



0000045588

MEMORANDUM

ORIGINAL

APR

TO: Docket Control  
FROM: Ernest G. Johnson  
Director  
Utilities Division

NOV 18 2002

DATE: November 18, 2002

RE: STAFF REPORT FOR MT. LEMMON COOPERATIVE WATER COMPANY'S  
APPLICATION FOR FINANCING AND PERMANENT RATE INCREASE  
DOCKET NO. W-01408A-02-0595

Attached is the Staff Report for Mt. Lemmon Cooperative Water Company's application for financing and a permanent rate increase. Staff recommends financing approval and approval of its rates and charges shown on Schedule 4 of this report.

EGJ:RN: rdp

Originator: Roger Nash

Attachment: Original and sixteen copies

Arizona Corporation Commission  
**DOCKETED**

NOV 18 2002

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AZ CORP COMMISSION  
DOCUMENT CONTROL

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Docket No. W-01408A-02-0595

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**MT. LEMMON COOPERATIVE WATER COMPANY**

**DOCKET NO. W-01408A-02-0595**

**APPLICATION  
FOR  
FINANCING AND PERMANENT RATE INCREASE**

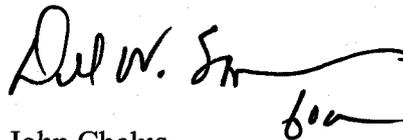
**NOVEMBER 2002**

## STAFF ACKNOWLEDGMENT

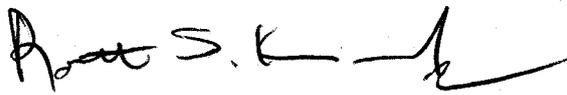
The Staff Report for Mt. Lemmon Cooperative Water Company, Docket No. W-01408A-02-0595, was the responsibility of the Staff members listed, Roger Nash was responsible for the review and analysis of the Company's financing and rate increase application, recommended revenue requirements, rate base and rate design. John Chelus was responsible for the engineering and technical analysis. Refugio Lopez 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.



Roger Nash  
Public Utilities Analyst III



John Chelus  
Utilities Engineer



Refugio Lopez  
Public Utilities Consumer Analyst I

## EXECUTIVE SUMMARY

Mt. Lemmon Cooperative Water Company ("Mt. Lemmon" or "Company") is located approximately 30 miles northeast of Tucson on Mt. Lemmon. The Company is located in the Tucson Active Management Area.

The Company proposes rates that will produce revenues of \$215,563, resulting in an operating income of \$10,409, for a 1.87 percent rate of return on an Original Cost Rate Base (OCRB) of \$557,877. The typical residential bill having an average usage of 916 gallons would increase from \$35.52 to \$44.58 for an increase of \$9.06 or 25.5 percent.

The Company's purpose for the rate increase application was due to support a loan of \$540,000 from the Water Infrastructure Finance Authority ("WIFA") for the installation of two water tanks and a filtration system.

Staff recommends a revenue level of \$234,239. Staff's recommended revenue results in an operating income of \$31,075 for a 7.14 percent return on an OCRB of \$435,097. The typical residential bill having an average usage of 916 gallons would increase from \$35.52 to \$47.35 for an increase of \$11.83, or 33.3 percent.

The Company also, requested approval of various tariffs, specifically, a Cross-Connection and Backflow Tariff, Pressure Regulating Valve Tariff, and an Off-site Facilities Hook-up Fee. Staff recommends approval of these tariffs.

The Company also asked Staff's assistance in the language for a Leak Detection Tariff. Staff recommends the Company file a Leak Detection Tariff within 90 days of the decision and order.

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**ATTACHMENTS**

<b>ENGINEERING REPORT</b> .....	<b>A</b>
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MT. LEMMON COOPERATIVE WATER COMPANY

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**Fact Sheet**

Company Statistics:

CC&N: Decision No. 29469, dated February 23, 1956

Current Rates: Decision No. 58982, dated February 3, 1995

Type of Ownership: Association/Cooperative

Arizona Corporation Commission Class D Water Utility

Location: Pima County, Northeast of Tucson on Mt. Lemmon, located in the Tucson Active Management Area.

Rates:

Permanent rate application filed: August 5, 2002

Current Test Year Ended: December 31, 2001

Prior Test Year Ended: December 31, 1993

Monthly Charges:

	Company Current Rates	Company Proposed Rates	Staff Proposed Rates
Monthly Charge (Based on 5/8" x 3/4" Meter)	\$31.85	\$40.00	\$41.85
Gallons in minimum	0	0	0
Charge per gallon			
From 0 to 4,000 gallons	\$4.00	\$5.00	\$6.00
From 4,001 to 10,000 gallons	4.00	5.00	9.00
From 10,001 to 20,000 gallons	7.00	8.00	15.00
In Excess of 20,000 gallons	10.00	12.00	20.00
Typical monthly residential bill having an average usage of 916 gallons	\$35.52	\$44.58	\$47.35

MT. LEMMON COOPERATIVE WATER COMPANY

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Customers:

Number of customers in the prior Test Year (1993): 338

Number of customers in the current Test Year (2001): 402

Current Test Year customers by meter size:

5/8" x 3/4"

402

Notifications:

Customer notification mailed: August 2, 2002

Complaints:

Number of complaints since rate application filed: 0.

Number of concerns since rate application filed: 8

Percentage of concerns to customer base: 2%

### **Summary of Filing**

On August 5, 2002, Mt. Lemmon Cooperative Water Company ("Mt. Lemmon" or "Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On September 3, 2002, Staff deemed the application sufficient. Based on Test Year results, as adjusted by Staff, Mt. Lemmon realized an operating loss of \$31,005 on an Original Cost Rate Base ("OCRB") of \$435,097. This resulted in no return on investment, as shown on Schedule 1 of this Report.

The Company-proposed rates, as filed, produce a revenue level of \$215,563, an operating income of \$10,409, for a 1.87 percent rate of return on an OCRB of \$557,877. The typical monthly residential bill for a 5/8" x 3/4" meter having an average usage of 916 gallons, would increase from \$35.52 to \$44.58 for an increase of \$9.06, or 25.5 percent.

Staff recommends a revenue level of \$234,239, which will result in an operating income of \$31,075 for a 7.14 percent rate of return on an OCRB of \$435,097. The typical residential bill for a 5/8" x 3/4" meter having a average usage of 918 gallons would increase from \$35.52 to \$47.35 for an increase of \$11.83, or 33.3 percent.

The Company is also filing for approval of a Cross Connection Back Flow Tariff, a Pressure Regulating Valve Tariff, and an Off-site Facilities Hook-up Fee Tariff, as well as assistance from Staff to develop a Leak Detection Tariff.

In addition to the rate increase application, the Company is requesting approval to borrow \$540,000 from the Water Infrastructure Finance Authority ("WIFA") for the installation of two tanks and a filtration system.

### **Company Location and Background**

Mt. Lemmon Cooperative Water Company operates a public water service located on the Santa Catalina Mountains, which is approximately 30 miles northeast of Tucson, Arizona. The Company serves approximately 402 customers and sold 4,087,000 gallons in the Test Year. Mt. Lemmon is in the Tucson Active Management Area.

The Company's last rate case, which resulted in Decision No. 58982, dated February 3, 1995, required Mt. Lemmon to file a financing application within 12 months of the rate increase decision. On June 26, 1997, the Company filed its financing application which resulted in Decision No. 60588 dated January 14, 1998. The proceeds of the approved financing completed the remaining half of a transmission main between two major storage tank sites and a new 212,000 gallon storage tank. The completion of the transmission main project corrected low-pressure problems by improving the distribution system's ability to deliver adequate water and maintain water pressure. The new tank replaced a corroded 30,000-gallon storage tank and enabled the Company to meet future water treatment requirements under the Arizona Department of Environmental Quality ("ADEQ") filtration rule.

### **Consumer Services**

Consumer Services records reflect that from October 3, 1999 through October 3, 2002, no formal or informal complaints were filed against Mt. Lemmon. During the same time frame, the Commission received nine inquiries. As a result of the rate increase application the Commission received eight opinions. Five of the opinions expressed opposition to the rate increase, while three were in favor of the rate increase.

Upon review of a sample bill of the Company, the billing appears to be in compliance with Arizona Administration Code R14-2-409(B)(2).

### **Compliance**

The Company is current on its property tax payments to Pima County and on its collection and remittance of the State Sales Tax.

Mt. Lemmon is located within the Tucson Active Management Area, and therefore is subject to the Arizona Department of Water Resources ("ADWR") monitoring and reporting requirements for water conservation limits. Mt Lemmon is in compliance with ADWR's requirements.

ADEQ reported that the Company is in a non-compliance status, and it can not determine if the Company is currently delivering water that meets the water quality standards. ADEQ does not have evidence this water system completed nitrate monitoring during 2001. ADEQ requires nitrate monitoring annually. The Company did not provide ADEQ with test samples showing evidence of completing the initial lead and copper monitoring.

Staff recommends that new rates go into effect only after the Company submits, to the Director of the Utilities Division, notification from ADEQ stating that the water system has no Maximum Contaminant Level (MCL) violations and is delivering water that meets the quality standards of the Safe Drinking Water Act.

The most recent tests shows arsenic concentration levels not exceeding the new MCL of ten parts per billion.

### **Engineering Analysis**

Staff determined that water-testing expenses should be adjusted to the annual expense level of \$2,365, as shown in Attachment A, Table 1, of this report.

Staff recommends Mt. Lemmon use specific depreciation rates by plant category as shown in Attachment A, Exhibit 4.

The Company has requested additional tariff items, specifically, Cross Connection and Backflow Tariff, Pressure Regulating Valve Tariff, and an Off-site Facilities Hook-up Fee Tariff.

The Off-Site Facilities Hook-up Fee Tariff is a contribution for current and future off-site facilities projects. The off-site hook-up fees may only be used to pay for the capital items of off-site facilities, or for the repayment of loans obtained for installation of off-site facilities. All funds collected by the Company as off-site hook-up fees, shall be deposited into a separate interest bearing account and used solely for the purpose of paying for the costs of off-site facilities, including the repayment of loans for the installation of off-site facilities benefiting the entire water system. The fee schedule and tariff language is in Attachment D. Staff recommends the Commission approval of the Company's Off-site Hook-up Fee Tariff.

