

ORIGINAL



0000052213

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: April 24, 2006

RE: STAFF REPORT FOR HIGH COUNTRY PINES WATER COMPANY, INC.'S
APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-
02448A-05-0745)

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

EGJ: JCB: tdp

Originator: Jim Beechey

RECEIVED
2006 APR 24 11 A 9:09
AZ CORP COMMISSION
DOCUMENT CONTROL

Service List for: High Country Pines Water Company, Inc.
Docket No. W-02448A-05-0745

High Country Pines Water Company, Inc.
Attn: Gregory G. Horne
9630 North 25th Avenue, Suite 450
Phoenix, Arizona 85021

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

HIGH COUNTRY PINES WATER COMPANY, INC.

DOCKET NO. W-02448A-05-0745

APPLICATION FOR A PERMANENT
RATE INCREASE

April 24, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for High Country Pines Water Company, Inc. ("Company"), Docket No. W-02448A-05-0745 was the responsibility of the Staff members listed below. Jim Beechey was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base, and rate design. Jian Liu was responsible for the engineering and technical analysis. Carmen Madrid 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.



Jim Beechey
Public Utilities Analyst II



Jian Liu
Utilities Engineer



Carmen Madrid
Public Utility Consumer Analyst I

EXECUTIVE SUMMARY
HIGH COUNTRY PINES WATER COMPANY, INC.
DOCKET NO. W-02448A-05-0745

High Country Pines Water Company, Inc. ("Company") is located along Highway 260, in Navajo County approximately 1 mile west of the community of Heber. It serves approximately 150 customers, including a Salvation Army youth camp.

On October 21, 2005, the Company filed an application for a permanent rate increase with the Arizona Corporation Commission. On November 18, 2005, Staff found the application deficient. The Company responded to Staff's deficiency issues, submitted revised schedules and on February 6, 2006, Staff found the application sufficient.

Based on test year results, as adjusted by Staff, the Company realized an operating income of \$21,677. Due to advances in aid of construction and contributions in aid of construction, the Company has an adjusted test year original cost rate base of a negative \$121,045 resulting in no rate of return.

The Company's rate application proposes an increase in total operating revenue of \$6,848 or an 8.53 percent increase over adjusted test year revenue of \$80,273. The Company's proposed rates will produce total operating revenue of \$87,121, and operating income of \$30,679 for a 35.21 percent operating margin. The Company's proposed rates would increase the typical residential bill with a median usage of 1,118 gallons from \$23.91 to \$26.11 for an increase of \$2.20 or 9.2 percent.

Staff is not recommending an increase in total operating revenue or change in the Company's current rate structure. Staff recommends the Company's current test year total operating revenue of \$80,273 resulting in an operating income of \$21,677 for a 27 percent operating margin. An operating margin of 27 percent would allow the Company sufficient revenue for normal operations and a cushion against contingencies. Staff's recommended rates would not increase the typical residential bill with a median usage of 1,118 gallons and cost of \$23.91.

Staff recommends continuation of the current rate structure as presented on Schedule JCB-W-4.

TABLE OF CONTENTS

	<u>PAGE</u>
FACT SHEET	1
RATES:	1
CUSTOMERS:	1
COMPLAINTS:	2
NOTIFICATION:	2
SUMMARY OF FILING	2
BACKGROUND	2
CONSUMER SERVICES	3
ENGINEERING ANALYSIS	3
COMPLIANCE	4
RATE BASE	4
OPERATING REVENUES	5
OPERATING EXPENSES	5
REVENUE REQUIREMENTS	5
RATE DESIGN	6
STAFF RECOMMENDATIONS	6

SCHEDULES

SUMMARY OF FILING	Schedule JCB-W-1
RATE BASE	Schedule JCB-W-2
STATEMENT OF OPERATING INCOME	Schedule JCB-W-3
RATE DESIGN	Schedule JCB-W-4
TYPICAL BILL ANALYSIS	Schedule JCB-W-5

ATTACHMENT

Engineering Report

FACT SHEET

Current rates: Decision No. 66514, dated November 10, 2003.

Type of ownership: Arizona "C" Corporation

Location: The Company is located along Highway 260 approximately 1 mile west of the community of Heber within Navajo County.

Rates:

Permanent rate increase application filed: October 21, 2005

Current test year ended: December 31, 2004

Prior test year ended: December 31, 2002

	Current Rates	Company Proposed Rates	Staff Recommended Rates
Monthly Minimum Charge (Residential)			
5/8 - inch meter	\$20.00	\$22.00	\$20.00
Gallons included in Minimum	0	0	0
<u>Commodity Charge (Residential)</u>			
Excess of minimum, per 1,000 gallons:			
From 0 to 2,000 gallons	\$3.50	\$3.68	\$3.50
From 2,001 to 10,000 gallons	\$3.75	\$3.94	\$3.75
Over 10,001 gallons	\$4.00	\$4.20	\$4.00
Typical residential bill (Based on median usage of 1,118 gallons)	\$23.91	\$26.11	\$23.91

Customers:

Average number of customers in current test year: 150

Average number of customers in the prior test year: 125

Current Test Year customers by meter size:

5/8 - inch 148
1-inch 1
4-inch 1

Complaints:

Number of customer concerns since rate application filed: 0

Percentage of complaints to customer base: 0

Notification:

Customer notification was mailed on October 21, 2005.

Summary of Filing

On October 21, 2005, High Country Pines Water Company, Inc. ("Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On November 18, 2005, Staff found the application deficient. The Company responded to Staff's deficiency issues, submitted revised schedules and on February 6, 2006, Staff found the application sufficient.

