approximately 22 customers in the test year.

The Company is a for-profit, "C" corporation. All Company shares are owned by Country Club Properties of Concho, Inc. The Company has not had a rate increase since its initial CC&N, approved in Decision No. 55765, dated October 21, 1987. The Company claims that total operating expenses significantly exceed total operating revenue, despite the Company's efforts to manage costs. The Company anticipates some growth from new developments in the area. Projected plant investment is estimated by the Company at approximately \$29,500 from 2005 thru 2007.

CONSUMER SERVICES

A review of Consumer Service's records indicates the following activity from the years 2003 thru 2006: zero Complaints; zero Inquiries; and two Opinions in 2005 against rate increases.

A review of the Company's bill format indicates compliance with R14-2-608.A through R14-2-608.F.3 of the Arizona Administration Code, Title 14, Chapter 2.

COMPLIANCE

The Arizona Department of Environmental Quality ("ADEQ") reported the Company's sewer system, Inventory No. 102422, had no deficiencies and is in total compliance with its regulations.

Staff has confirmed with Apache County, as of March 8, 2006, the Company is current on its property tax.

Staff has received the Company's Certificate of Compliance Letter of Good Standing from the Arizona Department of Revenue, dated June 22, 2005.

ENGINEERING ANALYSIS

The sewer system was field inspected on December 16, 2005 by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Glen Garr, Jr., Maintenance Contractor for the Company. A complete discussion of Staff engineering findings, recommendations, and description of the sewer system is provided in the attached Engineering Report.

In the CC&N and initial rates proceeding in 1987, the Company operated a sewer system consisting of a 50,000 gallon per day ("GPD") extended aeration plant located in the southern portion of the golf course. This 50,000 GPD plant no longer exists and now the sewer flow is transported north for approximately five miles, along State Highway 61, to a 337,000 GPD primary settling lagoon (ADEQ Inventory No. 102422), located just west of Old Concho Town site. The sewer system includes five lift stations and six-inch and 8-inch sewer lines.

The current sewage produced by the 22 customers has an average monthly flow of 5,080 GPD. The sewer system does not have sufficient flow to utilize the *entire* lagoon, wetlands, and reuse sites, but is currently adequate to handle the projected customer growth of 33 customers by 2009. Although the *entire* 337,000 gallon plant is not used and useful at this time, the cost of this lagoon site was not paid for by the Company and is not shown in the Company's books and records.

Staff has developed and recommends, on a going-forward basis, typical and customary depreciation rates within the range of anticipated equipment useful life as shown in Table A of the Engineering Report.

RATE BASE

As shown on Schedule JCB-SW-2, page 1, Staff recommends an OCRB of \$29,077. This rate base represents a decrease of \$75,567 from the Company's proposed \$104,644 OCRB, due to Staff's adjustment to plant in service and accumulated depreciation.

Adjustment A decreased plant in service by \$85,261, based on Staff's analysis.

Adjustment B decreased accumulated depreciation by \$7,718, due to Staff's calculation using approved depreciation rates for the intervening years since the prior rate case, against adjusted plant in service.

Adjustment C increased Cash Working Capital by \$1,976 to reflect Staff's inclusion of a working capital allowance using the formula method.

OPERATING REVENUES

Staff concurs with the Company's test year total operating revenues of \$4,000.

OPERATING EXPENSES

Staff adjustments to operating expenses resulted in a decrease of \$87 from \$18,189 to \$18,102, as shown on Schedule JCB-SW-3, page 1. The adjustments are discussed below.

Adjustment A increased Insurance - General Liability by \$601 to reflect Company provided insurance invoices totaling \$4,103, and Company statement that these costs are allocated at 50 percent between Livco Water Company and Livco Sewer Company.

Adjustment B reduced test year depreciation expense by \$395 to reflect application of Staff's recommended depreciation rates, going-forward, to Staff's adjusted Plant in Service.

Adjustment C reduced property tax by \$253 to reflect the Company's most recent property tax bill, on a going-forward basis.

Adjustment D reduced Income Tax by \$40 to reflect calculation of income tax based on Staff's adjusted test year taxable income.

RATE DESIGN

The Company's current and proposed rate structure consists of a monthly flat fee. The Company is proposing a three-year phase-in of the fees to cushion rate shock to its 22 customers. The Company's proposed increase in the monthly flat fee at the end of the three-year phase-in would provide total operating revenues of \$19,050, not the \$23,050 as indicated in its application for a permanent rate increase. In order to produce the Company's proposed revenues of \$23,050, the Company's proposed rates would need to increase the residential monthly flat fee by \$58.62, for a 681.6 percent increase from \$8.60 to \$67.22 at the end of the three-year phase-in period. Total operating revenues of \$23,050 would provide an increase of \$19,050, or 476.25 percent increase over adjusted test year total revenue of \$4,000. The Company's recommended revenue provides a 0.82 percent return on an OCRB of \$29,077, and an operating margin of 3.74 percent. The Company's rates as proposed in its permanent rate application would increase the residential monthly flat fee by \$36.40, for a 423.3 percent increase from \$8.60 to \$45.00, at the end of the three-year phase-in period.

