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MEMORANDUM

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FROM: Ernest C. Johnson
Director
Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: March 27, 2006

RE: STAFF REPORT FOR YARNELL WATER IMPROVEMENT ASSOCIATION,
INC. FOR A PERMANENT RATE INCREASE DOCKET NO. W-02255A-05-0678

Attached is the Staff Report for Yarnell Water Improvement Association, Inc. application for a permanent rate increase. Staff recommends approval of the application using Staff's recommended rates and charges.

EGJ:CRM:tdp

Originator: Charles R. Myhlhousen

Attachment: Original and sixteen copies

Service List for: Yarnell Water Improvement Association
Docket No. W-02255A-05-0678

Tammy Zudell
Yarnell Water Improvement Association
Post Office Box 727
Yarnell, Arizona 85362

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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

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

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

YARNELL WATER IMPROVEMENT ASSOCIATION, INC.

DOCKET NO. W-02255A-05-0678

**APPLICATION FOR A
PERMANENT RATE INCREASE**

MARCH 27, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Yarnell Water Improvement Association, Inc. Docket No. W-02255A-05-0678, was the responsibility of the Staff members listed below. Charles R. Myhlhousen was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base and rate design. John Chelus was responsible for the engineering and technical analysis. Bradley Morton was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.

Charles R. Myhlhousen
Charles R. Myhlhousen
Public Utility Analyst III

John Chelus
John Chelus
Utilities Engineer

Bradley A. Morton
Bradley Morton
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
YARNELL WATER IMPROVEMENT
ASSOCIATION, INC.
W-02255A-05-0678

Yarnell Water Improvement Association, Inc. ("Company") is located approximately 30 miles southwest of Prescott, Arizona on Highway 89. The Company is engaged in the business of providing utility water service exclusively to Arizona customers in Yavapai County. The Company provides service to approximately 521 customers. The Company's current rates were effective April 1, 2001.

The Company's rate application requested an increase in revenue of \$25,176 or a 11.43 percent increase over test year revenue of \$220,300. The Company's proposed revenues of \$245,476 result in an operating income of \$36,552 for an operating margin of 14.89 percent. The Company's requested rates would increase the typical residential bill with a median usage of 2,208 gallons from \$26.52 to \$28.07 for an increase of \$1.55 or 5.8 percent.

Staff's is not recommending an increase in revenue over test year revenue of \$220,300. Staff's recommended revenues of \$220,300 result in an operating income of \$60,333 for an operating margin of 27.39 percent. This will allow the Company sufficient revenue to make the principal and interest payments on the previously approved loans. Staff's recommended rates would not increase the typical residential bill with a median usage of 2,208 gallons of \$26.52.

Staff recommends the continuation of the current rates and charges as presented on Schedule CRM-4 of this report.

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Engineering Report

Fact sheet

Current Rates: Decision No. 63506, March 30, 2001, rates effective April 1, 2001.

Type of Ownership: Arizona Non-Profit Corporation.

Location: The Company serves customers in Yavapai County.

Rates:

Permanent rate increase application filed: October 25, 2005, amended November 14, 2005 and December 8, 2005.

Current Test Year Ended: December 31, 2004.

Monthly Minimum Charges:

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge Based on 5/8 X 3/4 inch meter	\$21.00	\$22.00	\$21.00
Gallons in Minimum	0	0	0
Commodity Charge Excess of minimum, per 1,000 gallons			
Tier One zero gallons to 5,000 gallons	2.50	2.75	2.50
Tier Two from 5,001 gallons to 10,000 gallons	3.50	4.00	3.50
Tier Three from 10,001 gallons to 50,000 gallons	4.75	5.50	4.75
Tier Four all gallons over 50,000 gallons	6.00	7.00	6.00
Typical residential bill (Based on median usage of 2,208 gallons)	\$26.52	\$28.07	\$26.52

Customers:

Average number of customers in prior test year 514, current test year 521.

Notification:

Customers Notification was mailed August 31, 2005.

Complaints:

There was one opinion filed regarding the rate increase.

Summary of Filing

Based on test year results, as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission"), Yarnell Water Improvement Association, Inc. ("Company") realized an operating income of \$60,333 for a 27.39 percent operating margin as shown on Schedule CRM-1.

The Company proposed rates produce operating revenues of \$245,476 and an operating income of \$36,552 for an operating margin of 14.89 percent. The Company's proposed rates would increase the typical residential bill with a median usage of 2,208 gallons from \$26.52 to \$28.07 for an increase of \$1.55 or 5.8 percent.

Staff's recommended rates produce a revenue level of \$220,300 and an operating income of \$60,340 for an operating margin of 27.39 percent. Staff's recommended rates would not increase the typical residential bill with a median usage of 2,208 gallons at \$26.52.

Company Background

On September 26, 2005, the Company filed an application for a permanent rate increase with the Commission. On October 26, the Company filing was found deficient. On November 14, 2005, and December 8, 2005, the Company submitted the deficient items. On January 9, 2006, the application was deemed sufficient.

Consumer Services

A review of the Commission's records revealed the following customers complaints and opinions. In year 2003, one complaint concerning billing, resolved. Two inquires concerning billing questions, resolved and one general information question. In year 2004, zero complaints and opinions and two inquires concerning an outage and billing, resolved. In year 2005, zero complaints and inquires and two opinions concerning the rate case and billing.

Compliance

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

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

The Company is in good standing with the Corporation's Division of the Commission.

The Company is in compliance with the new arsenic maximum contaminant level.

The Arizona Department of Environmental Quality ("ADEQ") has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

The Company is not located within any Active Management Area and is not subject to conservation and monitoring requirements.

The Company's books and records are not kept in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts. Staff's conclusion was based on the review of the books and records including the general ledger.