Staff recommends the Commission approve these tariffs.

Staff further recommends the Company file a Leak Detection Tariff with a maximum charge of \$65 per hour and a total charge of not more than \$260 within 90 days of the effective date of the decision and order pursuant to this application.

Staff further recommends approval of the Off-site Facilities Hook-up Fee Tariff amount as shown in Attachment D.

Staff further recommends the Company submit an annual hook-up fee report. The report should be filed by April 15<sup>th</sup>, at the same time as its Utilities Annual Report. The following information should be included:

1. Name and amount of each person/entity paying a hook-up fee.
2. Balance in hook-up fee bank account, including interest.
3. Amount spent from hook-up fee account.
4. Enumeration of plant items purchased from the hook-up fee account. If, as an alternative, the hook-up fees were used for the repayment of loans obtained for the installation of off-site facilities, then this should be indicated (see Attachment A, Section L).
5. Any other pertinent information required by Staff.

### **Rate Base**

Schedule 2, page 1, is the Company's proposed and the Staff's recommended rate base. No adjustment was necessary to the Company's proposed Plant In Service.

Adjustment A increased Accumulated Depreciation by \$124,235. Accumulated Depreciation was calculated by adding depreciation expense since the last rate case to the Commission-approved ending balance as of December 31, 1993, of \$284,733, resulting in a balance of \$600,900 as shown in Schedule 2, page 3.

The working capital component of rate base was increased by \$1,454 based on Staff's adjustments to operating expenses which included a reclassification from Repairs and Maintenance of \$1,790 to the Inventory rate base account.

### **Operating Revenues**

Staff increased Metered Water revenues by \$2,852 to reflect revenues from water sales not recorded in the general ledger.

### **Operating Expenses**

Staff's adjustments to operating expenses resulted in a decrease of \$1,990 as shown on Schedule 3, page 1, and discussed below.

Adjustment B reclassified \$1,790 from Repairs and Maintenance to Plant Equipment Inventory rate base account for additional tools and supplies.

Adjustment C increased Water Testing by \$274 to reflect Staff's recommended expense level of \$2,365.

Adjustment D decreased Rents by \$150 to accurately reflect the Company's 2001 rental agreement of \$6,720 per year or \$560 per month.

Adjustment E decreased Miscellaneous Expense by \$1,021 to reflect Staff's disallowance of an annual director's dinner.

Adjustment F increased Depreciation Expense by \$697 consistent with Commission approved depreciation rates.

Adjustment G records on a pro forma basis Interest Expense of \$20,998 as a result of the proposed WIFA loan.

### **Rate of Return**

Staff's recommended rate of return of 7.31 percent was based on a combined Debt Service Coverage (DSC) ratio of 1.15.

In addition to the WIFA proposed loan the Company has three outstanding Rural Development notes and one approved WIFA loan. The Rural Development notes do not require a 1.20 DSC ratio like the WIFA loans. Therefore, Staff's recommended DSC ratio of 1.15 was the result of a combined DSC ratio of 1.00 for non-WIFA loans and a DSC ratio of 1.20 for the WIFA loans as shown in Schedule 6.

### **Revenue Requirements**

The Company-proposed rates would increase the average customer's bill by 25.5 percent. The Company is proposing an increase in revenues of approximately \$43,404 over adjusted Test Year revenues, or 25.3 percent. The Company's narrative states it needs this rate increase to service

the proposed WIFA loan. However, the Company's proposed revenues result in a DSC ratio of 1.13 which is below WIFA's requirement of 1.20.

Staff concurs with the Company in its need to increase rates. However, Staff is recommending a higher increase of \$62,080, or 36.1 percent over adjusted Test Year revenues, producing an Operating Income of \$31,075. Staff's recommended rates would allow the Company to maintain its water system and provide coverage for the proposed WIFA loan.

### **Rate Design**

The Company's proposed rate design consists of three tiers with no gallons included in the minimum monthly charge.

Staff's recommended rate structure parallels the Company's proposed. However, Staff's four-tiered rate structure results in an inverted block rate structure as shown in Schedule 5. An inverted block structure results in a higher cost for water as usage increases.

### **Financing Request**

The Company's water production and storage capacity is marginal. The Company is requesting financing approval for plant improvements to meet present and future water demands due to growth.

The Company's rate application includes a request for approval to borrow \$540,000 from WIFA at a combined interest and fee rate 3.50 percent for a period of 20 years..

The proceeds of the loan would fund the following projects:

1. Replace Carter Canyon Tank with 140,000 gallon bolted steel tank and install 1,000 feet of new 6-inch ductile iron pipe from the new tank to Carter Canyon Road.
2. Install a new 1,000,000-gallon tank in upper Sabino Canyon to store filtered water.
3. Install two filter systems as required by the reclassification of source water to be in compliance with ADEQ regulations.

The total project cost is estimated at \$570,000. The WIFA loan would provide \$540,000 from WIFA and \$30,000 will be funded by Mt. Lemmon. Staff estimated the following cost by major categories.

Item	\$ Costs
Planning	2,000
Design and Engineering	54,000
Legal/ Debt Authorization	4,000
Equipment/Materials	362,000
Construction/Installation/Improvement	120,000
Inspection and Construction Management	27,000
Administration	1,000
<b>Total</b>	<b>\$570,000</b>

Staff determined the proposed improvements appropriate and the estimated costs reasonable. However, this does not imply a specific treatment for rate base or rate making purposes. Plant in service values, depreciation, and accumulated depreciation will be based on actual costs, invoices, paid bills, or other statements of costs.

Staff recommends the improvements be completed as soon as possible but no later than 48 months from the effective date of the final order in this rate case. It is important to allow enough time due to the environmental constraints such as snow in the winter and fire in the summer limiting time which construction can take place each year. The Company will be doing much of the improvements itself, and therefore it will need appropriate time to schedule construction along with everyday work assignments. The Company shall file a report each September 30 detailing the progress of installing these plant improvements.

Staff recognizes there will be a lag between the rates approved as a result of this rate increase application and repayment of the WIFA loan. Therefore, Staff believes that a set aside amount per bill per month is appropriate until the WIFA loan proceeds are drawn. In this manner the Company would have funds available to make the first payment which is usually the interest accumulated for the principal drawn throughout the construction phase of the project. If the set aside account is more than the interest accrued then the excess should be applied to the principal. The Staff recommended set aside account should terminate when the first payment is made.

Staff's recommended set aside account is calculated by dividing the annual proposed WIFA loan principal and interest (\$37,908) by the number of customers (402), then dividing this by 12 equaling \$7.88 per month per bill.

Staff recommends the approval of the WIFA loan as the project is appropriate and estimated costs are reasonable.

**Staff Recommendations**

Staff recommends approval of its rates and charges as shown on Schedule 4 of this Report. Staff has based its rates on the revenue needed to operate the Company including coverage of debt.

Staff further recommends the new rates go into effect only after the Company submits, to the Director of the Utilities Division, notification from ADEQ stating that the water system has no Maximum Contaminant Level violations and is delivering water that meets the quality standards of the Safe Drinking Water Act.

Staff further recommends Mt. Lemmon use depreciation rates per plant account as shown in Attachment A, Exhibit 3.

Staff further recommends the Company file a Leak Detection Tariff with the Commission for approval within 90 days after the effective date of a decision in this matter and notice its customers within 60 days of its approval.

Staff further recommends the Leak Detection Tariff be no more than \$65 per hour and not to exceed a total charge of \$260.

Staff further recommends the Commission adopt the Company's filing for a Cross-Connection and Backflow Tariff, a Pressure Regulating Valve Tariff, and an Off-Site Facilities Hook-up Fee Tariff (as shown in Attachments B, C and D).

Staff further recommends the Company open a separate interest bearing account for the purpose of depositing the Off-site Facilities Hook-up Fee.

Staff further recommends the Company file a report on the activities of the Off-site Facilities Hook-up Fee account on April 15<sup>th</sup> each year. The following items should be included in this report:

1. Name and amount of each person/entity paying a hook-up fee.
2. Bank balance in Off-site Facilities Hook-up Fee account, including interest.
3. Amount spent from Off-site Facilities Hook-up Fee account.
4. Enumeration of plant items purchased from the Off-site Facilities Hook-up Fee account. If, as an alternative, the hook-up fees were used for the repayment of loans obtained for the installation of off-site facilities, then this should be indicated.
5. Any other pertinent information required by Staff.

Staff further recommends the Commission grant approval to the proposed WIFA loan of \$540,000.

Staff further recommends the improvements be completed no later than 48 months from the effective date of the final order in this case. The Company should file a report each September 30 detailing the progress of installing these improvements.

Staff further recommends that, in addition to the collection of the Company's regular rates and charges, Mt. Lemmon 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).

**Mt. LEMMON CO-OPERATIVE WATER COMPANY INC.**

Docket No. W-01408A-02-0595

Test Year Ended December 31, 2001

Schedule 1

**SUMMARY OF FILING**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
<b>Revenues:</b>				
Metered Water Revenue	\$168,596	\$171,448	\$214,852	\$233,528
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	711	711	711	711
<b>Total Operating Revenue</b>	<b>\$169,307</b>	<b>\$172,159</b>	<b>\$215,563</b>	<b>\$234,239</b>
<b>Operating Expenses:</b>				
Operation and Maintenance	\$135,979	\$133,292	\$135,979	\$133,292
Depreciation	50,780	51,477	50,780	51,477
Property & Other Taxes	18,395	18,395	18,395	18,395
Income Tax	0	0	0	0
<b>Total Operating Expense</b>	<b>\$205,154</b>	<b>\$203,164</b>	<b>\$205,154</b>	<b>\$203,164</b>
<b>Operating Income/(Loss)</b>	<b>(\$35,847)</b>	<b>(\$31,005)</b>	<b>\$10,409</b>	<b>\$31,075</b>
<b>Rate Base O.C.L.D.</b>	<b>\$557,877</b>	<b>\$435,097</b>	<b>\$557,877</b>	<b>\$435,097</b>
<b>Rate of Return - O.C.L.D.</b>	<b>-6.43%</b>	<b>-7.13%</b>	<b>1.87%</b>	<b>7.14%</b>
<b>Times Interest Earned Ratio</b>	<b>N/A</b>	<b>-0.67</b>	<b>N/A</b>	<b>0.91</b>
<b>Debt Service Coverage Ratio</b>	<b>1.13</b>	<b>0.38</b>	<b>1.13</b>	<b>1.15</b>
<b>Cash Coverage Ratio</b>	<b>0.82</b>	<b>0.52</b>	<b>0.82</b>	<b>2.11</b>
<b>Operating Margin</b>	<b>-21.17%</b>	<b>-18.01%</b>	<b>4.83%</b>	<b>13.27%</b>

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
  2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.
  3. Debt Service Coverage Ration represents thre ability of the Company to pay their debt obligations.
  4. Number of times cash flow covers operating expenses.