Staff concurs with the three-year phase-in period to cushion rate shock to the Company's current customers. Staff is recommending an increase in total operating revenues at the end of the three-year phase-in period of \$18,140, or a 453.5 percent increase over adjusted test year total operating revenues of \$4,000. Staff's recommended rates will produce total operating revenues of \$22,140, an operating income of \$38.00 for a 0.13 percent rate of return on an OCRB of \$29,077, and an operating margin of 0.17 percent. Staff's recommended rates would increase the residential monthly flat fee by \$26.40, for a 307 percent increase from \$8.60 to \$35.00, at the end of the three-year phase-in period.

The Company is proposing to increase its Other Service Charges. These proposed service charges are within Staff's typical guidelines and therefore, should be adopted. Please see the above rate design in detail as shown on Schedule JCB-SW-4.

STAFF RECOMMENDATIONS

Staff recommends approval of its recommended rates and charges as presented on Schedule JCB-SW-4.

Staff further recommends the Company be ordered to adopt the depreciation rates shown on Table A of the attached Engineering Report on a going-forward basis.

Staffs further recommends that, if the Company owns the lagoon site, the Company account for the contribution of the lagoon site in its books and maintain its books and records in compliance with the NARUC Uniform System of Accounts.

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

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company Proposed as Filed	Staff Recommended
Revenues:				
Metered Water Revenue	\$4,000	\$4,000	\$23,050	\$22,140
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$4,000	\$4,000	\$23,050	\$22,140
Operating Expenses:				
Operation and Maintenance	\$19,066	\$19,667	\$19,066	\$19,667
Depreciation	2,536	2,141	2,536	2,141
Property & Other Taxes	497	244	497	244
Income Tax	90	50	90	50
Total Operating Expense	\$22,189	\$22,102	\$22,189	\$22,102
Operating Income/(Loss)	(\$18,189)	(\$18,102)	\$861	\$38
Rate Base O.C.L.D.	\$104,644	\$29,077	\$104,644	\$29,077
Rate of Return - O.C.L.D.	NMN	NMN	0.82%	0.13%
Operating Margin	NMN	NMN	3.74%	0.17%

NOTES:

1. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.
2. NMN: "Not a Meaningful Number".

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$156,721	(\$85,261)	A	\$71,460
Less:				
Accum. Depreciation	52,017	(7,718)	B	44,299
Net Plant	\$104,704	(\$77,543)		\$27,161
Less:				
Plant Advances	\$0	\$0		\$0
Meter Deposits	60	0		60
Total Advances	\$60	\$0		\$60
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$60	\$0		\$60
Plus:				
1/24 Power	\$0	\$191	C	\$191
1/8 Operation & Maint.	0	1,785	C	1,785
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$1,976		\$1,976
Rate Base	\$104,644	(\$75,567)		\$29,077

Explanation of Adjustment:

- A See Schedule JCB-SW-2, page 2 of 3.
- B See Schedule JCB-SW-2, page 3 of 3.
- C Based on Staff's inclusion of Cash Working Capital using the formula method.

Livco Sewer Company

Docket No. SW-02563A-05-0820

Test Year Ended December 31, 2004

Schedule JCB-SW-2

Page 2 of 3

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
351 Organization	\$0	\$0	\$0
351 Franchises	0	0	0
353 Land & Land Rights	0	0	0
354 Structures & Improvements	3,273	0	3,273
355 Power & Generation Equipme	0	0	0
360 Collection Sewers - Force	75	0	75
361 Collection Sewer-gravity AIAC	0	0	0
361 Collection Sewer- Gravity	0	48,528 A	48,528
362 Special Collecting Structures	0	0	0
363 Services to Customers	0	0	0
364 Flow Measuring Devices	0	0	0
365 Flow Measuring Installations	0	0	0
370 Receiving Walls	0	0	0
371 Effluent Pumping Equipment	14,364	0	14,364
380 Treatment and Disposal Equip	0	0	0
381 Plant Sewers	97,056	(97,056) A	0
382 Outfall Sewer Lines	127	0	127
389 Other Plant and Misc. Equipm	0	0	0
390 Office Furniture and Equipme	212	0	212
391 Transportation Equipment	0	0	0
393 Tools, Shop and Garage Equi	0	4,810 A	4,810
394 Laboratory Equipment	4,810	(4,810) A	0
395 Power Operated Equipment	0	0	0
398 Other Tangible Plant	36,804	(36,733) A	71
TOTALS	\$156,721	(\$85,261)	\$71,460