Rate Base

Staff made adjustments to rate base of \$772,519. These adjustments were made to reflect Staff's disallowance of plant of \$12,878, accumulated depreciation reduction of \$131,402, removal of contributions in aid of construction of \$653,995 and the inclusion of the formula method for working capital allowance in the amount of \$16,898. See Schedule CRM-2 page 1.

Plant-in-Service

Staff disallowed plant in service in the amount of \$12,878. This adjustment can be attributed to Staff's reconciling of plant in service from the last rate case Decision No. 63506, through year 2004. Staff also adjusted additions and retirements.

Accumulated Depreciation:

Staff decreased the Company's proposed accumulated depreciation amount by \$131,402.

Staff's accumulated depreciation amount was calculated by adding depreciation expense for the years 2000 through the end of 2004, and subtracting accumulated depreciation for plant retirements to the Commission approved accumulated depreciation balance in the prior test year ended December 31, 1999, of \$1,357,003.

Advances-in-Aid-of-Construction:

The Company has no advances-in-aid-of-construction.

Contributions-in-Aid-of-Construction:

The Company's rate application showed contributions-in-aid-of-construction in the amount of \$653,995. Staff determined from the Company's last rate case that the correct amount

is \$640,689. Staff amortized contributions-in-aid-of-construction for years 2000 through 2004 in the amount of \$64,075. Staff's adjustment leaves a resulting zero balance in net contributions-in-aid-of-construction.

Working Capital:

The Company neglected to claim any working capital allowance. Staff included a working capital allowance of \$16,898 calculated using the formula method.

Operating Revenue:

Staff made no adjustments to metered revenue. The Company's bill count revenue matched the revenue shown in the application and that reflects the test year revenue. Staff's recommended operating margin will allow the Company sufficient revenue to make the principal and interest payments on the previously approved loans.

Operating Expenses:

Staff adjustments to operating expenses resulted in a decrease of \$48,957 from \$208,924 to \$159,967 as shown on Schedule CRM-3 page 1. Adjustment are discussed below.

Adjustment A increased Salaries and Wages by \$2,293 to reflect \$8,400 reclassified from taxes other than income less \$170 for sales taxes, the employer's share of payroll taxes of \$648 for employees no longer employed by the Company and their salaries of \$5,289.

Adjustment B decreased Chemical Expense by \$11,072 to reflect \$6,073 reclassified as repairs and maintenance, \$3,218 as miscellaneous expense, \$2,116 for tools to plant in service and increase to chemical expense of \$335 for an invoice not recorded.

Adjustment C increased Repairs and Maintenance Expense by \$6,073 reclassified from chemical expense.

Adjustment D increased Water Testing by \$109 to reflect Staff's recommended expense level.

Adjustment E decreased Insurance-General Liability by \$1,518 to reconcile to the general ledger amount.

Adjustment F decreased Insurance Health and Life by \$2,400. This amount is included in the salaries and wages expense.

Adjustment G decreased Regulatory Commission Rate Case Expense by \$1,503 which is for employee training and reclassified to miscellaneous expense.

Adjustment H increased Miscellaneous Expense by \$4,721 for \$3,218 reclassified from chemical expense and \$1,503 reclassified from regulatory commission rate case expense.

Adjustment I decreased Depreciation Expense by \$37,260 to reflect disallowance of depreciation expense on plant in service already totally depreciated.

Adjustment J decreased Taxes Other Than Income by \$8,400 to reflect reclassification of \$7,582 to salaries and wages and the removed \$170 for sales taxes and \$648 for the Company's share of payroll taxes for employees no longer employed by the Company.

Operating Margin

Staff's recommended rates and charges would continue to provide an operating income of \$60,333 for an operating margin 27.39 percent based on Staff's recommended operating income.

Revenue Requirement

The Company's narrative portion of the application stated that it needs this rate increase because of aging infrastructure, anticipated growth in customers, and an increase in operational costs.

Rate Design

The Company's proposed rates would increase the median usage residential customer's bill by 5.8 percent.

The Company currently has a four-tier inverted rate design. Staff recommends that since the Company's revenue amount remains unchanged that the current tariff monthly usage charge and commodity charges for all meter sizes remain the same and retain the four-tier inverted rate design.

The Company proposes to increase service line and meter installation charges. Staff concurs with the exception of the 1-1/2 inch meter. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends \$935.00 as being reasonable and normal.

The Company proposes to increase service charges for Reconnection (delinquent) from \$40.00 to \$50.00. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends \$40.00 as being reasonable and normal.

The Company proposes to increase service charges for Deposit from \$70.00 to \$75.00. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends \$70.00 as being reasonable and normal.

The Company proposes to decrease service charges for Deposit Interest from 6 percent to 4 percent. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends interest charged in accordance with Commission Rule (14-2-403.B) at 6 percent.

The Company proposed to increase Meter Re-read (if correct) from \$10.00 to \$15.00. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends \$10.00 as being reasonable and normal.

The Company proposed to increase Late Fee from zero to \$5.00. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends a charge of 1.50 percent of the unpaid monthly balance per month as being reasonable and normal.

The Company proposes not to refund meter installation fee. After Staff's request, the Company has not provided adequate information to support such a proposal. Staff recommends that the Company continue to refund the meter installation fee as reasonable and normal per Commission rules.

The Company is currently charging a Back Flow Fee. The fee is not included in the Company current tariff. Staff recommends that the Company discontinue charging a back flow fee. This revenue previously collected for back flow fee is minimal and is paid to the individual who does the back flow device inspections. Staff is recommending that the Company not be required to repay those fees.