Based on test year results as adjusted by Staff, the Company realized an operating income of \$21,677. Due to advances in aid of construction and contributions in aid of construction ("CIAC"), the Company has an adjusted test year original cost rate base of a negative \$121,045 resulting in no rate of return.

The Company's rate application proposes an increase in total operating revenue of \$6,848 or an 8.53 percent increase over adjusted test year revenue of \$80,273. The Company's proposed rates would produce operating revenues of \$87,121 and operating income of \$30,679 for an operating margin of 35.21 percent. Under the Company's proposed rates the typical monthly residential bill with a median usage of 1,118 gallons would increase from \$23.91 to \$26.11 for an increase of \$2.20 or 9.2 percent. The typical monthly bill for the Salvation Army youth camp with a median usage of 40,000 gallons would increase from \$390 to \$408 for an increase of \$18.00 or 4.6 percent.

Staff is not recommending an increase in total operating revenue or change in the Company's current rate structure. Staff recommends the Company's current test year total operating revenue of \$80,273 resulting in an operating income of \$21,677 for a 27 percent operating margin. Staff's recommended rates would not increase the typical monthly residential bill with a median usage of 1,118 gallons and cost of \$23.91. Staff's recommended rates would not increase the typical monthly bill for the Salvation Army youth camp with a median usage of 40,000 gallons and cost of \$390.

Background

On October 21, 2005, the Company filed an application for a permanent rate increase utilizing a test year ending December 31, 2004. On November 18, 2005, Staff found the

application deficient. The Company filed revisions to the deficiency issues pertaining to the application. Staff found the application sufficient on February 6, 2006. The Company's last rate increase was effective on November 10, 2003, per Decision No. 66514.

The Company is an Arizona for-profit, "C" corporation. During the test year, the Company served approximately 149 residential customers and the Salvation Army youth camp.

Consumer Services

A review of Consumer Services' records show that the Company was granted a Certificate of Convenience and Necessity per Decision No. 54478 dated April 17, 1985.

The Consumer Services Database reflects the following activity from 2003-2006:

2003 - Zero-complaints or inquiries
Five-opinions (opposed to rate case)

2004 - Zero-complaints or opinions
One-inquiry (how many complaints received for 2004)

2005 - Zero-complaints
One-inquiry (quality of service)
Four-opinions (opposed to rate case)

2006 - Zero-complaints, inquiries or opinions

All inquiries have been resolved and closed.

A review of the Commission's records found that the Company's cross-connection/backflow tariff was filed on March 2, 2006.

Engineering Analysis

The Company's plant facilities were inspected on December 15, 2005 by Staff Engineer, Marlin Scott Jr. and Staff Engineer Jian Liu in the accompaniment of Jon Cheney, the operator of the water system. A complete discussion of Staff's Engineering findings, recommendations, and description of the water system is provided in the attached Engineering Report.

Water testing expenses are based upon participation in the Arizona Department of Environmental Quality ("ADEQ") Monitoring Assistance Program ("MAP"). Annual testing expenses are described in detail in Table 1 of the Engineering Report.

The Company's water system consists of a well which pumps into a storage tank, two 10 Hp booster pumps and a 5,000 gallon pressure tank. There is also a 25 Hp booster on standby for fire flow needs.

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

The Company is not within any Active Management Area and consequently is not subject to Arizona Department of Water Resources reporting and conservation rules.

A curtailment tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. The Company does have a curtailment plan filed with the Commission.

Compliance

The Company is current on its property and sales tax payments. The Company was incorporated on August 29, 1984, and the Corporations Division of the Commission indicates that the Company is in good standing.

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") to 10 $\mu\text{g/l}$. The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis by the Company indicated that the arsenic level in its source supply is 5.0 $\mu\text{g/l}$. Based on the Company's current arsenic concentration level, the Company is in compliance with the new arsenic MCL.

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

Rate Base

As shown on Schedule JCB-W-2, page 1, Staff recommends an adjusted test year rate base of a negative \$121,045. This negative rate base represents an increase of \$6,826 from the Company's proposed \$127,871 negative rate base.

Adjustment A decreased accumulated depreciation by \$116 based on Staff's calculation, adding depreciation expense at the approved depreciation rates to the approved accumulated depreciation balance per prior Decision No. 66514.

Adjustment B increased Amortization of CIAC by \$2,650 based on Staff's calculation, adding amortization of CIAC at the approved amortization rates to the approved amortization of CIAC balance per prior Decision No. 66514.

Adjustment C increased cash working capital by \$4,060 to reflect Staff's inclusion of a working capital allowance using the formula method.

Operating Revenues

Staff made no adjustment to the Company's test year operating revenue of \$80,273. See Schedule JCB-W-3, Page 1.

Operating Expenses

Staff's adjustments to operating expenses resulted in an increase of \$2,154 from \$56,442 to \$58,596, as shown on Schedule JCB-W-3, page 1. The adjustments to operating expenses are discussed below.

Adjustment A increased water testing expense by \$215 to reflect Staff's recommended annual monitoring expense subject to the Company's mandatory participation in the MAP.

Adjustment B decreased regulatory commission rate case expense by \$1,847 to reflect Staff's adjustment amortizing the rate case expense amount of \$2,771 as reflected in the Company's rate application over three years.

Adjustment C decreased test year depreciation expense by \$1,325 to reflect Staff's application of the approved depreciation rates per prior Decision No. 66514.

Adjustment D increased property tax by \$373 to reflect the Company's current year property tax, on a going-forward basis.