Explanation of Adjustment:

A To record Staff Engineer's recommended plant in service adjustments.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>	
Accumulated Depreciation - Per Company	\$52,017	
Accumulated Depreciation - Per Staff	44,299	A
Total Adjustment	(\$7,718)	

Explanation of Adjustment:

A - Type explanation here.		
Accumulated Depreciation per Staff Engineer	38,514	
2002 Depreciation Expense	1,874	
2003 Depreciation Expense	1,893	
2004 Depreciation Expense	<u>2,018</u>	
Total Accumulated Depreciation	<u>\$44,299</u>	

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
521 Flat Rate Sewer Revenue	\$4,000	\$0	\$4,000
522 Measured Sewer Revenue	0	0	0
536 Other Sewer Revenues	0	0	0
Total Operating Revenue	\$4,000	\$0	\$4,000
Operating Expenses:			
701 Salaries and Wages	\$1,715	\$0	\$1,715
711 Sludge Removal Expense	798	0	798
715 Purchased Power	4,592	0	4,592
718 Chemicals	3,090	0	3,090
720 Materials and Supplies	640	0	640
721 Office Supplies	645	0	645
730 Contractual Services-Billing	0	0	0
731 Contractual Services-Professional	0	0	0
735 Contractual Services-Testing	0	0	0
736 Contract Services-Other	4,912	0	4,912
740 Rent	0	0	0
750 Communications	0	0	0
755 Insurance Expense	1,450	601 A	2,051
766 Regulatory Commission Expense	1,167	0	1,167
775 Miscellaneous Expense	57	0	57
403 Depreciation Expense	2,536	(395) B	2,141
408 Taxes Other Than Income	99	0	99
408.11 Property Taxes	398	(253) C	145
409 Income Tax	90	(40) D	50
Total Operating Expenses	\$22,189	(\$87)	\$22,102
OPERATING INCOME/(LOSS)	(\$18,189)	\$87	(\$18,102)
Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	(181)	0	(181)
426 Miscellaneous Non-Utility Expense	(26)	0	(26)
Total Other Income/(Expense)	\$207	\$0	\$207
NET INCOME/(LOSS)	(\$17,982)	\$87	(\$17,895)

STAFF ADJUSTMENTS (Cont.)

A -	INSURANCE EXPENSE- Per Company	\$1,450	
	Per Staff	2,051	\$601

Adjusted Insurance Expense by \$601 to reflect Company provided insurance invoices totalling \$4,103 and Company statement that insurance is divided equally between water and sewer companies.

B -	DEPRECIATION - Per Company	\$2,536	
	Per Staff	2,141	(\$395)

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

Plant in Service	\$71,460
Less: Non Depreciable Plant	0.00
Fully Depreciated Plant	0.00
Depreciable Plant	71,460
Times: Staff Proposed Depreciation Rate	3.17%
Sub-Total	\$2,267
6 months depreciation adjustment on \$8,368 2004 additions	\$126
Credit to Accumulated Depreciation	\$2,141
Less: Amort. of CIAC* @ 3.00%	0.00
Pro Forma Annual Depreciation Expense	\$2,141

C -	PROPERTY TAX - Per Company	\$398	
	Per Staff	145	(\$253)

Decreased Property Tax by \$253 to reflect current tax bill.

D -	INCOME TAX - Per Company	\$90	
	Per Staff	50	(\$40)

Decreased Income Tax by \$40 to reflect calculation of income tax expense based on Staff's adjusted test year taxable income.