**Mt. LEMMON CO-OPERATIVE WATER COMPANY INC.**

Docket No. W-01408A-02-0595  
 Test Year End: December 31, 2001

Schedule 2  
 Page 1 of 3

**RATE BASE**

	----- Original Cost -----		Staff
	Company	Adjustment	
Plant in Service	\$1,029,672	\$0	\$1,029,672
Less:			
Accum. Depreciation	476,665	124,235 A	600,900
<b>Net Plant</b>	<b>\$553,007</b>	<b>(\$124,235)</b>	<b>\$428,772</b>
Less:			
Advances in Aid of Construction	\$0	\$0	\$0
Meter Deposits (Meter & Service Line)	14,815	0	14,815
<b>Total Advances</b>	<b>\$14,815</b>	<b>\$0</b>	<b>\$14,815</b>
Contributions Gross	\$0	\$0	\$0
Less:			
Amortization of CIAC	0	0	0
<b>Net CIAC</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Deductions</b>	<b>\$14,815</b>	<b>\$0</b>	<b>\$14,815</b>
Plus:			
1/24 Power	\$157	\$0	\$157
1/8 Operation & Maint.	16,526	(336) B	16,191
Inventory	0	1,790 C	1,790
Prepayments	3,002	0	3,002
<b>Total Additions</b>	<b>\$19,685</b>	<b>\$1,454</b>	<b>\$21,140</b>
<b>Rate Base</b>	<b>\$557,877</b>	<b>(\$122,781)</b>	<b>\$435,097</b>

*Explanation of Adjustment:*

- A** See Schedule 2, Page 3 Of 3.
- B** Based on Staff's adjustments to Operating Expenses.
- C** To reclassify from Operating Expenses.

**Mt. LEMMON CO-OPERATIVE WATER COMPANY INC.**

Docket No. W-01408A-02-0595

Test Year Ended December 31, 2001

Schedule 2

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**PLANT ADJUSTMENT**

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	125	0	125
304 Structures & Improvements	75,512	0	75,512
307 Wells & Springs	23,862	0	23,862
311 Pumping Equipment	23,689	0	23,689
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Sta	129,617	0	129,617
331 Transmission & Distribution M	542,436	0	542,436
333 Services	48,480	0	48,480
334 Meters & Meter Installations	40,010	0	40,010
335 Hydrants	20,959	0	20,959
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipr	0	0	0
340 Office Furniture & Equipment	6,845	0	6,845
341 Transportation Equipment	42,393	0	42,393
343 Tools Shop & Garage Equipr	75,744	0	75,744
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
<b>TOTALS</b>	<b>\$1,029,672</b>	<b>\$0</b>	<b>\$1,029,672</b>

**Mt. LEMMON CO-OPERATIVE WATER COMPANY INC.**

Docket No. W-01408A-02-0595  
Test Year Ended December 31, 2001

Schedule 2  
Page 3 of 3

**ACCUMULATED DEPRECIATION ADJUSTMENT**

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$476,665
Accumulated Depreciation - Per Staff	600,900 A
<b>Total Adjustment</b>	<b>\$124,235</b>

*Explanation of Adjustment:*

A - Type explanation here.

Balance 12/31/93	\$284,733
1994 Depreciation	35,755
1995 Depreciation	36,009
1996 Depreciation	38,372
1997 Depreciation	39,259
1998 Depreciation	39,770
1999 Depreciation	49,882
1999 Retirements	(24,350)
2000 Depreciation	49,994
2001 Depreciation	51,477
<b>Total Accumulated Depreciation</b>	<b>\$600,900</b>

**STATEMENT OF OPERATING INCOME**

	Company Exhibit	Staff Adjustments	Staff Adjusted
<b>Revenues:</b>			
461 Metered Water Revenue	\$168,596	\$2,852 A	\$171,448
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	711	0	711
<b>Total Operating Revenue</b>	<b>\$169,307</b>	<b>\$2,852</b>	<b>\$172,159</b>
<b>Operating Expenses:</b>			
601 Salaries and Wages	\$61,094	\$0	\$61,094
610 Purchased Water	0	0	0
615 Purchased Power	3,768	0	3,768
618 Chemicals	0	0	0
620 Repairs and Maintenance	6,789	(1,790) B	4,999
621 Office Supplies & Expense	4,022	0	4,022
630 Outside Services	17,376	0	17,376
635 Water Testing	2,091	274 C	2,365
641 Rents	6,870	(150) D	6,720
650 Transportation Expenses	8,623	0	8,623
657 Insurance - General Liability	7,740	0	7,740
659 Insurance - Health and Life	3,320	0	3,320
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	14,286	(1,021) E	13,265
403 Depreciation Expense	50,780	697 F	51,477
408 Taxes Other Than Income	5,226	0	5,226
408.11 Property Taxes	13,169	0	13,169
409 Income Tax	0	0	0
<b>Total Operating Expenses</b>	<b>\$205,154</b>	<b>(\$1,990)</b>	<b>\$203,164</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(\$35,847)</b>	<b>\$4,842</b>	<b>(\$31,005)</b>
<b>Other Income/(Expense):</b>			
419 Interest and Dividend Income	\$4,930	\$0	\$4,930
421 Non-Utility Income	5,387	0	5,387
427 Interest Expense	18,132	20,998 G	39,130
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
<b>Total Other Income/(Expense)</b>	<b>(\$7,815)</b>	<b>(\$20,998)</b>	<b>(\$28,813)</b>
<b>NET INCOME/(LOSS)</b>	<b>(\$43,662)</b>	<b>(\$16,156)</b>	<b>(\$59,818)</b>

**Mt. LEMMON CO-OPERATIVE WATER COMPANY INC.**

Docket No. W-01408A-02-0595

Test Year Ended December 31, 2001

Schedule 3

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**STAFF ADJUSTMENTS**

<b>A -</b>	METERED WATER REVENUE - Per Company	\$168,596	
	Per Staff	171,448	\$2,852
		<u>          </u>	<u>          </u>

To record metered water sales not shown in the general ledger.

<b>B -</b>	REPAIRS AND MAINTENANCE - Per Company	\$6,789	
	Per Staff	4,999	(\$1,790)
		<u>          </u>	<u>          </u>

To reclassify \$1,790 from Repairs and Maintenance to Plant Equipment Inventory

<b>C -</b>	WATER TESTING - Per Company	\$2,091	
	Per Staff	2,365	\$274
		<u>          </u>	<u>          </u>

To adjust to reflect Engineering Staff recommended expense level of \$2,365.

<b>D -</b>	RENTS - Per Company	\$6,870	
	Per Staff	6,720	(\$150)
		<u>          </u>	<u>          </u>

To adjust per rental agreement of \$560 monthly.

<b>E -</b>	MISCELLANEOUS EXPENSE - Per Company	\$14,286	
	Per Staff	13,265	(\$1,021)
		<u>          </u>	<u>          </u>

To disallow annual director's dinner.

<b>F -</b>	DEPRECIATION - Per Company	\$50,780	
	Per Staff	51,477	\$697
		<u>          </u>	<u>          </u>

To Increase expense by \$697 to reflect Staff's calculation.

**Mt. LEMMON CO-OPERATIVE WATER COMPANY INC.**

Docket No. W-01408A-02-0595

Test Year Ended December 31, 2001

Schedule 3

Page 3 of 4

**STAFF ADJUSTMENTS (Cont.)**

**Pro Forma Annual Depreciation Expense:**

Plant in Service	\$1,029,672	
Less: Non Depreciable Plant	125	
Fully Depreciated Plant	0	
Depreciable Plant	<u>\$1,029,547</u>	
Times: Staff Proposed Depreciation Rate	5.00%	
Credit to Accumulated Depreciation	<u>\$51,477</u>	
Less: Amort. of CIAC* @ 5.00%	0	
<b>Pro Forma Annual Depreciation Expense</b>	<u><u>\$51,477</u></u>	

**\* Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$0	
Less: Non Amortizable Contribution(s)	0	
Fully Amortized Contribution(s)	0	
Amortizable Contribution(s)	<u>\$0</u>	
Times: Staff Proposed Amortization Rate	5.00%	
<b>Amortization of CIAC</b>	<u><u>\$0</u></u>	

C

<b>G - INTEREST EXPENSE - Per Company</b>	\$18,132	
Per Staff	<u>39,130</u>	<u>\$20,998</u>

To record pro forma amount as the result of proposed WIFA loan \$18,591.