Adjustment E increased income tax by \$4,738 to reflect Staff's adjustments to test year operating expenses and resulting operating income.

Revenue Requirements

The Company is proposing an increase in revenues of \$6,848 or 8.53 percent over adjusted test year revenues of \$80,273. The Company's proposed rates would produce operating revenues of \$87,121 and operating income of \$30,679 for an operating margin of 35.21 percent. The Company's narrative portion of its rate application states that it needs the rate increase to fund anticipated customer growth and increased operational and maintenance costs.

Staff is not recommending an increase in total operating revenue over test year revenue of \$80,273. Staff's recommended total operating revenue of \$80,273 results in an operating income of \$21,677 for a 27 percent operating margin. In Staff's opinion, the Company's current total operating revenues would allow the Company to meet its obligations and provide a cushion for contingencies.

Rate Design

Schedule JCB-W-4 of this Report shows a comparison of the Company's current and proposed rates, as well as Staff's recommended rates.

The Company's current rate structure for residential and commercial customers consists of three tiers in the commodity rates and no gallons included in the monthly minimum charge. The Company's current rates are based on commodity rates of \$3.50 per 1,000 gallons for the first 2,000 gallons, \$3.75 per 1,000 gallons for usage from 2,001 to 10,000 gallons, and \$4.00 per 1,000 gallons for all water usage over 10,000 gallons. Special rates apply for the Salvation Army youth camp which is comprised of a 4 inch meter. The current monthly minimum charge is \$275 with a one tier commodity rate structure, \$2.875 per 1,000 gallons usage charge, and zero gallons included in the monthly minimum charge.

Staff recommends the continuation of the Company's current rate structure for residential and commercial customers, and the Special rate structure for the Salvation Army youth camp.

The Company is proposing to increase the meter portion only of its Service Line and Meter Installation Charges as presented on Schedule JCB-W-4. The Company states in its rate application that only the meter charges are applicable because customer water lines are already in place. Staff concurs with the separation of meter and service line installation charges, and the proposed increase in meter installation charges as being reasonable and normal.

The Company is proposing increases to various other service charges including establishment, reconnection, meter testing, NSF check fee, meter re-read, late fee, and call out fee. The Company did not offer any evidence to support its proposed increases. Staff recommends not increasing these various other service charges, and that the current service charges are reasonable and normal, and consistent with the Commission's rule (A.A.C R-14-2-(403), (408), (409)). See Schedule JCB-W-4 for the detail of these current and proposed service charges.

Staff Recommendations

Staff recommends approval of the continuation of the Company's current rate structure and service charges as presented on Schedule JCB-W-4 of this Report.

Staff further recommends the approval of the Company's proposed Service Line and Meter Installation Charges, and separation of charges between meter and service line installation as presented on Schedule JCB-W-4.

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

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$78,993	\$78,993	\$85,841	\$78,993
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	1,280	1,280	1,280	1,280
Total Operating Revenue	\$80,273	\$80,273	\$87,121	\$80,273
Operating Expenses:				
Operation and Maintenance	\$37,852	\$36,220	\$37,852	\$36,220
Depreciation	16,305	14,980	16,305	14,980
Property & Other Taxes	2,240	2,613	2,240	2,613
Income Tax	45	4,783	45	4,783
Total Operating Expense	\$56,442	\$58,596	\$56,442	\$58,596
Operating Income/(Loss)	\$23,831	\$21,677	\$30,679	\$21,677
Rate Base O.C.L.D.	(\$127,871)	(\$121,045)	(\$127,871)	(\$121,045)
Rate of Return - O.C.L.D.	N/A	N/A	N/A	N/A
Operating Margin	29.69%	27.00%	35.21%	27.00%

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$763,110	\$0		\$763,110
Less:				
Accum. Depreciation	312,080	(116)	A	311,964
Net Plant	\$451,030	\$116		\$451,146
Less:				
Plant Advances	\$444,001	\$0		\$444,001
Customer Deposits	225	0		225
Total Advances	\$444,226	\$0		\$444,226
Contributions Gross	\$195,248	\$0		\$195,248
Less:				
Amortization of CIAC	59,005	2,650	B	61,655
Net CIAC	\$136,243	(\$2,650)		\$133,593
Total Deductions	\$580,469	(\$2,650)		\$577,819
Plus:				
1/24 Power	\$0	\$234	C	\$234
1/8 Operation & Maint.	0	3,826	C	3,826
Inventory	677	0		677
Prepayments	891	0		891
Total Additions	\$1,568	\$4,060		\$5,628
Rate Base	(\$127,871)	\$6,826		(\$121,045)

Explanation of Adjustment:

- A See Schedule JCB-W-2, page 3 of 3.
- B Adjusted amortization of CIAC balance using depreciation rates per prior Decision No. 66514.
- C Working Capital Allowance using the formula method.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$5,167	\$0	\$5,167
302 Franchises	0	0	0
303 Land & Land Rights	3,450	0	3,450
304 Structures & Improvements	10,348	0	10,348
307 Wells & Springs	34,135	0	34,135
311 Pumping Equipment	30,613	0	30,613
320 Water Treatment Equipment	4,625	0	4,625
330 Distribution Reservoirs & Star	79,049	0	79,049
331 Transmission & Distribution M	543,367	0	543,367
333 Services	8,505	0	8,505
334 Meters & Meter Installations	6,621	0	6,621
335 Hydrants	19,016	0	19,016
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equiprr	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equiprr	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	18,214	0	18,214
105 C.W.I.P.	0	0	0
TOTALS	\$763,110	\$0	\$763,110