RATE DESIGN

	PHASE I			PHASE II			PHASE III			Staff % Increase
	Present	Rates	Company Staff	Present	Rates	Company Staff	Present	Rates	Company Staff	
<u>Monthly charge (RESIDENTIAL)</u>										
5/8" x 3/4" Meter	\$8.60	\$20.61	\$16.00	\$8.60	\$32.62	\$25.00	\$8.60	\$45.00	\$35.00	307%
3/4" Meter	8.60	20.61	16.00	8.60	32.62	25.00	8.60	45.00	35.00	**
1" Meter	8.60	43.00	20.00	8.60	77.17	32.00	8.60	112.50	45.00	423%
1 1/2" Meter	8.60	55.26	39.00	8.60	101.92	70.00	8.60	150.00	100.00	**
2" Meter	8.60	71.76	72.00	8.60	134.92	136.00	8.60	200.00	200.00	**
3" Meter	8.60	137.76	139.00	8.60	266.92	269.00	8.60	400.00	400.00	**
4" Meter	8.60	212.01	214.00	8.60	415.42	419.00	8.60	625.00	625.00	**
6" Meter	8.60	418.26	422.00	8.60	827.92	836.00	8.60	1,250.00	1,250.00	**
<u>Monthly Charge (COMMERCIAL)</u>										
5/8" x 3/4" Meter	\$43.00	\$20.61	\$43.00	\$43.00	\$32.62	\$82.00	\$43.00	\$45.00	\$125.00	**
3/4" Meter	\$43.00	20.61	\$43.00	\$43.00	32.62	\$82.00	\$43.00	45.00	125.00	**
1" Meter	\$43.00	42.89	117.00	\$43.00	77.17	191.00	\$43.00	112.50	265.00	516%
1 1/2" Meter	\$43.00	55.26	110.00	\$43.00	101.92	177.00	\$43.00	150.00	295.00	586%
2" Meter	\$43.00	71.76	127.00	\$43.00	134.92	211.00	\$43.00	200.00	325.00	**
3" Meter		137.76	162.00	\$43.00	266.92	281.00	\$43.00	400.00	400.00	**
4" Meter	\$43.00	212.01	237.00	\$43.00	415.42	431.00	\$43.00	625.00	625.00	**
6" Meter	\$43.00	418.26	445.00	\$43.00	827.92	847.00	\$43.00	1,250.00	1,250.00	**
<u>Monthly Charge (COMM. COUNTRY CLUB)</u>										
1 1/2" Meter	43.00	55.26	127.00	43.00	101.92	211.00	43.00	150.00	295.00	467%
3" Meter	52.00	71.76	168.00	52.00	134.92	284.00	52.00	200.00	400.00	669%
<u>Other Charges:</u>										
Establishment	0.00	25.00	25.00							
Establishment (After Hours)	0.00	40.00	40.00							
Reconnection (Delinquent)	100.00	100.00	100.00							
Meter Test (If Correct)	N/A	N/A	N/A							
Deposit	20.00	40.00	40.00							
Deposit Interest	6.00%	2.00%	2.00%							
Re-Establishment (Within 12 Months)	*	*	*							
Re-Establishment (Within 12 Months After hours)	*	*	*							
NSF Check	10.00	25.00	25.00							
Deferred Payment - per month	0.00%	1.50%	1.50%							
Meter Re-Read	N/A	N/A	N/A							
Late Payment Penalty	5.00	10.00	10.00							
After Hours Service Charge (Rule R14-2-603.D)	0.00	50.00	50.00							

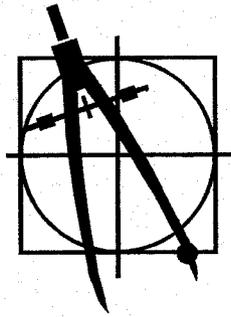
* Per Commission Rules (R14-2-603.D)

** These residential and commercial meter sizes are currently not in use.

TYPICAL BILL ANALYSIS
General Service 5/8 - Inch Residential Meter

Average Number of Customers: 15

<u>Company and Staff Propose Same Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Cumulative Percent Increase</u>
PHASE I				
Company	\$8.60	\$20.61	\$12.01	139.7%
Staff	\$8.60	\$16.00	\$7.40	86.1%
PHASE II				
Company	\$8.60	\$32.62	\$24.02	279.3%
Staff	\$8.60	\$25.00	\$16.40	190.7%
PHASE III				
Company	\$8.60	\$45.00	\$36.40	423.3%
Staff	\$8.60	\$35.00	\$26.40	307.0%



**Engineering Report
For
Livco Sewer Company**

**Docket No. SW-02563A-05-0820
(Rates)**

February 22, 2006

CONCLUSIONS

- A. The Livco Sewer Company's ("LSC") 337,000 gallon per day wastewater treatment plant does not have sufficient flow to utilize the entire lagoon, wetlands, and reuse sites. Although the entire 337,000 gallon plant is not used and useful at this time, the cost of this lagoon site was not paid for by LSC and is not shown on the books and records of LSC.
- B. The Arizona Department of Environmental Quality ("ADEQ") reported LSC's sewer system, Inventory No. 102422, had no deficiencies and is in total compliance with its regulations.
- C. A check with the Utilities Division Compliance Section indicated that LSC had no outstanding Commission compliance issues.

RECOMMENDATIONS

- 1. Staff recommends that LSC use the depreciation rates delineated in Table A on a going-forward basis.

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A. LOCATION OF LSC

Livco Sewer Company ("LSC") serves the communities of Old Concho Townsite and Concho Valley, located and 18 miles southwest of St. Johns, along State Highway 61. Figure 1 shows the location of LSC within Apache County and Figure 2 shows the Certificate of Convenience and Necessity ("CC&N") covering approximately 1-1/4 square-miles.

B. DESCRIPTION OF THE SEWER SYSTEM

The sewer system was field inspected on December 16, 2005, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Glen Garr, Jr., Maintenance Contractor for LSC.