**Mt. LEMMON CO-OPERATIVE WATER COMPANY INC.**

Docket No. W-01408A-02-0595

Schedule 4

Test Year Ended December 31, 2001

**RATE DESIGN**

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$31.85	\$40.00	\$41.85
3/4" Meter	35.00	45.00	45.00
1" Meter	43.00	53.00	53.00
1½" Meter	50.00	60.00	60.00
2" Meter	70.00	80.00	80.00
3" Meter	110.00	120.00	120.00
4" Meter	200.00	210.00	210.00
6" Meter	350.00	360.00	360.00
<b>Excess of Minimum - per 1,000 Gallons</b>			
From 0 to 4,000 Gallons	\$4.00	\$5.00	\$6.00
From 4,001 to 10,000 Gallons	\$4.00	\$5.00	\$9.00
From 10,001 to 20,000 Gallons	\$7.00	\$8.00	\$15.00
In excess of 20,000 Gallons	\$10.00	\$12.00	\$20.00
set aside per bill per month	\$0.00	\$0.00	\$7.88
Gallons Included in Minimum	0	0	0
<b>Service Line and Meter Installation Charges</b>			
5/8" x 3/4" Meter	\$345.00	\$400.00	\$400.00
3/4" Meter	380.00	435.00	435.00
1" Meter	430.00	485.00	485.00
1½" Meter	625.00	680.00	680.00
2" Meter	1,025.00	1,080.00	1,080.00
3" Meter	1,405.00	1,460.00	1,460.00
4" Meter	2,260.00	2,315.00	2,315.00
6" Meter	4,270.00	4,325.00	4,325.00
<b>Service Charges</b>			
Establishment	\$30.00	\$45.00	\$30.00
Establishment (After Hours)	40.00	80.00	40.00
Reconnection (Delinquent)	30.00	45.00	30.00
Meter Test (If Correct)	40.00	45.00	40.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	25.00	15.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	20.00	30.00	20.00
Late Payment (Per Month)	1.50%	2.50%	1.50%
Leak Detection (per Hr. Charge)	NA	***	***

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

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

\*\*\* Tariff to be filed shall have a maximum hourly charge of \$65.00, and a total maximum of \$260.00.

**WIFA LOAN FINANCIAL ANALYSIS**

Test Year Income Statement, Capital Structure and Pro Forma Based on Audit  
Including Immediate Effects of the Proposed Debt

**INCOME STATEMENT**

	<u>December 31, 2001</u>	<u>Pro Forma</u>
Operating Revenue:	<b>\$169,307</b>	<b>\$234,239</b>
Operating Expenses:		
Purchased Water/Pumping Power	\$3,768	\$3,768
Admin. & General	114,708	113,537
Maintenance & Testing	17,503	15,987
Depreciation (d)	50,780	51,477
Property Taxes	13,169	13,169
Other taxes	5,226	5,226
Total Operating Expense	<u>\$205,154</u>	<u>\$203,164</u>
Operating Income (f)	<u><b>(\$35,847)</b></u>	<u><b>\$31,075</b></u>
Interest Income	\$4,930	\$4,930
Interest Expense	18,132	39,130
Net Interest Expense (a)	<u>13,202</u>	<u>34,200</u>
Pre-Tax Net Income (b)	<u><b>(\$49,049)</b></u>	<u><b>(\$3,125)</b></u>
Principal Repayment (c)	0	37,908
<b>TIER (Interest Coverage)</b>		
(f) ÷ (a)	N/M	0.91
<b>DSC</b>		
[(f) + (d)] ÷ [(a) + (c)]	1.13	1.15
<b>Cash Coverage Ratio</b>		
[((d) + (f)) ÷ (a)]	0.82	2.11

**DSC**

Funding Source	Amount	Persent	Ratio Factor	DSC Ratio
Rural Development Debt	\$280,000	23.93	1.00	0.2393
Water Infrastructure Finance Authority	\$890,000	76.07	1.20	0.9128
Total	\$1,170,000	100.00		1.15

**CAPITAL STRUCTURE**

Short-term Debt	\$18,864	2.4%	\$18,864	1.6%
Long-term Debt	\$521,186	65.7%	\$1,061,186	87.8%
Common Equity	\$253,450	31.9%	\$129,215	10.7%
Total Capital	\$793,500	100.0%	\$1,209,265	100.0%

**TERMS OF PROPOSED WIFA LOAN**

**Terms and Conditions**

Loan Amount	\$540,000.00
Term (No. of Years)	20
Combined Interest & Fee Rate	
Interest Rate Index	5.00%
Subsidy Rate Index	70.00%
Combined Interest & Fee Rate	3.50%
Coverage Requirement	20.00%
Debt Service Reserve Requirement	\$37,994.98
Number of Years Debt Service Reserve Funded	5

**Monthly Fixed payment to WIFA**

*Prior to Debt Service Reserve Requirement*

Monthly Fixed Payments to WIFA	\$3,166.25
Monthly Debt Service Reserve Deposit	\$633.25
Total Monthly Fixed Payment	\$3,799.50

*After Debt Service Reserve Requirement*

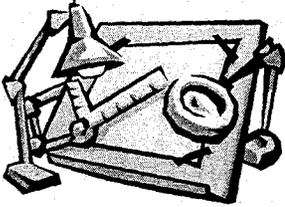
Monthly Fixed Payments to WIFA	\$3,166.25
Monthly Debt Service Reserve Deposit	0.00
Total Monthly Fixed Payment	\$3,166.25

**Annual Replacement Fund Deposit - Held Locally**

Prior to Debt Service Reserve Requirement	\$0.00
After Debt Service Reserve Requirement	\$633.25

**Annual Fiscal Impact**

Year	Annual Debt Service	Reserve Fund Deposit	Replacement Fund Deposit	Total Annual Fiscal Impact
1	\$37,994.98	\$7,599.00	\$0.00	\$45,593.98
2	37,994.98	7,599.00	0.00	45,593.98
3	37,994.98	7,599.00	0.00	45,593.98
4	37,994.98	7,599.00	0.00	45,593.98
5	37,994.98	7,599.00	0.00	45,593.98
6	37,994.98	0.00	7,599.00	45,593.98
7	37,994.98	0.00	7,599.00	45,593.98
8	37,994.98	0.00	7,599.00	45,593.98
9	37,994.98	0.00	7,599.00	45,593.98
10	37,994.98	0.00	7,599.00	45,593.98
11	37,994.98	0.00	7,599.00	45,593.98
12	37,994.98	0.00	7,599.00	45,593.98
13	37,994.98	0.00	7,599.00	45,593.98
14	37,994.98	0.00	7,599.00	45,593.98
15	37,994.98	0.00	7,599.00	45,593.98
16	37,994.98	0.00	7,599.00	45,593.98
17	37,994.98	0.00	7,599.00	45,593.98
18	37,994.98	0.00	7,599.00	45,593.98
19	37,994.98	0.00	7,599.00	45,593.98
20	37,994.98	0.00	7,599.00	45,593.98
21	0.00	0.00	0.00	0.00
22	0.00	0.00	0.00	0.00
23	0.00	0.00	0.00	0.00
24	0.00	0.00	0.00	0.00
25	0.00	0.00	0.00	0.00
26	0.00	0.00	0.00	0.00
27	0.00	0.00	0.00	0.00
28	0.00	0.00	0.00	0.00
29	0.00	0.00	0.00	0.00
30	0.00	0.00	0.00	0.00
	\$759,899.63	\$37,994.98	\$113,984.94	\$911,879.56



**Engineering Report  
For  
Mt. Lemmon Co-operative Water  
Company, Inc.  
Docket No. W-0148A-02-0595**

**EXECUTIVE SUMMARY**

- I. ADEQ reported NON-COMPLIANCE with the state drinking water rules. ADEQ could not certify that the water system is delivering water that meets the water quality standards required by the Arizona Administrative Code.**

Staff recommends that any permanent rates and charges in this matter shall become effective on the first day of the month after the Director of the Utilities Division receives notice from the Arizona Department of Environmental Quality that Mt. Lemmon Co-operative Water Company is delivering water which meets the water quality standards required by the Arizona Administrative Code. (See §D of report for discussion and details.)

- II. Water testing expenses are based upon participation in the ADEQ Monitoring Assistance Program. Annual testing expenses should be adjusted to the level described in Table 1 (\$2,365). (See §I of report for discussion and details.)**
- III. Staff recommends that Mt. Lemmon Co-operative Water Company use specific depreciation rates by NARUC category. (See §J and Exhibit 3 for a discussion and a tabulation of the recommended rates.)**
- IV. Staff believes that a hook-up fee is an appropriate method to recover capital costs for future off-site infrastructure. Recommended tariff language is included in Exhibit 5 of this report.**

Staff further recommends that the Company submit an annual hook-up fee report every April 15th to the Utilities Division Director with the following information:

- (1) name and amount of each person/entity paying a hook-up fee.**
  - (2) balance in hook-up fee account, including interest.**
  - (3) amount spent from hook-up fee account.**
  - (4) enumeration of plant items purchased from the hook-up fee account.**
- If, as an alternative, the hook-up fees were used for the repayment of loans obtained for the installation of off-site facilities, then this should be indicated. (See §L for a discussion of the hook-up fees, and reporting.)

**VI. Mt Lemmon Water Co-operative Water Company is requesting financing approval for a new 140,000 gallon storage tank, a new 1,000,000 gallon storage tank, a six inch diameter transmission main, two water filtration units and associated booster pumps, equipment and controls. The proposed improvements are appropriate and the estimated costs are reasonable. It is recommended that the improvements be completed as soon as possible, or no later than 48 months from the effective date of a final order in this rate case. (See §K for a discussion of the financing.)**

**VII. OTHER (See §M of report for discussion and details.)**

- 1. Staff recommends approval of the pressure regulating valve tariff submitted by Mt. Lemmon and recommends that the following statement be added.**

**“If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.”**

**Staff recommends that the Company file the pressure regulating valve tariff within 90 days after the effective date of any decision and order pursuant to this application. The tariff shall be submitted to the Director of Utilities Division for his review and certification.**

- 2. Staff recommends approval of a leak detection tariff and that the tariff shall include language and conditions similar to those discussed in Section M of this report. This language is offered as a guide only. Mt. Lemmon may modify the language according to their specific management, operational, and design requirements as necessary and appropriate.**

**Staff recommends that the Company files a leak detection tariff within 90 days after the effective date of any decision and order pursuant to this application. The tariff shall be submitted to the Director of Utilities Division for his review and certification.**

## **A. LOCATION OF COMPANY**

Mt. Lemmon Co-operative Water Co., Inc. ("Mt. Lemmon" or "Company") serves approximately 402 customers and is located in Pima County approximately 28 miles north of Tucson on the Catalina Highway in Summerhaven on Mt. Lemmon. Exhibit 1 describes the location of the Company within Pima County and Exhibit 2 describes the certificated area of the water company within Pima County.