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$312,080
Accumulated Depreciation - Per Staff	<u>311,964</u> A
Total Adjustment	<u><u>(\$116)</u></u>

Explanation of Adjustment:

A -	Accumulated Depreciation per Decision No. 66514	\$271,757
	2003 Depreciation Expense	20,045
	2004 Depreciation Expense	<u>20,162</u>
	Total Accumulated Depreciation	<u>\$311,964</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$78,993	\$0	\$78,993
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	1,280	0	1,280
Total Operating Revenue	\$80,273	\$0	\$80,273
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	5,613	0	5,613
618 Chemicals	258	0	258
620 Repairs and Maintenance	822	0	822
621 Office Supplies & Expense	0	0	0
630 Outside Services	25,822	0	25,822
635 Water Testing	840	215 A	1,055
641 Rents	58	0	58
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	1,158	0	1,158
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	2,771	(1,847) B	924
675 Miscellaneous Expense	510	0	510
403 Depreciation Expense	16,305	(1,325) C	14,980
408 Taxes Other Than Income	45	0	45
408.11 Property Taxes	2,195	373 D	2,568
409 Income Tax	45	4,738 E	4,783
Total Operating Expenses	\$56,442	\$2,154	\$58,596
OPERATING INCOME/(LOSS)	\$23,831	(\$2,154)	\$21,677
Other Income/(Expense):			
419 Interest and Dividend Income	\$290	\$0	\$290
421 Non-Utility Income	5	0	5
427 Interest Expense	3,600	0	3,600
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	59	0	59
Total Other Income/(Expense)	(\$3,364)	\$0	(\$3,364)
NET INCOME/(LOSS)	\$20,467	(\$2,154)	\$18,313

STAFF ADJUSTMENTS

A -	WATER TESTING - Per Company	\$840	
	Per Staff	1,055	\$215
	To adjust to Staff Engineer's recommended expense level of \$ 1,055.		
B -	REGULATORY COMMISSION EXPENSE - RATE CASE		
	- Per Company	\$2,771	
	Per Staff	924	(\$1,847)
	Adjustment to normalize regulatory (rate case) expense over three years.		
C -	DEPRECIATION - Per Company	\$16,305	
	Per Staff	14,980	(\$1,325)

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

Plant in Service	\$763,110	
Less: Non Depreciable Plant	8,617	
Fully Depreciated Plant	0	
Depreciable Plant	\$754,493	
Times: Staff Proposed Depreciation Rate	2.6786%	
Credit to Accumulated Depreciation	\$20,210	
Less: Amort. of CIAC* @ 2.6786%	5,230	
Pro Forma Annual Depreciation Expense	\$14,980	

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$195,248	
Less: Non Amortizable Contribution(s)	0	
Fully Amortized Contribution(s)	0	
Amortizable Contribution(s)	\$195,248	
Times: Staff Proposed Amortization Rate	2.6786%	
Amortization of CIAC	\$5,230	

STAFF ADJUSTMENTS (Cont.)

D -	PROPERTY TAXES - Per Company	\$2,195	
	Per Staff	2,568	\$373
		<hr/>	<hr/>

To adjust property tax based on Company's current year property tax, on a going-forward basis.

E -	INCOME TAX - Per Company	\$45	
	Per Staff	4,783	\$4,738
		<hr/>	<hr/>

To adjust income tax based on Staff's adjustments to operating expenses and the resulting operating income.

RATE DESIGN

Monthly Usage Charge (Residential and Commercial)	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$ 20.00	\$ 22.00	\$ 20.00
3/4" Meter	30.00	33.00	30.00
1" Meter	50.00	55.00	50.00
1½" Meter	100.00	110.00	100.00
2" Meter	136.00	145.00	136.00
3" Meter	255.00	260.00	255.00
4" Meter	370.00	380.00	375.00
6" Meter	900.00	950.00	900.00

Gallons included in the minimum: 0 0 0

Commodity Rate (Residential and Commercial):
5/8 Inch to 6 Inch Meters (per 1,000 gallons)

Excess of Minimum - per 1,000 Gallons (0-2,000 Gallons)	\$ 3.50	\$ 3.68	\$ 3.50
Excess of Minimum - per 1,000 Gallons (2,001-10,000 Gallons)	\$ 3.75	\$ 3.94	\$ 3.75
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	\$ 4.00	\$ 4.20	\$ 4.00

Special Rates for Salvation Army Youth Camp	Present	-Proposed Rates-	
	Rates	Company	Staff
4" Meter - Monthly Usage Charge	275.00	288.00	275.00

Gallons included in the minimum: 0 0 0

Commodity Rate:
4" Meter (per 1,000 gallons)

Excess of Minimum - per 1,000 Gallons	\$ 2.875	\$ 3.00	\$ 2.875
---------------------------------------	----------	---------	----------

Service Line and Meter Installation Charges (A)	Present	-Proposed Rates-				Company &
	Rates	Company		Staff		Staff
	Total	Meter	Line	Meter	Line	Total
5/8" x 3/4" Meter	\$ 400.00	\$ 105.00	\$300.00	\$ 105.00	\$300.00	\$ 405.00
3/4" Meter	425.00	131.25	300.00	131.25	300.00	431.25
1" Meter	510.00	189.00	330.00	189.00	330.00	519.00
1½" Meter	770.00	441.00	350.00	441.00	350.00	791.00
2" Meter	1,340.00	1,008.00	380.00	1,008.00	380.00	1,388.00
3" Meter	1,870.00	1,522.50	420.00	1,522.50	420.00	1,942.50
4" Meter	2,930.00	2,404.50	640.00	2,404.50	640.00	3,044.50
6" Meter	5,610.00	4,882.50	960.00	4,882.50	960.00	5,842.50

(A) Company states only meter charges are applicable, water lines are already installed.