Staff Recommendations

Staff recommends:

- Approval of Staff's rates and charges as shown on Schedule CRM-4, in addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D-5).
- That the Company file with Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- That the Company use the Uniform System of Accounts provided by NARUC and within 90 days after the Decision in this case has been issued, file an affidavit with Docket Control, as a compliance item in this docket, stating that its books and accounting are now in compliance with NARUC.

- That the Company use the depreciation rates delineated in Exhibit 4 of the Engineering Report on a going forward basis.
- Staff recommends that by December 31, 2006, the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Company will reduce its water loss to less than 15%. Water loss shall be reduced to less than 15% before the Company files its next rate case. In addition, before the Company files its next rate case, it must file a plan to reduce its water loss to less than 10%. If the Company finds that reduction of water loss to less than 10% is not cost-effective, the Company shall submit, before filing its next rate case, a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10% is not cost effective.
- That the Company cease charging back flow fees.

Yarnell Water Improvement Association, Inc.

Docket No. W-02255A-05-0678

Test Year Ended December 31, 2004

Schedule CRM-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$220,300	\$220,300	\$245,476	\$220,300
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$220,300	\$220,300	\$245,476	\$220,300
Operating Expenses:				
Operation and Maintenance	\$143,887	\$140,590	\$143,887	\$140,590
Depreciation	42,919	5,659	42,919	5,659
Property & Other Taxes	22,118	13,718	22,118	13,718
Income Tax	0	0	0	0
Total Operating Expense	\$208,924	\$159,967	\$208,924	\$159,967
Operating Income/(Loss)	\$11,376	\$60,333	\$36,552	\$60,333
Rate Base O.C.L.D.	(\$624,566)	\$164,852	(\$624,566)	\$164,852
Rate of Return - O.C.L.D.	-1.82%	36.60%	N/A	36.60%
Times Interest Earned Ratio (Pre-Tax)	0.00	3.01	0.00	3.01
Debt Service Coverage Ratio (Pre-Tax)	0.00	1.28	0.00	1.28
Operating Margin	5.16%	27.39%	14.89%	27.39%

- 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.

Yarnell Water Improvement Association, Inc.

Docket No. W-02255A-05-0678

Test Year Ended December 31, 2004

Schedule CRM-2

Page 1 of 3

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$1,563,355	(\$12,878)	A	\$1,550,477
Less:				
Accum. Depreciation	1,524,264	(131,402)	B	1,392,862
Net Plant	\$39,091	\$118,524		\$157,615
Less:				
Plant Advances	\$0	\$0		\$0
Cusrtomers Deposirs	13,864	0		13,864
Total Advances	\$13,864	\$0		\$13,864
Contributions Gross	\$653,995	(\$13,306)	C	\$640,689
Less:				
Amortization of CIAC	0	640,689	C	640,689
Net CIAC	\$653,995	(\$653,995)		\$0
Total Deductions	\$667,859	(\$653,995)		\$13,864
Plus:				
1/24 Power	0	0	D	\$337
1/8 Operation & Maint.	0	0	D	16,561
Inventory	0	0		0
Prepayments	4,202	0		4,202
Total Additions	\$4,202	\$0		\$21,101
Rate Base	(\$624,566)	\$772,519		\$164,852

A See Schedue CRM-2. page 2

B See Schedule CRM-2, page 3

C Staff adjusted contributions in aid of construction to the amount shown in the last rate case. Staff amortized the contributions for years 2000 through 2004 in the amount of \$64, 075 which was the amount left subject to amortization.

D Staff's inclusion of formula-method working capital based on recommended operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$78,340	\$0	\$78,340
302 Franchises	0	0	0
303 Land & Land Rights	20,752	0	20,752
304 Structures & Improvements	105,764	0	105,764
307 Wells & Springs	46,557	0	46,557
311 Pumping Equipment	54,713	(12,000) A	42,713
320 Water Treatment Equipment	5,038	0	5,038
330 Distribution Reservoirs & Standpipes	250,641	0	250,641
331 Transmission & Distribution Mains	624,970	(6,052) A	618,918
333 Services	56,136	0	56,136
334 Meters & Meter Installations	35,532	(2,400) A	33,132
335 Hydrants	48,753	6,051	54,804
336 Backflow Prevention Devices	1,410	(975) A	435
339 Other Plant and Misc. Equipment	0	465 A	465
340 Office Furniture & Equipment	2,699	300 A	2,999
340.1 Computers & Software	2,494		2,494
341 Transportation Equipment	9,900	0	9,900
343 Tools Shop & Garage Equipment	11,248	2,982 A	14,230
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	37,099	(27,285) A	9,814
346 Communication Equipment	1,889	0	1,889
347 Miscellaneous Equipment	3,743	11,130 A	14,873
348 Other Tangible Plant	165,677	14,906 A	180,583
105 C.W.I.P.	0	0	0
TOTALS	\$1,563,355	(\$12,878)	\$1,550,477

A- Several adjustments to Plant in Service were required. The unusually large amount of recommended adjustments can be attributed to Staff reconciling the Plant in Service from the last rate case Decision through year 2004. Staff also adjusted additions and retirements.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$1,524,264
Accumulated Depreciation - Per Staff	1,392,862 A
Total Adjustment	<u><u>(\$131,402)</u></u>

Explanation of Adjustment:

A	Accumulated depreciation per Decision No. 63506	1,357,003
	Plus: Depreciation expense from year 2000 through year 2004	60,130
	Subtotal.	<u>\$1,417,133</u>
	Less: Plant Retirements	<u>(24,271)</u>
	Total	<u><u>1,392,862</u></u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$220,300	\$0	\$220,300
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$220,300	\$0	\$220,300
Operating Expenses:			
601 Salaries and Wages	\$90,825	\$2,293 A	\$93,118
610 Purchased Water	0	0	0
615 Purchased Power	8,099	0	8,099
618 Chemicals	11,468	(11,072) B	396
620 Repairs and Maintenance	4,168	6,073 C	10,241
621 Office Supplies & Expense	9,982	0	9,982
630 Outside Services	209	0	209
635 Water Testing	2,533	109 D	2,642
641 Rents	421	0	421
650 Transportation Expenses	2,666	0	2,666
657 Insurance - General Liability	9,613	(1,518) E	8,095
659 Insurance - Health and Life	2,400	(2,400) F	0
666 Regulatory Commission Expense - Rate Case	1,503	(1,503) G	0
675 Miscellaneous Expense	0	4,721 H	4,721
403 Depreciation Expense	42,919	(37,260) I	5,659
408 Taxes Other Than Income	8,400	(8,400) J	0
408.11 Property Taxes	13,718	0	13,718
409 Income Tax	0	0	0
Total Operating Expenses	\$208,924	(\$48,957)	\$159,967
OPERATING INCOME/(LOSS)	\$11,376	\$48,957	\$60,333
Other Income/(Expense):			
419 Interest and Dividend Income	\$1,887	\$0	\$1,887
421 Non-Utility Income	1,535	0	1,535
427 Interest Expense	20,446	0	20,446
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	758	0	758
Total Other Income/(Expense)	(\$17,782)	\$0	(\$17,782)
NET INCOME/(LOSS)	(\$6,406)	\$48,957	\$42,551

STAFF ADJUSTMENTS

A	-	SALARIES AND WAGES - Per Company	\$90,825	
		Per Staff	93,118	\$2,293

Staff increased salaries and wages by \$2,292 which consisted of reclassifying taxes other than income of \$8,400 less \$170 for sales taxes, for the Company share of employment taxes for employees no longer employed by the company of \$648 and removal of \$5,289 for salaries paid to those employees.

B	-	CHEMICALS - Per Company	\$11,468	
		Per Staff	396	(\$11,072)

Staff decreased chemical expense by \$11,072. Staff reclassified \$6,073 to repairs and maintenance expense, reclassified \$3,218 for propane to miscellaneous expense, \$2,116 for tools to plant in service and an allowed additional \$335 for chemical expense.

C	-	REPAIRS AND MAINTENANCE - Per Company	\$4,168	
		Per Staff	10,241	\$6,073

Staff reclassified \$6,073 from chemical expense.

D	-	WATER TESTING - Per Company	\$2,533	
		Per Staff	2,642	\$109

To adjust to Staff's recommended expense level.

E	-	INSURANCE - GENERAL LIABILITY - Per Company	\$9,613	
		Per Staff	8,095	(\$1,518)

To adjust to general ledger amount.

F	-	INSURANCE - HEALTH AND LIFE - Per Company	\$2,400	
		Per Staff	0	(\$2,400)

This expense was already included in salaries and wages expense.

G	-	REGULATORY COMMISSION EXPENSE - RATE CASE	\$1,503	
		- Per Company		
		Per Staff	0	(\$1,503)

This expense was for employee training and was reclassified to miscellaneous expense.

STAFF ADJUSTMENTS (Cont.)

H	-	MISCELLANEOUS EXPENSE - Per Company	\$0	
		Per Staff	4,721	\$4,721

Staff reclassified from chemical expense \$3,218 for propane to heat the office and \$1,503, for employee training from regulatory commission expenses-rate case.

I	-	DEPRECIATION - Per Company	\$42,919	
		Per Staff	5,659	(\$37,260)

To adjust to Staff's recommended depreciation expense amount as per calculations.

Pro Forma Annual Depreciation Expense:

Plant in Service	\$1,550,477
Less: Non Depreciable Plant	99,092
Fully Depreciated Plant	1,207,570
Depreciable Plant	\$243,815
Times: Staff Proposed Depreciation Rate	2.32%
Credit to Accumulated Depreciation	\$5,659
Pro Forma Annual Depreciation Expense	\$5,659

J	-	TAXES OTHER THAN INCOME - Per Company	\$8,400	
		Per Staff	0	(\$8,400)

Staff reclassified \$7,582 to salaries and wages and the removal of \$170 for sales taxes and \$648 for the company's share of payroll taxes for employees no longer employed by the Company.

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$21.00	\$22.00	\$21.00
3/4" Meter	21.00	22.00	21.00
1" Meter	35.00	36.00	35.00
1½" Meter	70.00	75.00	70.00
2" Meter	112.00	117.00	112.00
3" Meter	210.00	215.00	210.00
4" Meter	350.00	355.00	350.00
6" Meter	700.00	705.00	700.00
Excess of Minimum - per 1,000 Gallons	\$0.00	\$0.00	\$0.00
Gallons Included in Minimum	0	0	0
Commodity charge for all meter sizes			
Tier One zero gallons to 5,000 gallons	2.50	2.75	2.50
Tier Two From 5,001 gallons to 10,000 gallons	3.50	4.00	3.50
Tier Three From 10,001 gallons to 50,000 gallons	4.75	5.50	4.75
Tier Four all gallons over 50,000 gallons	6.00	7.00	6.00
Standpipe/Bulk Water, per 1,000 gallons	10.00	11.00	10.00
<u>Service Line and Meter Installation Charges</u>			
5/8" x 3/4" Meter	\$455.00	\$600.00	\$520.00
3/4" Meter	515.00	660.00	600.00
1" Meter	590.00	735.00	690.00
1½" Meter	820.00	965.00	935.00
2" Meter	1,380.00	1,525.00	1,525.00
3" Meter	1,935.00	2,080.00	2,080.00
4" Meter	3,030.00	3,175.00	3,175.00
6" Meter	5,535.00	5,680.00	5,680.00
Establishment	\$40.00	\$40.00	\$40.00
Establishment (After Hours)	60.00	60.00	60.00
Reconnection (Delinquent)	40.00	50.00	40.00
Meter Test (If Correct)	30.00	35.00	30.00
Deposit	70.00	75.00	70.00
Deposit Interest	6.00%	4.00%	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	25.00	30.00	25.00
Deferred Payment	0.00%	0.00%	0.00%
Meter Re-Read (If Correct)	10.00	15.00	10.00
Late Fee	n/a	5.00	***