John Chelus, Utilities Engineer and Roger Nash, Public Utilities Analyst III visited the plant facilities on September 20, 2002, in the accompaniment of Michael Stanley, the Operations Manager of the water system.

## **B. DESCRIPTION OF THE WATER SYSTEM**

### Background

The Summerhaven Development Company organized several water systems into one system in 1926. Water was only available in the summer. The Mt. Lemmon Co-operative was formed on April 4, 1944. Several spring rights were acquired at this time. The Certificate of Convenience and Necessity (CC&N) Decision No. 29469 was issued by the Commission on February 25, 1956, to serve water to the Summerhaven area. The CC&N was amended to include a contiguous area on August 4, 1989, in Docket No. U-1408-89-127.

### Area Served

The land that is within the Mt. Lemmon service area is privately owned and consists of the Summerhaven Subdivision, Mount Lemmon 1 and 2 Subdivisions and the Loma Sabino Pines Subdivision. There are 851 lots of which 403 are developed. The surrounding land is managed by the forest service.

### Water Production and Storage

Mt. Lemmon has combined primary water rights for 27.1 acre-ft annually (AFA). Stipulated water rights are 1.4 AFA for a total of 28.4 AFA. All water is produced in two spring areas. Mt. Lemmon has rights to three additional springs for 4.4 AFA and is in the process of obtaining approval of a domestic well.

The water system's storage and production capacity is marginal. The recent drought and continued growth has burdened the system. The Company is requesting financing approval as part of this application to address this issue. Exhibit 3 provides a process schematic for the water system.

Carter Canyon Springs

This spring supplies about 25% of the system water. The flow rate of this spring is typically one gallon per minute (gpm). Water flows into a French drain structure and through a 6,000 gallon settling tank. The water then flows into a 30,000 gallon storage tank and through a 1-½ inch meter before distribution. Mt. Lemmon will replace this storage tank with a 140,000 gallon tank. This facility is gravity operated and has no pumping facilities.

Upper Sabino Springs

The main source of water for Mt. Lemmon is the Upper Sabino Creek and Spring area. The system draws water from from Pigeon Spring, Upper Sabino Spring, Cold Spring and Sabino Creek into a single intermediate 212,000 gallon holding tank called Sabino Tank. This tank was recently installed and replaces a 30,000 gallon tank which has been abandoned. The Company is planning to install a one million gallon filtered water tank and filtering equipment at this site. From there the water is pumped into the Miners Ridge 500,000 gallon storage tank at 45 gpm using a 5 hp booster pump. Water is gravity fed from this tank to the distribution system. The following table lists the springs and wells on the system.

Springs and Horizontal Wells

Name	Pigeon Well No. 1	Pigeon Well No. 2	Pigeon Well No. 3	Spring Creek Spring	Sabino Creek (Creek)	Carter Springs
Location	Upper Sabino Springs	Upper Sabino Springs	Upper Sabino Springs	Upper Sabino Springs	Upper Sabino Springs	Carter Canyon
ADWR ID	55-805248-L	55-805250-L	55-80251-L	33-38334	33-38333	
Casing Size	2 inch	2 inch	2 inch			
Casing Depth	19 ft	45 ft	200 ft			
Well Type	Horizontal	Horizontal	Horizontal			
Yield	Combined Upper Sabino Creek & Spring 8 – 12 gallons per minute					4 gpm
AFA*	1.61	2.42	4.03	8.0	10.0	4.09

- Acre-ft Annually Allowed

Storage Tanks

Because of the unique nature of the system, large amounts of storage are required to capture the spring water when it is available. The following table lists the storage tanks that are serving the system as well as the tanks that will be replaced.

Storage Tanks and Booster Pumps

Storage, Pumping, Location	Storage	Pumping
Sabino Springs	1 – 212,000 gallons (new) 1- 30,000 ( Removed) 1,000,000 Finished Water Tank (To be installed with WIFA Loan)	1 – 5 hp booster

Miner's Ridge	1- 500,000 gallons	
Loma Linda	1 - 283,000 gallons 1 - 20,000 gallons	
Loma Linda Forest Service Permit	2- 20,000 gallons	
Carter Springs	1-30,000 (To be removed and replaced with 140,000 with WIFA loan)	

### Booster Station

A booster station is located between the 500,000 gallon tank and the four Loma Linda tanks. This station is used only as a backup/emergency system if the pump at Sabino fails. During normal operation, main line pressure relief valves regulate the system to reduce the 250 pounds per square inch (psi) pressure from the Miner's Ridge tank to 170 psi pressure. The customers are required by Mt. Lemmon's rules and regulations to provide both a pressure regulating valve and a check valve in working order.

### Distribution Mains

Most of the distribution system was installed over 50 years ago. The gravity feed nature of the system and undersized main lines cause operational problems with supply and leakage. There is no short term solution to this problem. The Company is already seeking financing for another large project in this application. The undersized mains will be addressed in the future.

Diameter	Material	Length
8 inch	Ductile Iron	3,000 ft
6 inch	Ductile Iron	4,100 ft
4 inch	Galvanized Steel	38,800 ft

### Meters

Size	Quantity
5/8 x 3/4 inch	443
3/4 inch	9
1 inch	4
1 1/2 inch	9

### Additions to Plant

Since the last rate increase the Company has constructed a 212,000 gallon storage tank and a filtration/pump building at Sabino Springs, approximately 2,000 feet of 6 inch ductile iron pipe to complete the line from the 500,000 gallon Miner's Ridge storage tank

to the 283,000 gallon Loma Linda storage tank and purchased a Case backhoe. A 30,000 gallon storage tank was abandoned at Sabino Springs.

### **C. ARSENIC**

The U.S. Environmental Protection Agency (EPA) has reduced the arsenic maximum contaminant level (MCL) in drinking water from 50 micrograms per liter ( $\mu\text{g/l}$ ) to 10  $\mu\text{g/l}$ . The date for compliance with the new MCL is January 23rd, 2006. The most recent lab analysis by the Company indicated that the arsenic level in its source supply is between 1 and 5  $\mu\text{g/l}$ . Based on this arsenic concentration, Mt. Lemmon is in compliance with the new arsenic MCL.

### **D. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE (ADEQ)**

Based on data submitted by the water system, ADEQ has determined that this system is currently delivering water of undeterminable quality and it is not known whether the system meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

ADEQ does not have evidence that Mt. Lemmon completed nitrate monitoring during 2001. Nitrate monitoring is required annually. ADEQ does not have evidence that this water system has completed the initial lead and copper monitoring. This system is required to collect 20 lead and copper tap water samples during two consecutive 6 month periods.

Staff recommends that any permanent rates and charges in this matter shall become effective on the first day of the month after the Director of the Utilities Division receives notice from the Arizona Department of Environmental Quality that Mt. Lemmon is delivering water which meets the water quality standards required by the Arizona Administrative Code.

### **E. ARIZONA CORPORATION COMMISSION COMPLIANCE**

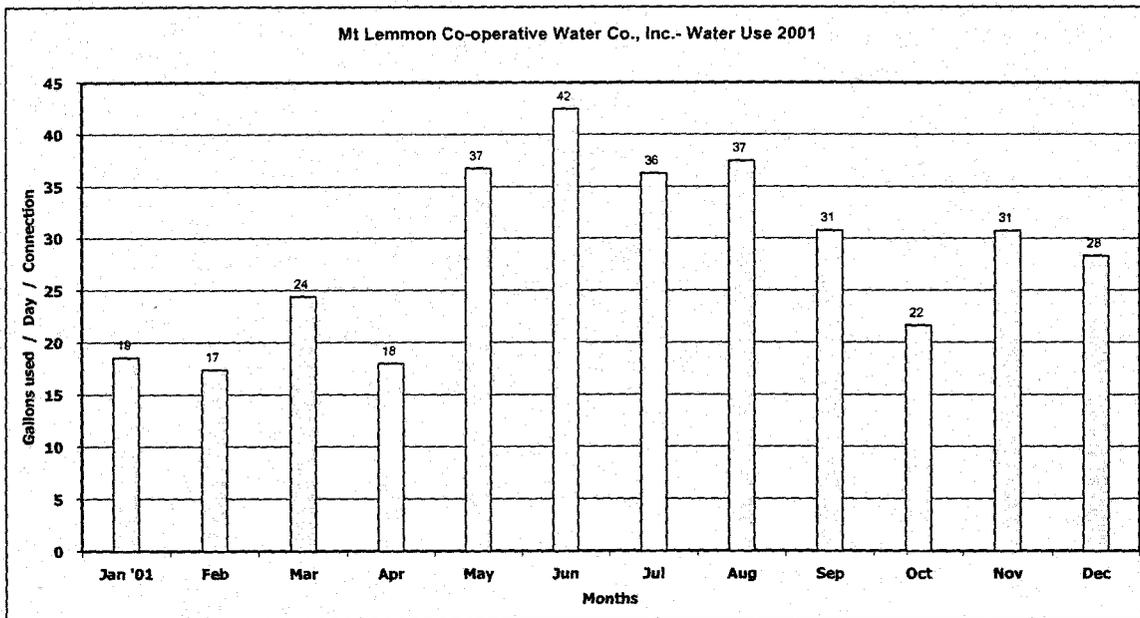
A check with the Utilities Division compliance Unit showed no outstanding compliance issues.

### **F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE**

Mt. Lemmon is within the Tucson Active Management Area. Since the water company supplies less than 250 acre-feet per year for non-irrigation use, it is considered a "small provider" and is not subject to the gallons per capita per day (GPCD) limit and conservation rules, and is only required to monitor and report water use. ADWR indicated that Mt. Lemmon is in compliance with its monitoring and report requirements.