RATE DESIGN

Service Charges

Establishment	40.00	42.00	40.00
Establishment (After Hours)	60.00	63.00	60.00
Reconnection (Delinquent)	40.00	42.00	40.00
Reconnection (Delinquent) after hours	60.00	63.00	60.00
Meter Test (If Correct)	50.00	52.50	50.00
Deposit	*	*	*
Deposit (proposed) Residential	*	*	*
Deposit (proposed) Non-Residential	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	20.00	25.00	20.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	20.00	25.00	20.00
Late Fee	1.50%	5.00	1.50%
Call Out Fee	40.00	42.00	40.00

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

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

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

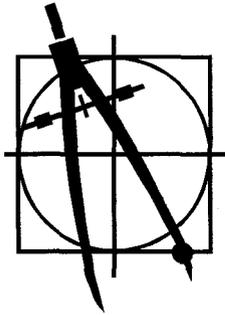
Average Number of Customers: 148

<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	4,800	\$37.50	\$40.39	\$2.89	7.7%
Median Usage	1,118	\$23.91	\$26.11	\$2.20	9.2%

<u>Staff Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	4,800	\$37.50	\$37.50	\$0.00	0.0%
Median Usage	1,118	\$23.91	\$23.91	\$0.00	0.0%

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

<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	\$20.00	\$22.00	10.0%	\$20.00	0.0%
1,000	23.50	25.68	9.3%	23.50	0.0%
2,000	27.00	29.36	8.7%	27.00	0.0%
3,000	30.75	33.30	8.3%	30.75	0.0%
4,000	34.50	37.24	7.9%	34.50	0.0%
5,000	38.25	41.18	7.7%	38.25	0.0%
6,000	42.00	45.12	7.4%	42.00	0.0%
7,000	45.75	49.06	7.2%	45.75	0.0%
8,000	49.50	53.00	7.1%	49.50	0.0%
9,000	53.25	56.94	6.9%	53.25	0.0%
10,000	57.00	60.88	6.8%	57.00	0.0%
15,000	77.00	81.88	6.3%	77.00	0.0%
20,000	97.00	102.88	6.1%	97.00	0.0%
25,000	117.00	123.88	5.9%	117.00	0.0%
50,000	217.00	228.88	5.5%	217.00	0.0%
75,000	317.00	333.88	5.3%	317.00	0.0%
100,000	417.00	438.88	5.2%	417.00	0.0%
125,000	517.00	543.88	5.2%	517.00	0.0%
150,000	617.00	648.88	5.2%	617.00	0.0%
175,000	717.00	753.88	5.1%	717.00	0.0%
200,000	817.00	858.88	5.1%	817.00	0.0%



Engineering Report For

High Country Pines Water Company for a Rate Increase

Docket No. W-02448A-05-0745

February 23, 2006

EXECUTIVE SUMMARY

- I. Based on data submitted by the water system, the Arizona Department of Environmental Quality ("ADEQ") has determined that this system is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.
- 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.
- III. Based on the Company's arsenic concentration, the Company is in compliance with the new arsenic level.
- IV. The Company is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.
- V. Specific depreciation rates by NARUC category were used by High Country Pines Water Company.

Table of Contents

	<u>Page</u>
EXECUTIVE SUMMARY.....	i
A. Location of Company.....	1
B. Description of Water System	1
C. Arsenic	2
D. ADEQ Compliance	2
E. ACC Compliance	2
F. DWR Compliance.....	2
G. Water Testing Expense	3
H. Water Use.....	5
I. Growth	5
J. Depreciation Rates	6
K. Curtailment Tariff	6
L. Meter and Service Line Installation Charges	6

EXHIBITS

County Map	EXHIBIT 1
Certificated Area	EXHIBIT 2
Process Schematic	EXHIBIT 3

A. LOCATION OF COMPANY

High Country Pines Water Company (“High Country Pines” or “Company”) serves approximately 170 customers and is located along Highway 260, in Navajo County approximately 1 mile west of the community of Heber. Please see Exhibits 1 & 2.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on December 15, 2005, by Marlin Scott, Jr. and Jian Liu, Staff Utilities Engineers, in the accompaniment of Jon Cheney, the operator of the water system.

The facility follows a typical configuration found in small water systems. It consists of a well, which pumps into a storage tank, followed by two 10 Hp booster pumps and a 5,000 gallon pressure tank. There is also a 25 Hp booster on standby for fire flow needs.

The water system has adequate storage and well production. Exhibit 3 provides a process schematic for the water system.

(Tabular Description of Water System)
 Well Data

	Well No 1	
ADWR ID No.	55-507314	
Casing Size	8 inch	
Casing Depth	950 ft	
Pump Type	submersible	
Pump Size	30 Hp	
Pump Yield	104 gal/min	
Standby Generators	No	

Storage, Pumping

Structure or equipment	Location	Capacity
booster pumps	Well #1	Two 10 Hp, horizontal 140 gal/min each
pressure tank	Well #1	One 5,000 gal
Storage tank	Well #1	One 100,000 gallon One 60,000 gallon
Booster pump	Well #1	One 25 Hp horizontal For fire flow

Distribution Mains

Diameter	Material	Length
8 inch	PVC	14,455 ft
6 inch	PVC	24,604 ft
3 inch	PVC	1,160 ft
2 inch		

Meters

Size	Quantity
5/8 x 3/4 inch	168
1 inch	1
Turbo 4	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 most recent lab analysis by the Company indicated that the arsenic level in its source supply is 5 $\mu\text{g/l}$. Based on this arsenic concentration, the Company is in compliance with the new arsenic MCL.