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

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

*** 1.50 % of unpaid monthly balance per month

TYPICAL BILL ANALYSIS

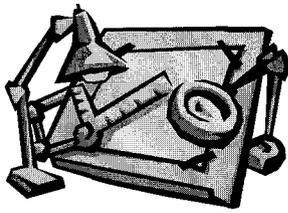
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 516

<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	4,307	\$31.77	\$33.84	\$2.07	6.5%
Median Usage	2,208	\$26.52	\$28.07	\$1.55	5.8%
<u>Staff Proposed</u>					
Average Usage	4,307	\$31.77	\$31.77	\$0.00	0.0%
Median Usage	2,208	\$26.52	\$26.52	\$0.00	0.0%

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	\$21.00	\$22.00	4.8%	\$21.00	0.0%
1,000	23.50	24.75	5.3%	23.50	0.0%
2,000	26.00	27.50	5.8%	26.00	0.0%
3,000	28.50	30.25	6.1%	28.50	0.0%
4,000	31.00	33.00	6.5%	31.00	0.0%
5,000	33.50	35.75	6.7%	33.50	0.0%
6,000	37.00	39.75	7.4%	37.00	0.0%
7,000	40.50	43.75	8.0%	40.50	0.0%
8,000	44.00	47.75	8.5%	44.00	0.0%
9,000	47.50	51.75	8.9%	47.50	0.0%
10,000	51.00	55.75	9.3%	51.00	0.0%
15,000	74.75	90.75	21.4%	74.75	0.0%
20,000	98.50	125.75	27.7%	98.50	0.0%
25,000	122.25	160.75	31.5%	122.25	0.0%
50,000	241.00	335.75	39.3%	241.00	0.0%
75,000	391.00	510.75	30.6%	391.00	0.0%
100,000	541.00	685.75	26.8%	541.00	0.0%
125,000	691.00	860.75	24.6%	691.00	0.0%
150,000	841.00	1,035.75	23.2%	841.00	0.0%
175,000	991.00	1,210.75	22.2%	991.00	0.0%
200,000	1,141.00	1,385.75	21.5%	1,141.00	0.0%



Engineering Report For
Yarnell Water Improvement
Association for a Rate Increase
Docket No. W-02255A-05-0678

EXECUTIVE SUMMARY

Conclusions

- I. ADEQ reported that the water system is delivering water that does not exceed any maximum contaminant level and meets the water quality standards of the Safe Drinking Water Act.
- II. The most recent lab analysis by the Company indicated that the arsenic level in its source supply is 2.0 $\mu\text{g/l}$. Based on this arsenic concentration, the Company is in compliance with the new arsenic MCL.

Recommendations

- I. Water testing expenses are based upon participation in the ADEQ Monitoring Assistance Program. Annual testing expenses should be adjusted to the level described in Table 1 (\$2,642.00). (See §H of report for discussion and details.)
- II. Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Exhibit 4. It is recommended that the Company use these depreciation rates.
- III. Staff recommends that by December 31, 2006, the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Company will reduce its water loss to less than 15%. Water loss shall be reduced to less than 15% before the Company files its next rate case. In addition, before the Company files its next rate case, it must file a plan to reduce its water loss to less than 10%. If the Company finds that reduction of water loss to less than 10% is not cost-effective, the Company shall submit, before filing its next rate case, a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10% is not cost effective.

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A. LOCATION OF WATER SYSTEM

Yarnell Water Improvement Association (“Yarnell Water/Association”) is located approximately 30 miles southwest of Prescott on Highway 89. Figure 1 shows the location of the Association in relation to other Commission regulated companies in Yavapai County and Figure 2 shows the certificated area.

B. DESCRIPTION OF WATER SYSTEM

The system serves approximately 535 metered customers. The system consists of two wells, one blending tank, two storage tanks, two transfer pumps, a transmission main, chlorine disinfection equipment and distribution system. The wells are located about 3.5 miles north of town in Peeples Valley. Water is pumped into a blending tank located at the well site and chlorine is added. The treated water is then pumped using two 7 ½ hp transmission pumps to two-250,000 gallon elevated storage tanks located above the town. Water is gravity fed to the customers. There is a standpipe located across the street from the office. Figure 3 is a process schematic of the system.

John A. Chelus, Utilities Engineer, inspected the water system on December 15, 2005. The Company was represented by Stacey Zudell, the Certified Operator and Tammy Zudell, the Office Manager. The following table lists the plant that was inspected and that is used and useful.

Well Data

	Well No. 1	Well No. 2
ADWR ID No.	55-616736	55-616737
Casing Size	6 inch	6 inch
Casing Depth	180 ft.	220 ft.
Meter Size	3 inch	3 inch
Pump Size	5 hp Submersible	7 hp Submersible
Pump Yield	230 gpm	240 gpm
Storage Tanks	2 – 250,000 gallons	
Blending Tank	1-40,000 gallons	
Transfer Pumps	2- 25 hp	
Chlorine Equipment	Gas	
Standpipe	1	

Fire Hydrants

Standard Type	77
----------------------	----

Mains

Diameter (inches)	Material	Length (feet)
4 "	----	5,280
6"	----	60,720
8"	-----	18,480

Meters

Size	Quantity
5/8" x 3/4"	580
1"	9
2"	1

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 2.0 $\mu\text{g/l}$. Based on this arsenic concentration, the Company is in compliance with the new arsenic MCL.