**G. WATER USE**

Based on the information provided by the Company, water use for the year 2001 is presented below. The high monthly domestic water use was 42 gal/day-service in June, and the low monthly domestic water use was 17 gal/day-service in February. The average annual use was 29 gal/day-service.



Water Loss

Water loss should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. Mt. Lemmon reported producing 6,300,620 gallons during 2001. During the same period they sold 4,087,000 gallons. In addition to the water sold, Mt. Lemmon had the following un-metered water usage. The un-metered usage and metered usage combined equals 5,767,000 gallons. This results in an unaccounted water loss of 533,620 gallons or 8.5%

Un-metered Use	Gallons
Fire Department	70,000
Pima County (Dust Control)	60,000
Flushing procedures	150,000
Weeps (Winter Operations)	350,000
Accounted for operational leaks	1,050,000
<b>Total accounted un-metered use</b>	<b>1,680,000</b>

## H. GROWTH

The Company has experienced moderate growth. The number of service connections has grown from 387 in 1999 to 400 in 2001. Based on this growth rate, the Company could have 430 customers by the end of 2006.

## I. WATER TESTING EXPENSES

On December 8, 1998, ADEQ adopted rules which provide for a monitoring assistance program (MAP). The MAP program was fully implemented in 1999. On October 16, 2001 rule amendments were promulgated which changed the fee structure and some sampling protocol. Starting January 1, 2002, water companies will pay a fixed \$250 per year fee, plus an additional fee of \$2.57 per service connection, regardless of meter size for participation in the MAP program.

The MAP program provides baseline testing for inorganic chemicals (IOC), synthetic organic chemicals (SOC) and volatile organic chemicals (VOC) for a cost based on meter size. Participation in the MAP program is mandatory for water systems which serve less than 10,000 persons, (approximately 3,300 service connections).

Mt Lemmon is subject to mandatory participation in the MAP program. Staff calculated the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, nitrates, and coliform bacteria.
2. ADEQ testing is performed in 3 year compliance cycles. Therefore, monitoring costs are estimated for a 3 year compliance period and then presented as a pro forma expense on an annualized basis.
3. MAP fees were calculated from the ADEQ MAP rules.
4. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and 2 points of entry.
5. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assumes compositing of well samples. If any constituents were found, then the testing costs would dramatically increase.

Table 1 shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to the annual expense amount shown in Table 1, which is \$2,365.00

**Table 1. Water Testing Cost**

Monitoring – 4 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Bacteriological – monthly	\$15	144	2160	720
Inorganics – Priority Pollutants	\$240	4	960	320
Nitrate – annual	\$25	12	300	100
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP	975
Lead & Copper - annual	\$25	30	750	250
<b>Total</b>				<b>\$2,365.00</b>

**J. DEPRECIATION RATES**

In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by National Association of Regulatory Utilities Commissioners (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 Exhibit 4. It is recommended that the company use depreciation rates by individual NARUC category, as delineated in Exhibit 4.

**K. FINANCING**

Mt. Lemmon has applied for a Water Infrastructure Financing Authority (WIFA) loan. The proposed project has three phases:

1. Replace Carter Canyon Tank with 140,000 gallon bolted steel tank and install 1,000 feet of new 6 inch ductile iron pipe from the new tank to Carter Canyon Road
2. Install a new 1,000,000 gallon tank in upper Sabino Canyon to store filtered water.
3. Install two filter systems as required by the reclassification of source water to be in compliance with ADEQ regulations.

The total project cost is estimated at \$570,000 with \$540,000 from WIFA and \$30,000 funded by Mt. Lemmon. The following is a breakdown of estimated costs.

Item	\$ Cost
Planning	2,000
Design and Engineering	54,000

Legal/Debt Authorization	4,000
Equipment/Materials	362,000
Construction/Installation/Improvement	120,000
Inspection and Construction Management	27,000
Administration	1,000
<b>Total</b>	<b>\$570,000</b>

The proposed improvements are appropriate and the estimated costs are reasonable. However, this does not imply a specific treatment for rate base or rate making purposes. Plant in service values, depreciation, and accumulated depreciation shall be based upon actual costs, invoices, paid bills, or other statements of expenses.

It is recommended that the improvements be completed as soon as possible, or no later than 48 months from the effective date of a final order in this rate case. It is important to allow enough time due to the environmental constraints of the project such as the limited time when construction can take place each year due to snow, spotted owls, and fire restrictions. The Company will do much of the work itself, and therefore will need added time to schedule construction along with everyday work assignments.

#### **L. HOOK-UP FEE TARIFF**

Mt. Lemmon has requested an offsite facility hook-up fee tariff in its rate application. For a Company with appropriate financial and capital structure, a hook-up fee is an appropriate way to recover the capital burden imposed by parcel splits within existing service areas and also major platted subdivisions in new service areas. Staff supports the concept of a hook-up fee and recommends the adoption of the specific language contained in Exhibit 5 of this report.

The Company based its hookup fee costs on the cost to build the filtered storage tank, water treatment systems, and new transmission main from the filtered water tank at a cost of \$570,000. The Company estimates these improvements will serve the 400 existing customers as well as approximately 180 future customers. The cost per connection would therefore be \$980. Mt Lemmon is requesting that the hookup fee be set at \$950.

The Company's request for a \$950 per connection, hook-up fee is reasonable and supported by the projected off site capital costs.

For larger meter sizes, Staff recommends that the hook-up fee shall be proportional to the NARUC meter multiplier. These recommended values are also delineated in Exhibit 6.

Staff also recommends that Mt. Lemmon submit an annual report every July 15th to the Utilities Division Director with the following information:

- (1) Name and amount of each person/entity paying a hook-up fee.
- (2) Balance in hook-up fee account, including interest.
- (3) Amount spent from hook-up fee account.

- (4) Enumeration of plant items purchased from the hook-up fee account. If, as an alternative, the hook-up fees were used for the repayment of loans obtained for the installation of off-site facilities, then this should be indicated.

## **M. OTHER ISSUES**

In addition to a cross-connection backflow tariff, Mt. Lemmon has applied for a pressure regulating tariff, and a leak detection tariff.

### **Pressure Regulating Valve Tariff.**

The pressure regulating valve tariff requires that all customers install a pressure regulator valve at all services. This requirement is important for many reasons. There are very high pressures (250 psi) generated because the Miner's Ridge tank is at an elevation of over 500 feet from the distribution system. The Company reduces the pressure somewhat, but it still remains high in the system in order for the Company to provide water to all elevations of the distribution system. Also, due to the small diameter of the distribution pipes, a higher pressure is needed to overcome friction losses.

Engineering recommends approval of the pressure regulating valve tariff submitted by Mt. Lemmon and recommends that the following statement be added.

"If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation."

Staff recommends that the Company file the pressure regulating valve tariff within 90 days after the effective date of any decision and order pursuant to this application. The tariff shall be submitted to the Director of Utilities Division for his review and certification.

### **Leak Detection Tariff**

The Company is requesting assistance in developing a leak detection tariff. A leak detection tariff provides for the recovery of the costs associated with detecting leaks on the customer's property which, if not corrected have the potential to cause low pressure, drain the storage tanks, and cause damage to Company equipment. During the winter months, many customers leave their water meters on and go to Tucson. In the event they are unable to return to the residence and the temperature drops, the service line can rupture causing the distribution system pressure to drop and the storage tank to drain. In order to find the leak, the Company operator must spend between one and four hours digging through the snow to check meters until he finds the meter that is leaking. Prior to this the Company must diagnose the problem. The operators generally work in pairs.

There are between three and six customers per season who neglect to secure their water service.

Staff recommends that the Company file a leak detection tariff within 90 days after the effective date of any decision and order pursuant to this application. The tariff shall be submitted to the Director of Utilities Division for his review and certification. Staff also recommends that the tariff shall include language and conditions similar to the following language. This language is offered as a guide only. Mt. Lemmon may modify the language according to their specific management, operational, and design requirements as necessary and appropriate.

Staff recommends that the following language be included in the tariff.

- It is the customer's responsibility to shut off their water service at their meter if they leave their property unattended. In the event the customer fails to shut off the meter and it results in the customer's service line freezing and breaking, the customer will be charged the cost to locate and shut off the service at the meter. The following charges shall apply.
- Leak Detection Charge - \$65.00 per hour
- Maximum Leak Detection Charge per incident - \$260 (four hours).
- In addition, the customer shall be charged the approved commodity charge tariff for all metered water.
- In addition, the actual cost of repairs shall be added to the customer's bill if damage occurs as a result of leaks on the customer's side of the meter and damages are incurred to the Company's meter locks, valves, seals, or depletion of storage water dedicated to service customers. This charge is in addition to any other remedy available to the Company at law or equity.
- If a customer believes he/she has been charged in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.
- The Company shall notify its customers of this new tariff as part of its next regularly scheduled billing after the effective date of the tariff or no later than sixty (60) days after the effective date of the tariff.
- The Company shall provide a copy of the curtailment tariff to any customer, upon request.