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

Based on data submitted by the water system, ADEQ has determined that this system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4 (ADEQ Compliance Status Report dated 11/16/05).

E. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division Compliance Section showed no outstanding compliance issues. (ACC Compliance Section Email dated 2/7/06)

F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

High Country Pines Water Company is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.

G. 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 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 will provide 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).

High Country Pines Water Company 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 1 point of entry.
5. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume 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 \$ 1,055.

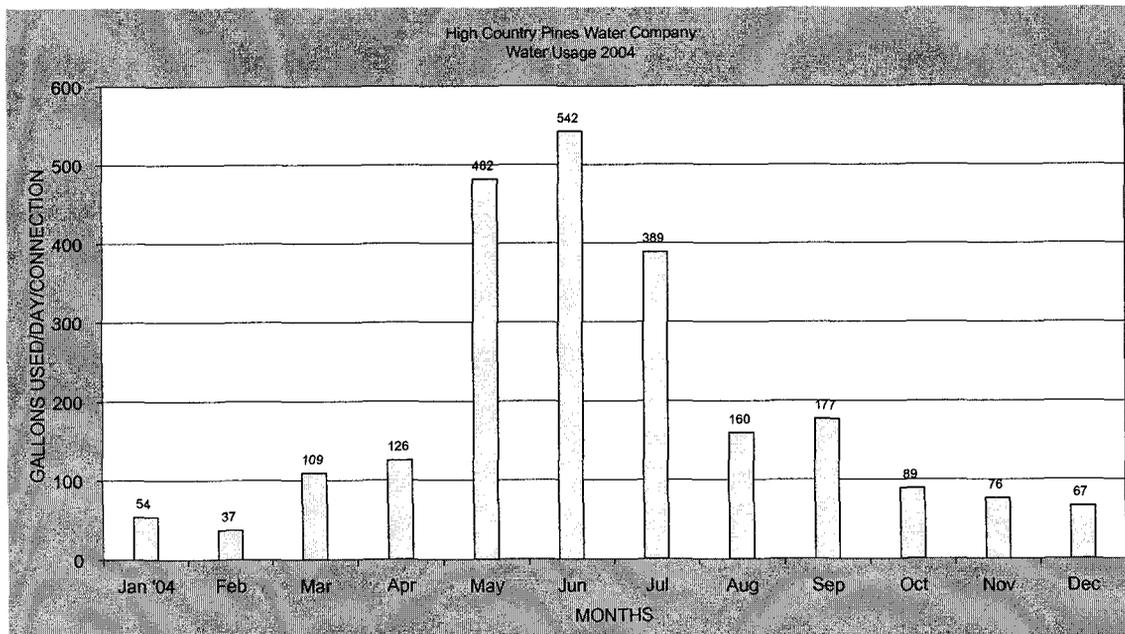
Table 1. Water Testing Expense

Monitoring – 1 well (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Bacteriological – monthly	\$ 15	36	540	180
Inorganics (& secondary)	\$240	1	240	80
Radiochemical – (1/ 4 yrs)	\$ 55			MAP
IOC's, SOC's, VOC's				MAP
Nitrites	\$ 15			MAP
Nitrates - annual	\$ 25	3	75	25
Asbestos – per 9 years	\$180			MAP
Lead & Copper - annual	\$ 25	10	250	83
MAP fees (annual)				\$687
Total				\$1,055

H. WATER USE

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 542 gal/day-service in June, and the low monthly domestic water use was 37 gal/day-service in Feb. The average annual use was 192 gal/day-service.



Non-account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. Non-account water was calculated to be one percent (1%), which is within acceptable limits.

I. GROWTH

Until 1997, customer growth averaged about 3 customers per year. However, new subdivision and developments have caused that growth rate to change dramatically. There were 126 metered clients at the end of 2002. The Company had 170 customers at the end of 2004.

J. DEPRECIATION RATES

Specific depreciation rates by NARUC category were used by High Country Pines Water Company. The depreciation rates used were based on Staff's recommendation in a previous proceeding.

K. CURTAILMENT PLAN TARIFF

Company has a curtailment plan filed with the ACC.

L. METER AND SERVICE LINE INSTALLATION CHARGES

High Country Pines Water Company has proposed 5% increase meter installation charges, which are generally within the range of usual and customary fees which have been adopted in previous rate proceedings. Staff recommends the acceptance of the Company's proposed charges.