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

ADEQ regulates the water system under Public Water System I.D. No. 01-010. Based on data submitted by the Company, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

E. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is not located within any Active Management Area and is not subject to conservation and monitoring requirements.

F. GROWTH

The Company currently has approximately 535 customers. This is an increase of 25 customers since the end of 1999. Based on this growth rate it is projected that the Company could have 560 customers within the next five years.

G. CURTAILMENT PLAN

The Company has a curtailment plan on file with the Commission.

H. WATER TESTING EXPENSES

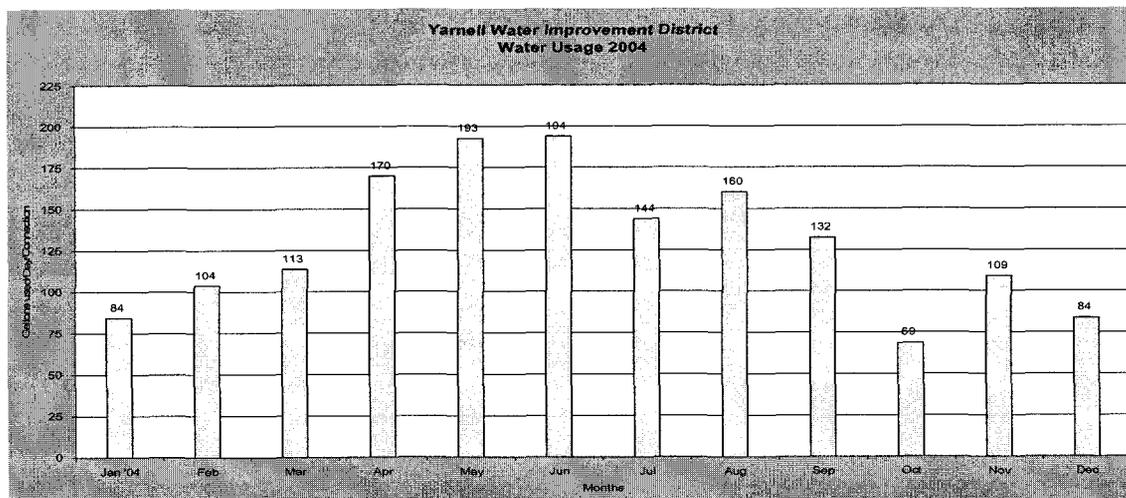
The following table shows the estimated annual monitoring expense, assuming participation in the Monitoring Assistance Program ("MAP"). An extra amount of \$15 per month is added to cover the overnight shipping cost of bacteriological samples. Water testing expenses should be adjusted to the annual expense amount shown in Table 1, which is \$ 2,642.

Monitoring – one well (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Shipping Per Year	Annual Cost
Bacteriological – monthly	\$30	72	2160	180	900
Inorganics – Priority Pollutants	\$550	2	550		184
Nitrate – annual	\$40	3	120		40
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP		1,368
Lead & Copper - annual	\$45	10	450		150
Total					\$2,642.00

I. WATER USAGE

Water Sold

Based on the information provided by the Company, water use for the year 2004 is presented below. The high monthly domestic water use was 194 gal/day-service in June, and the low monthly domestic water use was 69 gal/day-service in October. The average annual use was 130 gal/day-service.



Non-account Water

The Company reported pumping 31,901,000 gallons during 2004. During the same period, the Company reported selling 24,628,100 gallons of water. This equates to a water loss of over 22.8 percent. This is much higher than the 10 percent that Staff considers reasonable. The Company had a leak study performed on their system a few years ago and reduced the loss by about 4 %. Although this is significant, the water loss is still too high.

Staff recommends that by December 31, 2006, the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Company will reduce its water loss to less than 15%. Water loss shall be reduced to less than 15% before the Company files its next rate case. In addition, before the Company files its next rate case, it must file a plan to reduce its water loss to less than 10%. If the Company finds that reduction of water loss to less than 10% is not cost-effective, the Company shall submit, before filing its next rate case, a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10% is not cost effective.

J. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Exhibit 4. It is recommended that the Company use these depreciation rates.

K. SERVICE LINE AND METER INSTALLATION CHARGES

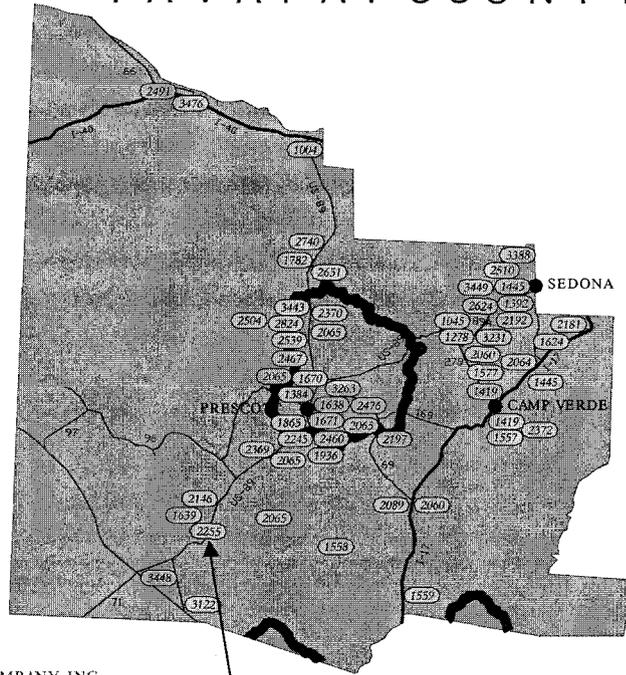
The Association has proposed to increase its service line and meter installation charges as shown in the following table. Staff, however, will recommend its own charges as shown:

Service line and meter installation charges.