In the CC&N and initial rates proceeding in 1987, LSC operated a sewer system serving a small portion of the Concho Valley Subdivisions. This system consisted of a 50,000 gallon per day ("GPD") extended aeration plant located in the southern portion of the golf course. This 50,000 GPD plant no longer exists and now the sewer flow is transported north for approximately five miles, along State Highway 61, to a 337,000 GPD primary settling lagoon, located just west of Old Concho Townsite.

LSC provides sewer service to the Concho Valley Subdivisions and the Old Concho Townsite. Figure 3 provides a sewer system schematic for the system.

Table 1. Sewer Treatment Plant

Treatment Facility	Capacity
Settling ponds/lagoons	** 337,000 GPD
- Wetlands	
- Reuse area	

** According to an ADEQ inspection report, dated June 16, 2004, the plant facility was using one pond.

Table 2. Interceptor Line (constructed in 1991)

Diameter	Material	Length
6-inch Pressure	PVC	12,600 ft.
8-inch Gravity	PVC	5,000 ft.
10-inch Gravity	PVC	4,300 ft.
8-inch Pressure	PVC	3,950 ft.

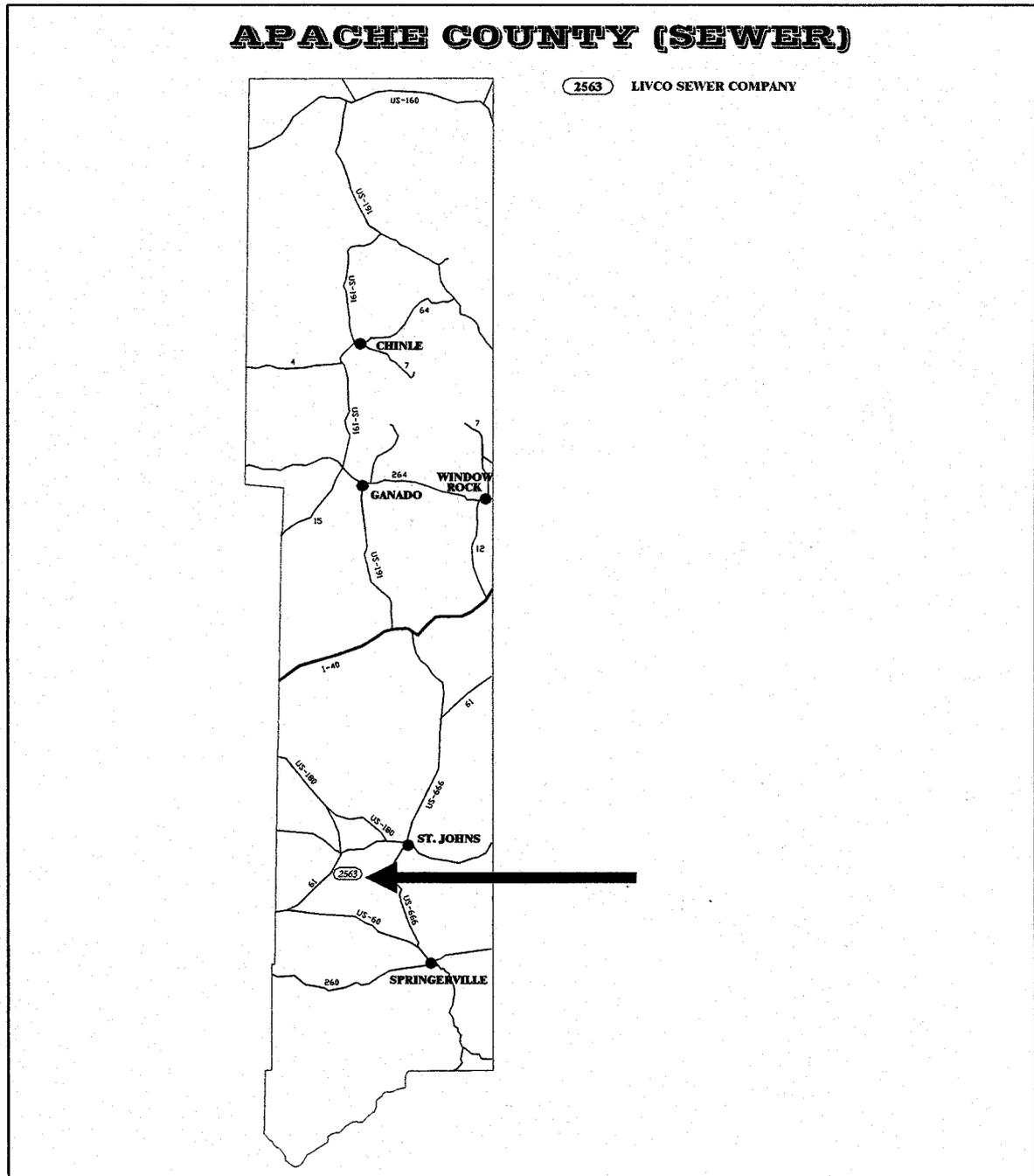


Figure 1. County Map

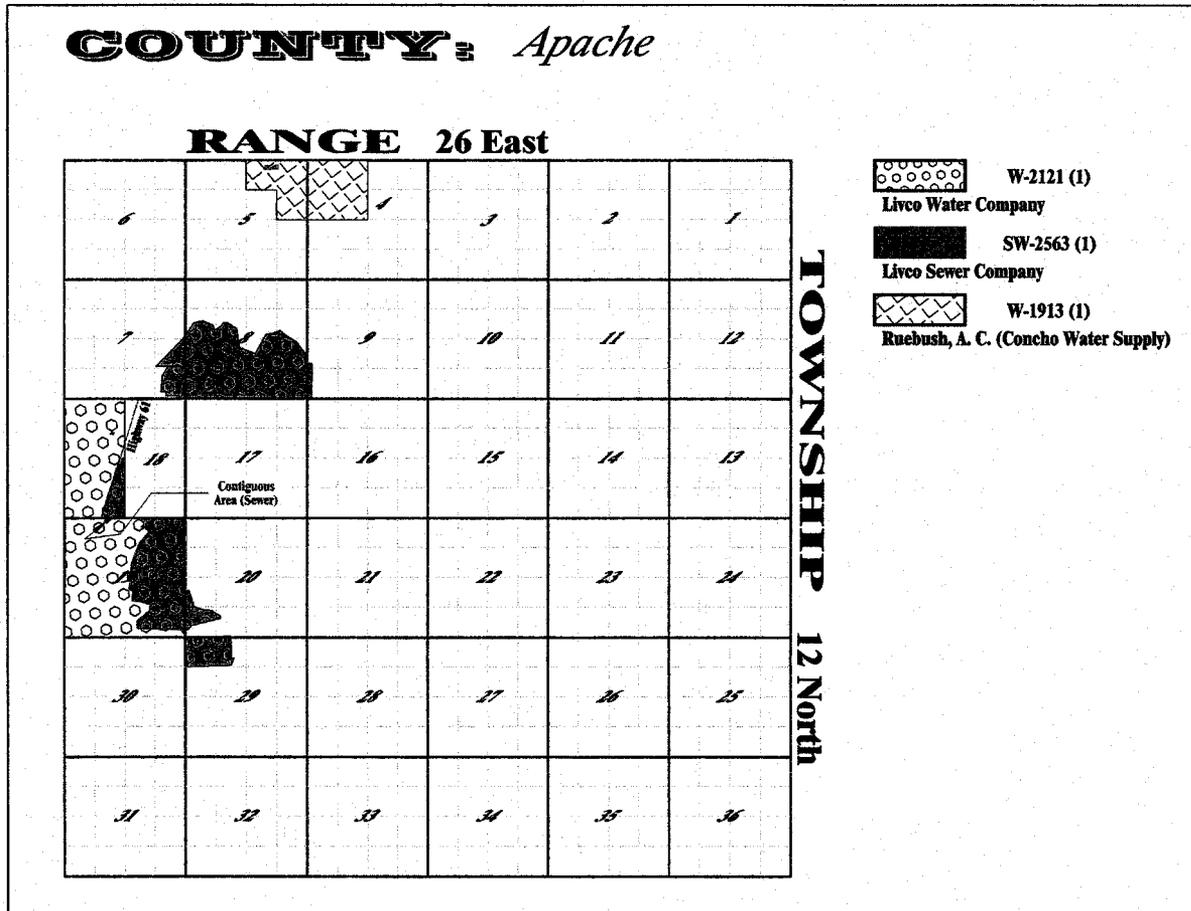


Figure 2. Certificated Areas

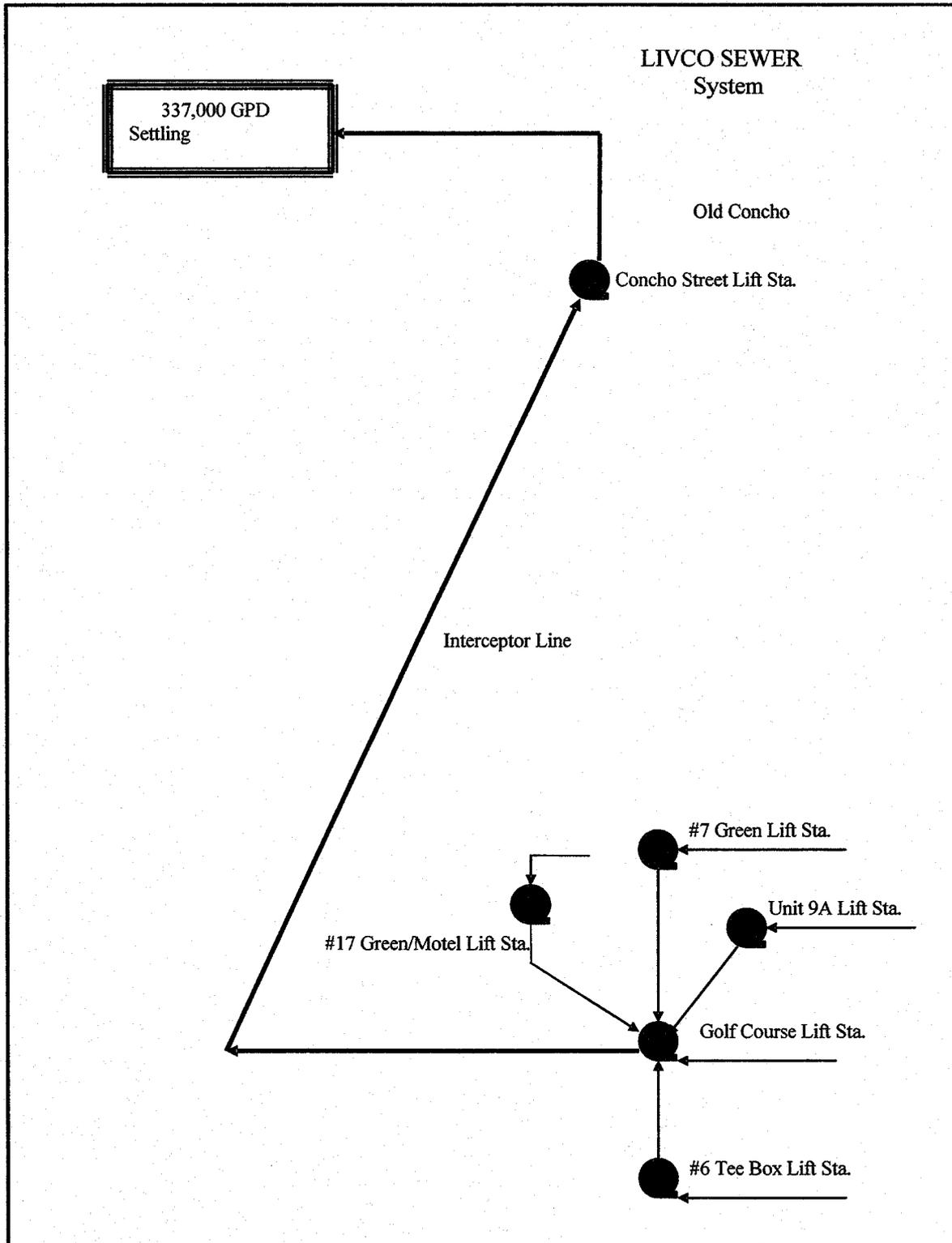


Figure 3. Sewer System Schematic

Table 3. Lift Stations

Lift Station	Horse power	Quantity	Location
Golf Course	15-Hp	2	Golf Course
#17 Green/Motel	10-Hp	2	Golf Course
#6 Tee Box	2-Hp	2	Golf Course
Unit 9A	7-1/2-Hp	2	Golf Course
Unit 10-12	15-Hp	2	Golf Course
Concho Street	15-Hp	2	Old Concho Townsite

Table 4. Collection Mains

Diameter	Material	Length
6-inch	PVC	665 ft.
8-inch	PVC	23,081 ft.

Table 5. Manholes/Cleanouts

Structure	Quantity
Manholes	94
Cleanouts	2

Table 6. Services

Customer – Size	Number
Residential – 4-inch	14
Commercial – 4-inch - Country Club, Motel, & Laundry Mat	3

The current sewage flow produced by the 22 customers is transported to the 337,000 GPD lagoon site. The sewer system does not have sufficient flow to utilize the entire lagoon, wetlands, and reuse sites. Although the entire 337,000 gallon plant is not used and useful at this time, the cost of this lagoon site was not paid for by LSC and is not shown on the books and records of LSC.

C. SEWER FLOWS

Based on the information provided by LSC, the sewer flows during the test year 2004 are presented below. The system experienced a high monthly flow of 8,470 GPD in June and a low monthly flow of 2,058 GPD in January, for an average monthly flow of 5,080 GPD.