EXHIBITS

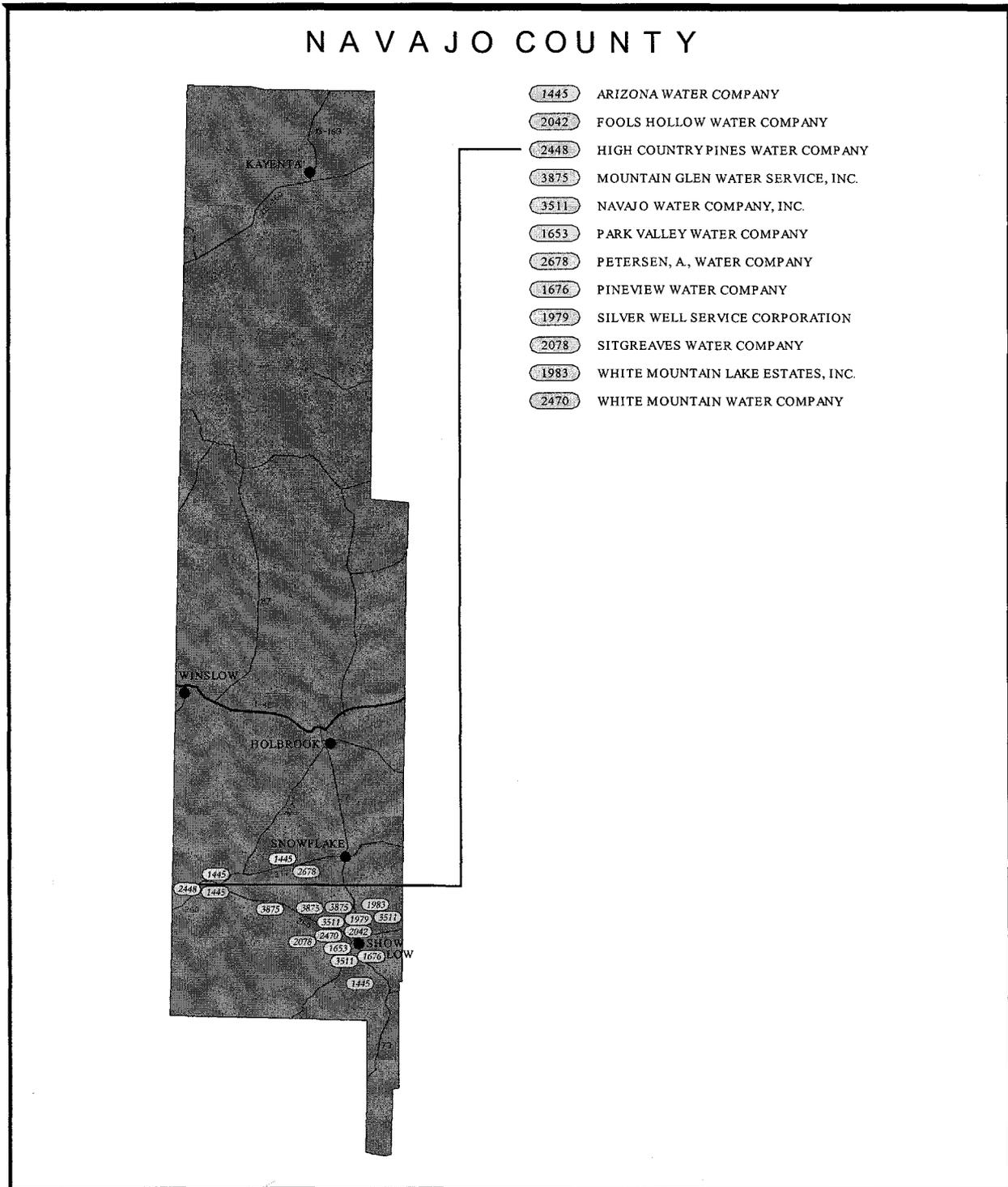
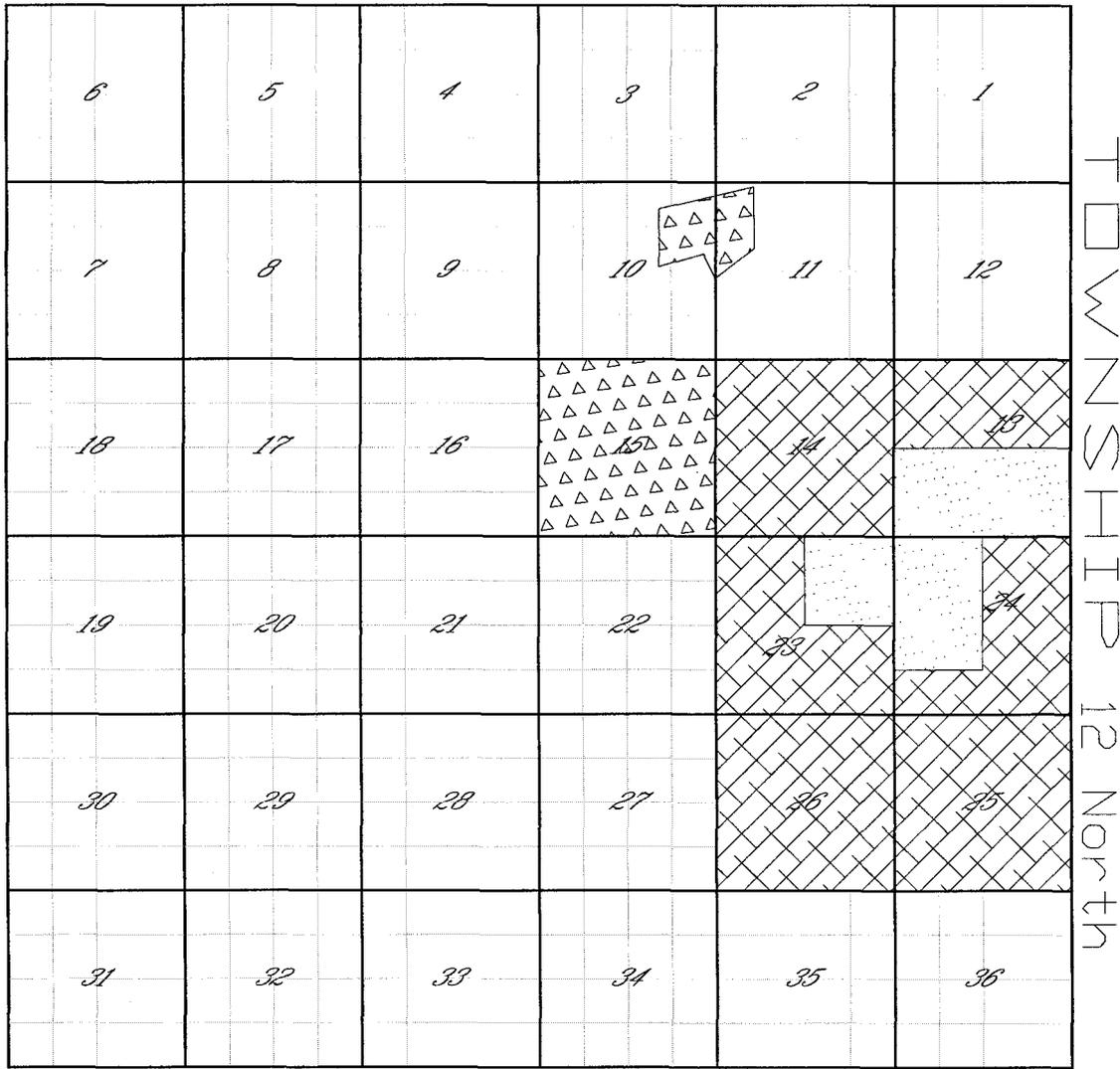