Meter Size	Association's Existing	Association's Proposed	Staff's Recommendation
5/8" x 3/4"	\$455	\$600	\$520
3/4"	\$515	\$660	\$600
1"	\$590	\$735	\$690
1-1/2"	\$820	\$965	\$935
2"	\$1,380	\$1,525	\$1,595
3"	\$1,935	\$2,080	\$2,275
4"	\$3,030	\$3,175	\$3,520
6"	\$5,535	\$5,680	\$6,275

EXHIBITS
Exhibit 1

YAVAPAI COUNTY

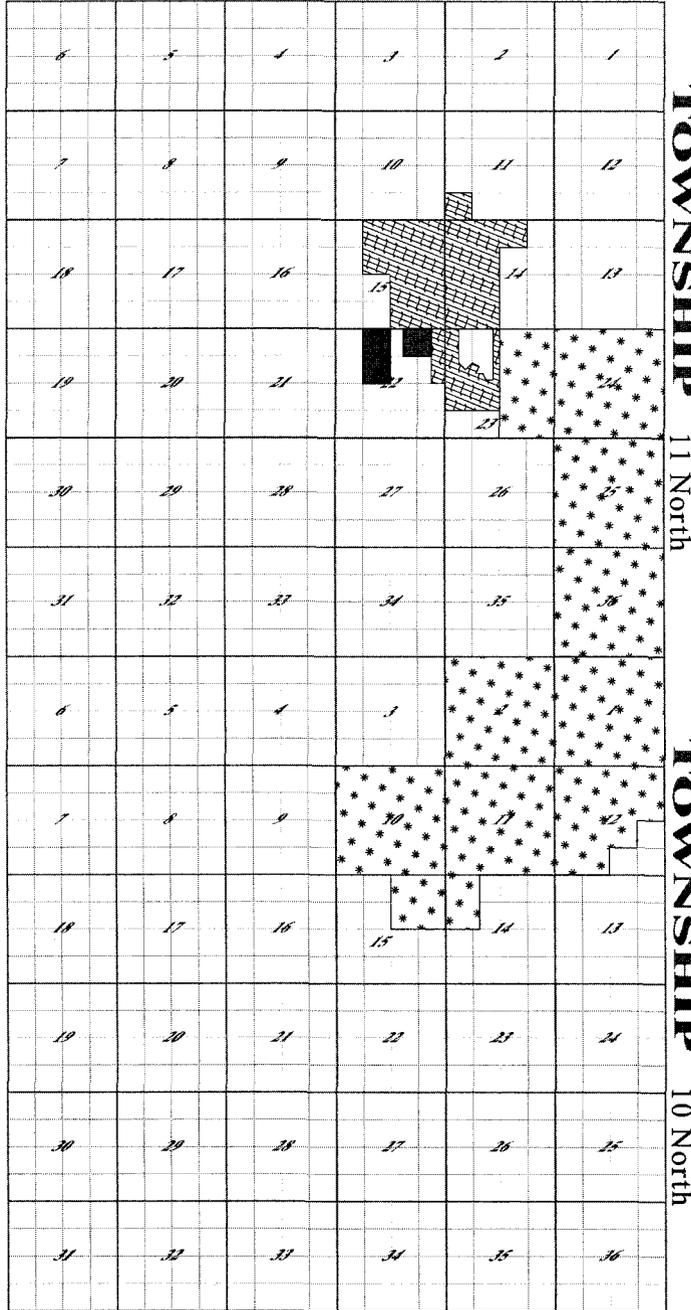


- | | | | |
|------|--|------|--|
| 1782 | ABRA WATER COMPANY, INC. | 2197 | HUMBOLDT WATER SYSTEM, INC. |
| 2740 | ANTELOPE LAKES WATER COMPANY | 2824 | ICR WATER USERS ASSOCIATION |
| 1639 | ANTELOPE WATER COMPANY | 2624 | MICHAELS RANCH WATER USERS' ASSOCIATION |
| 3443 | APPALOOSA WATER COMPANY | 2651 | JUNIPER WELLS WATER COMPANY |
| 1445 | ARIZONA WATER COMPANY | 1557 | LAKE VERDE WATER COMPANY |
| 1004 | ASHFORK DEVELOPMENT ASSOCIATION, INC. | 2192 | LITTLE PARK WATER COMPANY, INC. |
| 3476 | BN LEASING CORPORATION | 2245 | LOMA ESTATES WATER COMPANY |
| 1624 | BIG PARK WATER COMPANY | 2504 | MEADOW WATER COMPANY |
| 2510 | BOYNTON CANYON ENCHANTMENT HOMEOWNERS ASSOC. | 2460 | MILLSITE WATER USERS, INC. |
| 2089 | BRADSHAW MOUNTAIN VIEW WATER COMPANY | 2064 | MONTEZUMA ESTATES PROPERTY OWNERS ASSOC. |
| 2476 | BRADSHAW WATER COMPANY, INC. | 1577 | OAK CREEK PUBLIC SERVICE COMPANY |
| 1419 | CAMP VERDE WATER SYSTEM | 1392 | OAK CREEK WATER COMPANY NO. 1 |
| 2370 | CHINO MEADOWS II WATER COMPANY, INC. | 2146 | PEEPLER VALLEY WATER COMPANY |
| 1278 | CLEMENCEAU WATER COMPANY | 2181 | PINE VALLEY WATER COMPANY |
| 1559 | COLDWATER CANYON WATER COMPANY | 1936 | POTATO PATCH WATER SERVICE, INC. |
| 2060 | CORDES LAKES WATER COMPANY | 3448 | RAINBOW PARKS, INC. |
| 1045 | COTTONWOOD WATER WORKS, INC. | 3449 | SEDONA VENTURE (MHC OPERATING LTD PARTNERSHIP) |
| 1558 | CROWN KING WATER COMPANY, INC. | 3388 | SEVEN CANYONS WATER COMPANY |
| 1384 | DELL'S WATER COMPANY, INC. | 1671 | SHERMAN PINES WATER COMPANY |
| 3263 | DIAMOND VALLEY WATER USERS ASSOCIATION | 2372 | VERDE LAKES WATER CORPORATION |
| 2491 | GRAND CANYON CAVERNS | 3231 | VERDE SANTA FE WATER COMPANY, L.L.C. |
| 1670 | GRANITE DELLS WATER COMPANY | 2369 | WALDEN MEADOWS COMMUNITY COOPERATIVE |
| 2467 | GRANITE MOUNTAIN WATER COMPANY, INC. | 3122 | WICK WATER L.L.C. |
| 2539 | GRANITE OAKS WATER USERS ASSOCIATION | 2065 | WILHOIT WATER COMPANY, INC. |
| 1865 | GROOM CREEK WATER USERS ASSOCIATION | 2255 | YARNELL WATER IMPROVEMENT ASSOCIATION |
| 1638 | HOLIDAY HILLS WATER COMPANY | | |