EXHIBITS

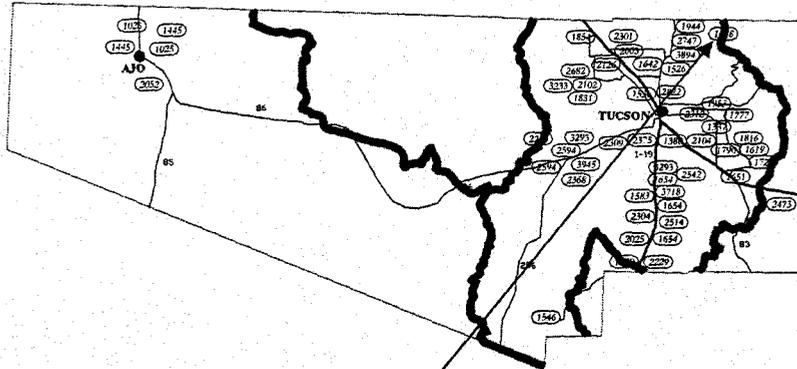
CERTIFICATED AREA AND LOCATION OF MT. LEMMON..... EXHIBIT 1 (& 2)

PROCESS SCHEMATIC ..... EXHIBIT 3

DEPRECIATION RATES ..... EXHIBIT 4

HOOK-UP FEE TARIFF ..... EXHIBIT 5

# PIMA COUNTY



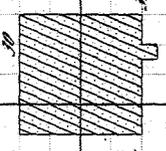
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|------|--|------|---|
| 1025 | AJO IMPROVEMENT COMPANY                    | 2368 | MIRABELL WATER COMPANY, INC.                  |
| 2473 | ANDERSON WATER COMPANY, INC.               | 1408 | MT. LEMMON COOPERATIVE WATER COMPANY, INC.    |
| 3233 | ANWAY MANVILLE L.L.C. WATER COMPANY        | 2514 | QUAIL CREEK WATER COMPANY, INC.               |
| 1546 | ARIVACA TOWNSITE COOPERATIVE WATER COMPANY | 2102 | RANCHO DEL CONEJO WATER COMMUNITY COOPERATIVE |
| 1445 | ARIZONA WATER COMPANY (AJO HEIGHTS)        | 3718 | RANCHO SAHUARITA WATER COMPANY                |
| 2126 | AVRA WATER COOPERATIVE, INC.               | 1380 | RAY WATER COMPANY                             |
| 2304 | COMMUNITY WATER COMPANY OF GREEN VALLEY    | 2003 | RILLITO WATER USERS                           |
| 1642 | DESPOBLADO WATER COMPANY                   | 1619 | RINCON CREEK WATER COMPANY                    |
| 2309 | DIABLO VILLAGE WATER COMPANY               | 1337 | RINCON RANCH ESTATES WATER COMPANY, INC.      |
| 1654 | FARMERS WATER COMPANY                      | 1723 | RINCON WATER COMPANY                          |
| 1777 | FORTY-NINER WATER COMPANY                  | 1790 | SAGUARO WATER COMPANY                         |
| 3945 | FRANCESCA WATER COMPANY, INC.              | 1831 | SANDARIO WATER COMPANY                        |
| 2025 | GREEN VALLEY WATER COMPANY                 | 2822 | SLEEPY HOLLOW MOBILE HOME ESTATES             |
| 2312 | HALCYON ACRES ANNEX #2 WATER COMPANY, INC. | 1816 | SPANISH TRAIL WATER COMPANY                   |
| 1953 | HALCYON ACRES WATER USERS ASSOCIATION      | 3894 | STEAM PUMP INVESTORS, L.L.C.                  |
| 2542 | LA CASITA WATER COMPANY, INC.              | 3293 | THIM UTILITY COMPANY                          |
| 1944 | LAGO DEL ORO WATER COMPANY                 | 2594 | THIM WATER CORPORATION                        |
| 1809 | LAKEWOOD WATER COMPANY                     | 2682 | TIERRA LINDA HOMEOWNERS ASSOCIATION, INC.     |
| 1583 | LAS QUINTAS SERENAS WATER COMPANY          | 2301 | TORTOLITA WATER COMPANY, INC.                 |
| 1536 | LAZY C WATER SERVICE                       | 1651 | VAIL WATER COMPANY                            |
| 2747 | LOS CERROS WATER COMPANY, INC.             | 2229 | VIVA DEVELOPMENT CORPORATION                  |
| 1854 | LYN-LEE WATER COMPANY                      | 2104 | VOYAGER WATER COMPANY                         |
| 1526 | MESALAND WATER COMPANY, INC.               | 2052 | WHY UTILITY COMPANY                           |
| 2375 | MIDVALE FARMS WATER COMPANY                | 2221 | WORDEN WATER COMPANY                          |

Exhibit 1

**COUNTY:** Pima

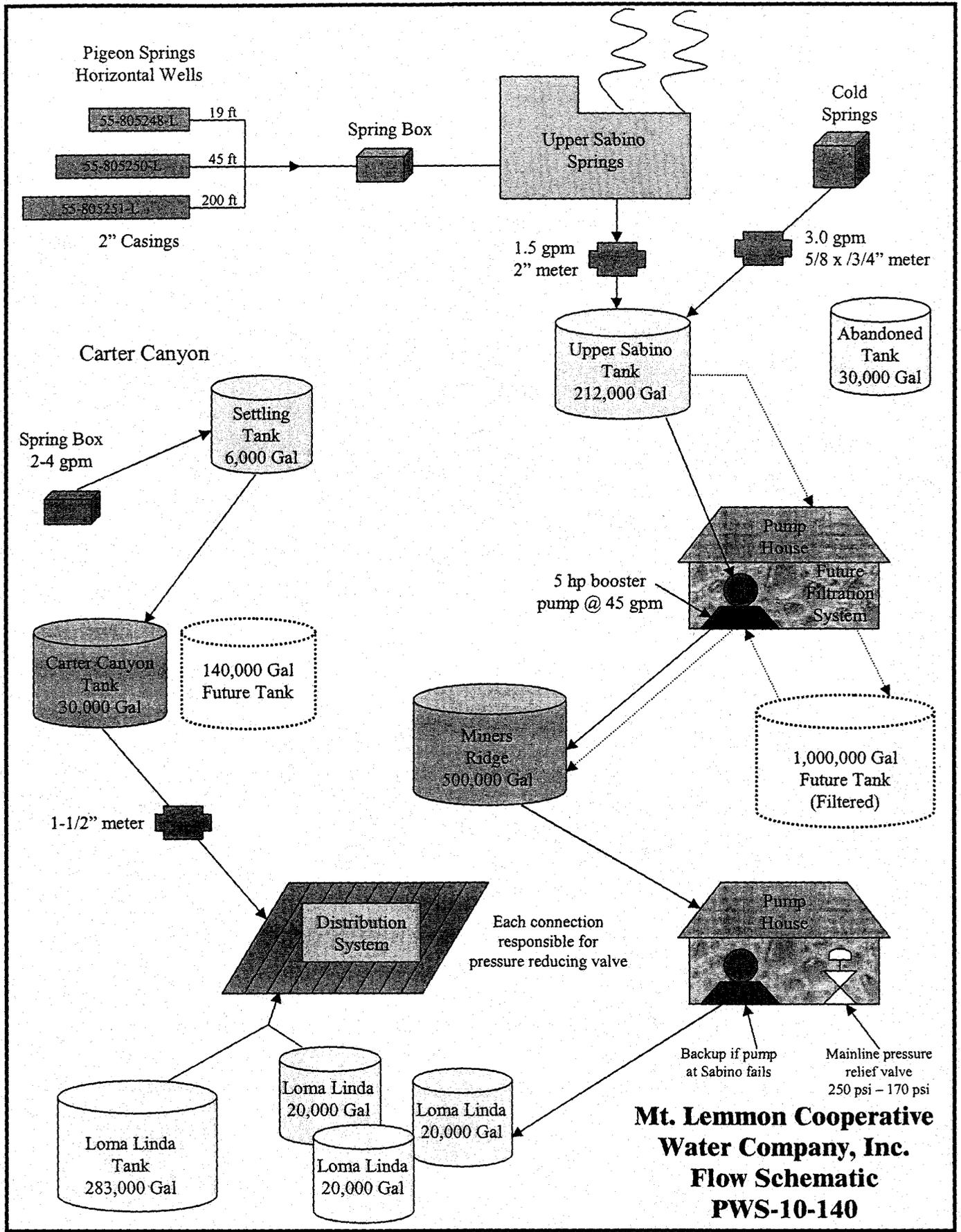
**TOWNSHIP 11 South**

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 W-1408 (2)  
 Mt. Lemmon Cooperative Water Company, Inc.

Exhibit 2



**Exhibit 3**

**EXHIBIT 4**  
**TYPICAL DEPRECIATION RATES FOR WATER COMPANIES**

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Miscellaneous 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.

Utility: **Mt Lemmon Co-operative Water Co., Inc.**  
Docket No.: **W-01408A-02-0595**  
Phone No.: (520)576-1538

Tariff Sheet No.: Page 1 of 3  
Decision No.: \_\_\_\_\_  
Effective: \_\_\_\_\_

## OFF-SITE WATER FACILITIES HOOK-UP FEE

### I. Purpose and Applicability

The purpose of the hook-up fees payable to Mt. Lemmon Co-operative Water Co. Inc. ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional facilities to provide water production, storage, pressure, transmission and fire flow among all new service connections.

These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to the Company's establishment of service, as more particularly provided below.

### II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections.

"Company" means Mt. Lemmon Co-operative Water Co., Inc., an Arizona corporation.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Arizona Corporation Commission (same as line extension agreement).

"Off-Site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Off-Site facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation, if these facilities are not for the exclusive use of the applicant and these facilities will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial, or other uses, regardless of meter size.

Utility: **Mt Lemmon Co-operative Water Co., Inc.**  
 Docket No.: **W-01408A-02-0595**  
 Phone No.: (520)576-1538

Tariff Sheet No.: Page 2 of 3  
 Decision No.: \_\_\_\_\_  
 Effective: \_\_\_\_\_

### III. Off-Site Hook-Up Charges

Each new service connection shall pay the total off-site facilities hookup fee, derived from the following table:

<b>OFF-SITE FACILITIES HOOKUP FEE TABLE</b>		
<b>Meter Size</b>	<b>NARUC Meter Factor</b>	<b>Total Fee</b>
5/8" x 3/4"	1	\$950
3/4"	1.5	\$1,425
1"	2.5	\$2,375
1- 1/2 "	5	\$4,750
2"	8	\$7,600
3"	16	\$15,200
4"	25	\$23,750
6" or larger	50	\$47,500

### IV. Terms and Conditions

- (A) Assessment of One Time Hook-Up Charge: The hook-up fee may be assessed only once per service connection, or lot within a platted subdivision (similar to meter and service line installation charges). However, this provision does not exempt from the hook-up fee, any newly created parcel(s) which are the result of further subdivision of a lot or land parcel and which do not have a service connection.
- (B) Use of Off-Site Hook-Up Fee: Hook-Up fees may only be used to pay for the capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off site hook-up fees shall not be used for repairs, maintenance, plant replacements, or operational purposes.
- (C) Time of Payment:
- (1) In the event that the Applicant is required to enter into a main extension agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406 (B), payment of the charges required hereunder shall be made by the Applicant within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the main extension agreement in accordance with R14-2-406(M).