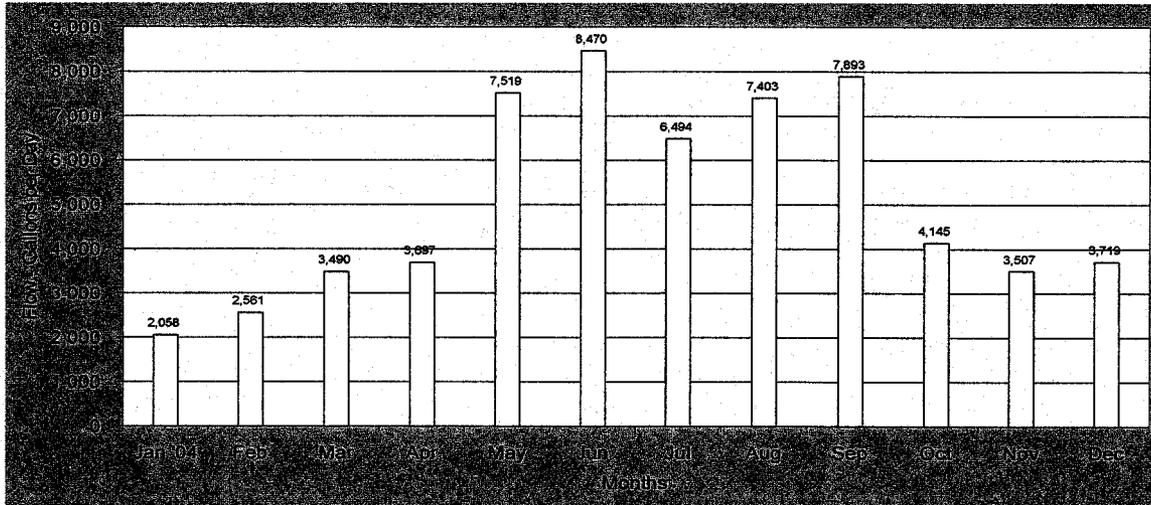


Figure 4. Sewer Flows

D. GROWTH

Figure 5 details the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year 2004, LSC had 22 customers and it is projected that LSC could have approximately 33 customers by 2009.

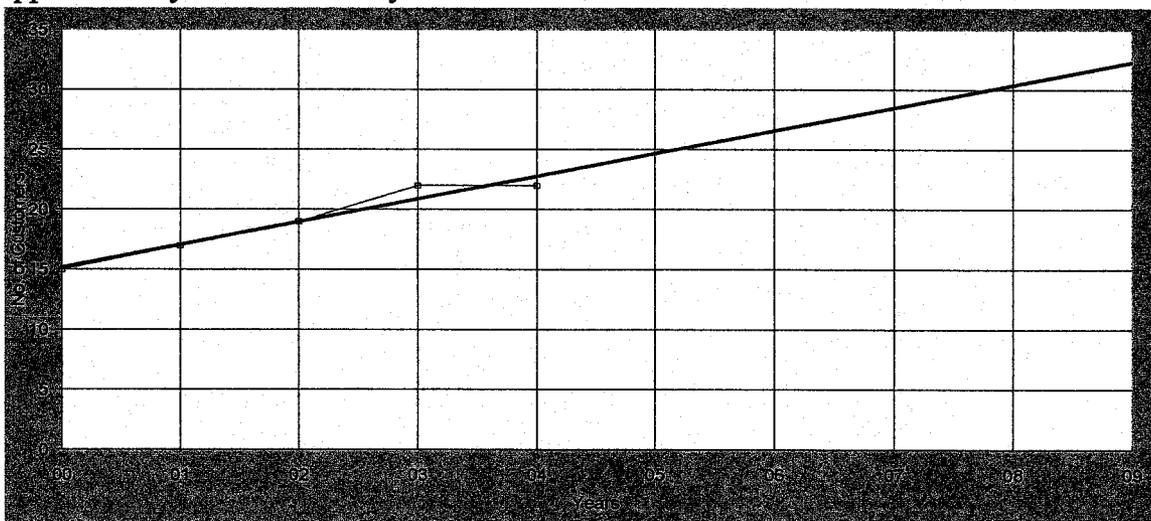


Figure 5. Growth Projection

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

The ADEQ reported this sewer system, Inventory No. 102422, has no deficiencies and is in total compliance with its regulations.

F. ARIZONA CORPORATION COMMISSION COMPLIANCE

A check with the Utilities Division Compliance Section indicated that LSC had no outstanding Commission compliance issues.

G. DEPRECIATION RATES

LSC has been using a depreciation rate of 3.00% 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 3% composite rate would not really be appropriate for either vehicles or collection sewers 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 A and it is recommended that LSC use these depreciation rates by individual NARUC category on a going-forward basis.

Table A. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers - Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50

375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	---	---

NOTES:

1. These depreciation rates represent average expected rates. Wastewater companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the wastewater.
2. Acct. 398, 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.