Exhibit 2

COUNTY: *Yavapai*

RANGE 5 West

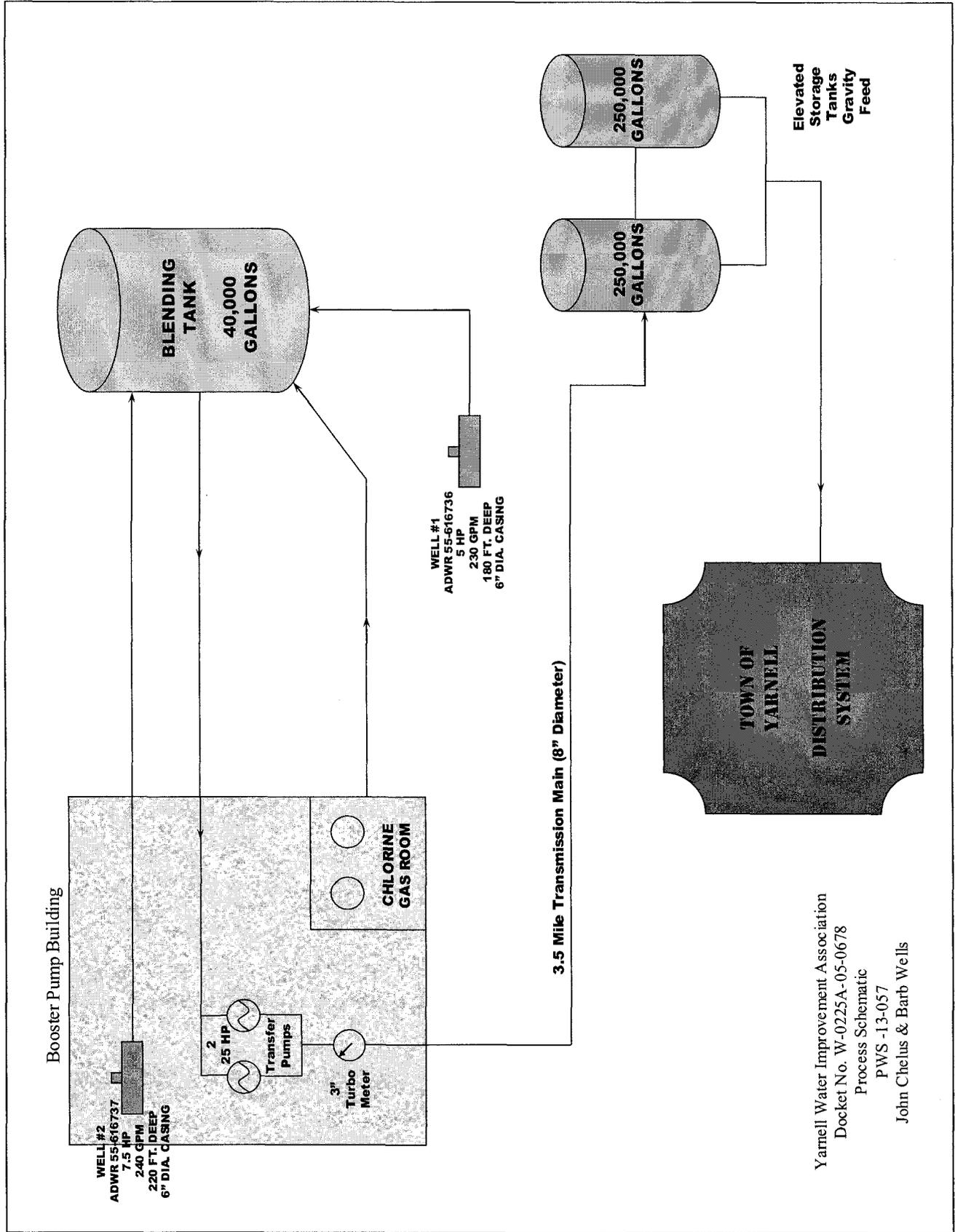


 W-2146 (1)
People's Valley Water Company

 People's Valley Water Company
Contiguous Area

 W-2255 (2)
Yarnell Water Improvement Association

Exhibit 3



Yarnell Water Improvement Association
Docket No. W-0225A-05-0678
Process Schematic
PWS-13-057
John Chelus & Barb Wells

EXHIBIT 4
TYPICAL DEPRECIATION RATES FOR WATER COMPANIES

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

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.