Utility: **Mt Lemmon Co-operative Water Co., Inc.**Tariff Sheet No.: Page 3 of 3Docket No.: **W-01408A-02-0595**

Decision No.: \_\_\_\_\_

Phone No.: (520)576-1538

Effective: \_\_\_\_\_

- (2) In the event that the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.
- (D) Failure to Pay Charges; Delinquent Payments: – Under no circumstances will the Company set a meter or otherwise allow service to be established if the Applicant has not paid in full all charges as provided by this off-site hook-up fee tariff.
- (E) Off-Site Hook-Up Fee Non-refundable: - The amounts collected by the Company pursuant to the off-site hook-up fee shall be non-refundable contributions in aid of construction.
- (F) Use of Charges Received: All funds collected by the Company as off-site hook-up fees, shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.
- (G) Off-Site Hook-Up Fees In Addition to Other Charges: The off-site hook-up fees shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff
- (H) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fee or the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission (Commission), any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.
- (I) Fire Flow Requirements: : In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were generally provided may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

Effective Date: \_\_\_\_\_

Approved for Filing in Compliance with

Decision No. \_\_\_\_\_

MT. LEMMON CO-OP WATER CO., INC.  
P.O. BOX 706  
12701 N. AJO AVE.  
MT. LEMMON, AZ. 85619  
520.576.1538

**CROSS-CONNECTION AND BACKFLOW TARIFF**

**PURPOSE:**

The purpose of this tariff is to protect the MT. LEMMON CO-OP WATER COMPANY (COMPANY) water from the possibility of contamination caused by the backflow of contaminants that may be present on the customer's premises by requiring the installation, maintenance and testing of backflow prevention assemblies pursuant to the provisions of the Arizona Administration Code (A.A.C.) R14-2405.B.6 AND A.A.C. R18-4-115.

**REQUIREMENTS:**

In compliance with the Rules of the Arizona Corporation Commission (Commission) and the Arizona Department of Environmental Quality (ADEQ), specifically A.A.C. R14-2-405.B.6 and A.A.C. R18-4-115 relating to backflow prevention:

1. The Company requires a customer to pay for, have installed and maintain a backflow prevention assembly (double check valve) since A.A.C. R18-4-115C applies to all service connections on the COMPANY water system.
2. The type of backflow-prevention assembly required to be installed by the customer under Paragraph 1 of this tariff shall be a double check valve (DC) assembly as stated in R18-4-115.E. This device shall be installed as close to the meter service connection as possible and shall allow provisions for visual inspection. This device may be installed along with the required Pressure Regulating Valve and required customer shut off valve. (See pressure regulating tariff)
3. Subject to the provisions of A.A.C R14-2-407 and 410, and in accordance with paragraphs 1 of this tariff, the Company may terminate service or may deny service to a customer who fails to install or maintain or provide provisions for visual inspection of a backflow-prevention assembly as required by this tariff.
4. The Company shall give all existing customers written notice of said requirement. If A.A.C. R14-2-410.B.1.a. is NOT applicable, the customer shall be given NINETY (90) days from the time such written notice is received in which to comply with this notice. If the customer can show good cause as to why the device cannot be installed within the NINETY ((90) days, the COMPANY or COMMISSION STAFF may suspend this requirement for a reasonable period of time.

**MT. LEMMON CO-OP WATER CO., INC.**  
**P.O. BOX 706**  
**12701 N. AJO AVE.**  
**MT. LEMMON, AZ. 85619**  
**520.576.1538**

5. Periodical testing shall be in conformance as to not allow water from the customers premise to flow back into the COMPANY'S distribution system. (Since only a double-check valve is required by this tariff R18-4-115.F. does not apply.)
6. In the event the double check valve does not function properly or fails and causes a backflow condition, the backflow assembly shall be replaced (repaired) by the customer within FIFTEEN (15) days of the initial discovery of the deficiency. The replaced assembly must be accessible for visual inspection by the COMPANY.
7. Failure to remedy the deficiency shall be grounds for termination of water service in accordance with A.A.C R14-2-410.

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**\*\* FOR OFFICIAL USE ONLY\*\***

Effective Date: \_\_\_\_\_

MT. LEMMON CO-OP WATER CO., INC.  
P.O. BOX 706  
12701 N. AJO AVE.  
MT. LEMMON, AZ. 85619  
520.576.1538

**PRESSURE REGULATING VALVE TARIFF**

**PURPOSE:**

The purpose of this tariff is to protect the MT. LEMMON CO-OP WATER COMPANY (COMPANY) gravity operated system from the possibility of a high-pressure leak on the customers premise. This valve allows even distribution of pressure to all customers in different pressure zones and prevents damage to the customers plumbing devices.

**REQUIREMENTS:**

In compliance with the Rules and Regulations of the MT. LEMMON CO-OP WATER COMPANY, at # 11.

1. The Company requires a customer to pay for, have installed and maintain a Pressure Regulating Valve at each meter service connection. This applies to all service connections on the COMPANY water system.
2. The type of Pressure Regulating Valve that is required to be installed by the customer under Paragraph 1 of this tariff shall have an inlet rating of 300psi or better. This device shall be installed as close to the meter service connection as possible and shall allow provisions for visual inspection. This device may be installed along with the required DOUBLE CHECK VALVE and required customer shut off valve. (See backflow tariff)
3. Subject to the provisions of A.A.C. R14-2-407 and 410, and in accordance with paragraphs 1 of this tariff, the Company may terminate service or may deny service to a customer who fails to install, maintain or provide provisions for visual inspection of a Pressure Regulating Valve as required by this tariff.
4. The Company shall give all existing customers written notice of said requirement. If A.A.C. R14-2-410.B.1.a. is NOT applicable, the customer shall be given NINETY (90) days from the time such written notice is received in which to comply with this notice. If the customer can show good cause as to why the device cannot be installed within the NINETY ((90) days, the COMPANY or COMMISSION STAFF may suspend this requirement for a reasonable period of time.
5. Periodical testing shall be in conformance as to not allow excessive water pressure from the COMPANY'S main lines on to the customers premise.

MT. LEMMON CO-OP WATER CO., INC.  
P.O. BOX 706  
12701 N. AJO AVE.  
MT. LEMMON, AZ. 85619  
520.576.1538

6. In the event the Pressure Regulating Valve does not function properly or fails and causes an excessive pressure condition, the Pressure Regulating Valve shall be replaced (repaired) by the customer within FIFTEEN (15) days of the initial discovery of the deficiency. The replaced assembly must be accessible for visual inspection by the COMPANY.
7. Failure to remedy the deficiency shall be grounds for termination of water service in accordance with A.A.C R14-2-410.

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**\*\* FOR OFFICIAL USE ONLY\*\***

Effective Date: \_\_\_\_\_

**TARIFF SCHEDULE**

UTILITY: **Mt. Lemmon Co-operative Water Co. Inc.**  
DOCKET NO. **W-01408A-02-0595**  
DECISION NO.  
EFFECTIVE DATE:

SHEET NO. 1

**OFF-SITE WATER FACILITIES HOOK-UP FEE****I. Purpose and Applicability**

The purpose of the hook-up fees payable to Mt. Lemmon Co-operative Water Co. Inc. ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional facilities to provide water production, storage, transmission, pressure and fire flow among all new service connections.

These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to the Company's establishment of service, as more particularly provided below.

**II. Definitions**

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections.

"Company" means Mt. Lemmon Co-operative Water Co, Inc., an Arizona corporation.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Arizona Corporation Commission (same as line extension agreement).

"Off-Site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Off-Site facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation, if these facilities are not for the exclusive use of the applicant and these facilities will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial, or other uses, regardless of meter size.

Off-Site Facilities Hook-Up Fee  
Page 2

**III. Off-Site Hook-Up Charges**

Each new service connection shall pay the total off-site facilities hookup fee, derived from the following table:

<b>OFF-SITE FACILITIES HOOKUP FEE TABLE</b>		
<b>Meter Size</b>	<b>NARUC Meter Factor</b>	<b>Total Fee</b>
5/8" x 3/4 "	1	\$950
3/4"	1.5	\$1,425
1"	2.5	\$2,375
1- 1/2 "	5	\$4,750
2"	8	\$7,600
3"	16	\$15,200
4"	25	\$23,750
6" or larger	50	\$47,500

**IV. Terms and Conditions**

- (A) Assessment of One Time Hook-Up Charge: The hook-up fee may be assessed only once per service connection, or lot within a platted subdivision (similar to meter and service line installation charges). However, this provision does not exempt from the hook-up fee, any newly created parcel(s) which are the result of further subdivision of a lot or land parcel and which do not have a service connection.
- (B) Use of Off-Site Hook-Up Fee: Hook-Up fees may only be used to pay for the capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off site hook-up fees shall not be used for repairs, maintenance, plant replacements, or operational purposes.
- (C) Time of Payment:
- (1) In the event that the Applicant is required to enter into a main extension agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406 (B), payment of the charges required hereunder shall be made by the Applicant within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the main extension agreement in accordance with R14-2-406(M).

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- (2) In the event that the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.
- (D) Failure to Pay Charges; Delinquent Payments: – Under no circumstances will the Company set a meter or otherwise allow service to be established if the Applicant has not paid in full all charges as provided by this off-site hook-up fee tariff.
- (E) Off-Site Hook-Up Fee Non-refundable: - The amounts collected by the Company pursuant to the off-site hook-up fee shall be non-refundable contributions in aid of construction.
- (F) Use of Charges Received: All funds collected by the Company as off-site hook-up fees, shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.
- (G) Off-Site Hook-Up Fees In Addition to Other Charges: The off-site hook-up fees shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff
- (H) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fee or the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission (Commission), any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.
- (I) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were generally provided may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

Effective Date: \_\_\_\_\_

Approved for Filing in Compliance with  
Decision No. \_\_\_\_\_