Exhibit 1: COUNTY MAP

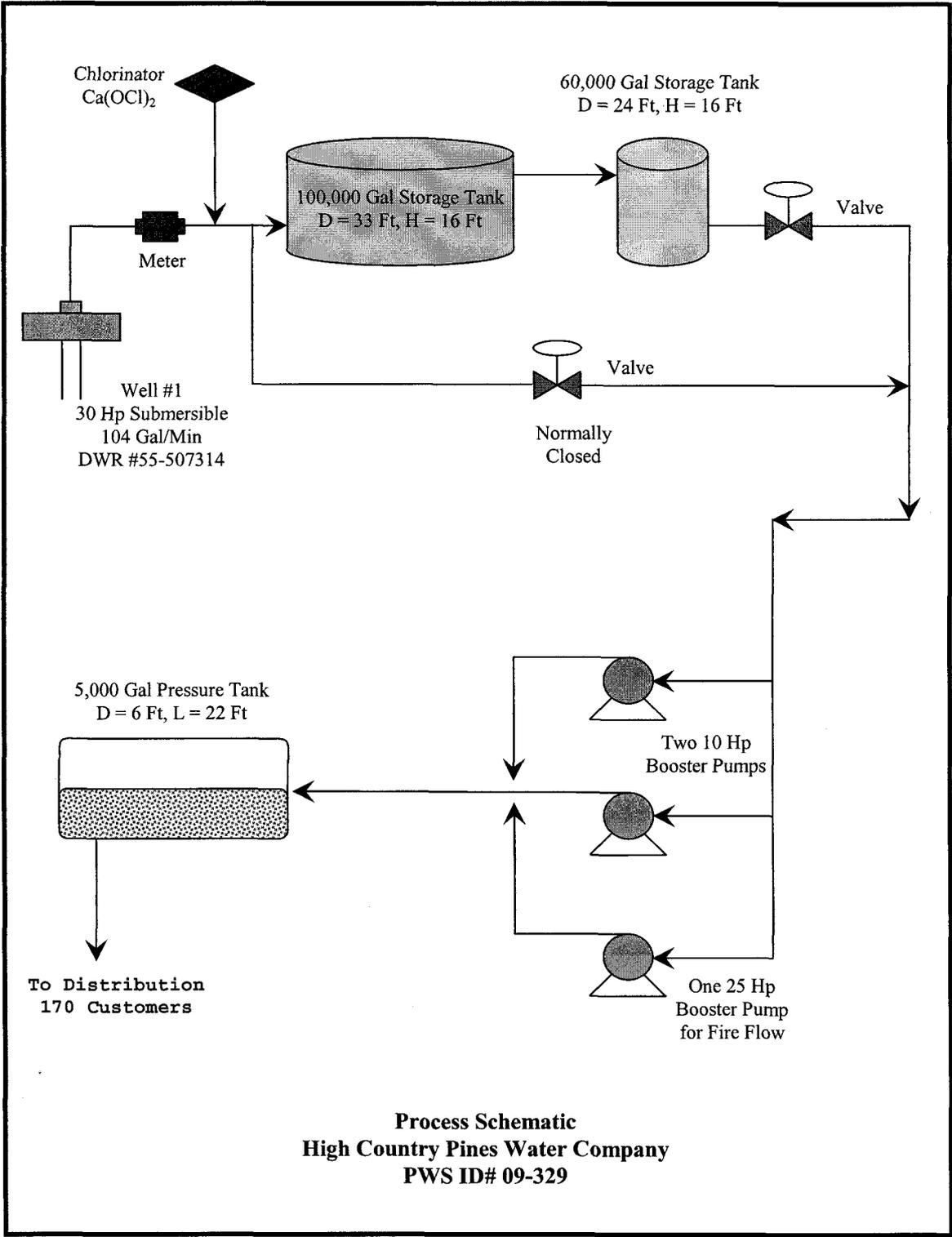
COUNTY: *Navajo*

RANGE 16 East



 U-2448 (1)
High Country Pines Water Company, Inc.

Exhibit 2: CERTIFICATED AREA



Process Schematic
High Country Pines Water Company
PWS ID# 09-329

Exhibit 3