ORIGINAL

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MEMORANDUM

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TO: Docket Control

FROM: Ernest Johnson
Director
Utilities Division

for

DATE: November 9, 2007

RE: STAFF REPORT FOR DELLS WATER COMPANY'S APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-01384A-07-0314)

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

Any party who wishes may file comments to the Staff Report with the Arizona Corporation Commission Docket Control by 4:00 p.m. on or before November 19, 2007.

EGJ:FBM:red

Originator: Freddie B. Malapit

Attachment: Original and sixteen copies

Arizona Corporation Commission
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DOCKET CONTROL

Service List for: DELLS WATER COMPANY
Docket No. W-01384A-07-0314

Mr. Jim West
Authorized Representative
West & Company, LLC.
365 East Coronado Road, Suite 200
Phoenix, Arizona 85004

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

Mr. Ernest 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

DELLS WATER COMPANY
DOCKET NO. W-01384A-07-0314

APPLICATION
FOR A
PERMANENT RATE INCREASE

NOVEMBER 9, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Dells Water Company ("Company"), Docket No. W-01384A-07-0314, was the responsibility of the Staff members listed below. Freddie Malapit was responsible for the review and analysis of the Company's application for a permanent rate increase, revenue requirement, rate base, and rate design recommendations. Dorothy Hains was responsible for the engineering and technical analysis. Guadalupe Ortiz was responsible for reviewing the Arizona Corporation Commission's ("Commission") records on the Company and reviewing customer complaints filed with the Commission.

Freddie B. Malapit

Freddie B. Malapit
Public Utilities Analyst I

Dorothy Hains

Dorothy Hains
Utilities Engineer

Guadalupe Ortiz

Guadalupe Ortiz
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
DELLS WATER COMPANY
DOCKET NO. W-01384A-07-0314

Dells Water Company ("Dells") is an investor-owned water utility operating in Yavapai County, outside the City of Prescott. Dells water system is located within the Prescott Active Management Area.

Dells is a subsidiary of its parent company, Glenarm Land Company ("Glenarm"). Glenarm also owns Wilhoit Water Company ("Wilhoit"). Wilhoit is composed of three independent water systems: Thunderbird Meadows water system is located in Wilhoit, Arizona, Yavapai Mobile Home Estates water system is located in Chino Valley, Arizona, and Blue Hills water system is located in Dewey, Arizona. The three Wilhoit water systems, along with Dells, are managed by Glenarm.

Staff recommendations will only be presented for Dells in this Report. Please see Staff's separately filed reports for the other three Wilhoit systems. Dells provides service to approximately 75 customers and its current rates were effective May 1, 1990, per Decision No. 56856.

Dells' proposed rates, as filed, would produce total operating revenue of $21,141, an increase of $7,927 or 59.9 percent above test year revenue of $13,214. Dells' proposed rates would increase the typical residential bill with a median usage of 3,419 gallons, from $7.70 to $14.09 for an increase of $6.39 or 83.0 percent.

Staff recommends total operating revenue of $27,496, an increase of $13,526 or 96.8 percent above the Staff adjusted test year revenue of $13,970. Staff's recommended rates would increase the typical residential bill with a median usage of 3,419 gallons, from $7.70 to $15.97 for an increase of $8.27 or 107.4 percent.

Staff recommends that rates authorized in this case not become effective until the month subsequent to the Company filing in this docket a finalized plan (agreement with the Yavapai County Treasurer's Office) for payment of all of its delinquent property taxes owed on its utility property in Yavapai County.

According to its filing, Dells requested rate increase is to help pay for system maintenance and a modest return on its investment. Dells has failed to seek a rate increase in over seventeen years.

TABLE OF CONTENTS

SCHEDULES

ATTACHMENT

Fact Sheet

Company: Dells Water Company

CC&N: Decision No. 27705, dated June 16, 1953

Current Rates: Decision No. 56856 dated April 4, 1990 with effective date of May 1, 1990

Type of Ownership: Arizona "C" Corporation

Location: The water system is located approximately four miles north of Prescott in Yavapai County in an area known as Granite Dells. The Company is located in the Prescott Active Management Area.

Rates

Permanent rate increase application filed: May 21, 2007. The application became sufficient on September 10, 2007.

Prior test year Ended: December 31, 1988

Current test year Ended: December 31, 2006

Metered Rates

	Company Current Rates	Company Proposed Rates	Staff Recommended Rates
Monthly Minimum Charge			
5/8 x 3/4 – inch meter	$6.00	$8.00	$11.00
3/4 inch	$9.00	$18.00	$16.50
1-inch	$15.00	$30.00	$27.50
1 1/2 -inch	$30.00	$60.00	$55.00
2-inch Turbo	$48.00	$96.00	$88.00
3-inch Turbo	N/A	$180.00	$176.00
4-inch Turbo	N/A	$300.00	$275.00
6-inch Turbo	N/A	$600.00	$550.00
Gallons in Minimum	2,000	0	0
Per 1,000 gallons	1.20	1.78	
0 to 3,000 gallons	N/A	N/A	$1.37
3,001 to 10,000 gallons	N/A	N/A	$2.06
Excess of 10,000 gallons	N/A	N/A	$2.47
Typical residential bill			
Average use (4,886 gallons)	$9.46	$16.70	$18.99
Median use (3,419 gallons)	$7.70	$14.09	$15.97

Customers

Number of customers in prior test year (December 31, 1988): 59

Average number of residential customers in the current test year (December 31, 2006): 68
Current test year customers by meter size:

5/8 X 3/4 – inch	68
3/4 – inch	0
1 – inch	7
1 1/2 – inch	0
2 – inch	0
4 – inch	0
6 – inch	0

Seasonal customers: N/A

Customer notification for rate application filed: June 18, 2007

Number of customer complaints and/or opinions concerning rate/financing applications filed: 0

Percentage of complaints to customer base: 0 percent

Summary of Filing

On May 21, 2007, Dells Water Company ("Dells" or "Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On September 10, 2007, the application was deemed sufficient.

The test year results as adjusted by Utilities Division Staff ("Staff") of the Commission reflect total operating revenue of $13,970 and an operating loss of $9,345 or no operating margin as reflected on Schedule FBM-1. The adjusted original cost rate base ("OCRB") is $5,904.

Dells proposed rates, as filed, would produce total operating revenue of $21,141 and operating income of $7,954 or a 37.62 percent operating margin. The Company claims an OCRB of negative $34,417. The Company's proposed rates would increase the typical residential bill[1], with a median usage of 3,419 gallons, from $7.70 to $14.09 for an increase of $6.39 or 83.0 percent, as reflected on Schedule FBM-5.

Staff recommends rates that would produce total operating revenue of $27,496 and operating income of $4,174, or a 15.18 percent operating margin. Staff recommends an OCRB of $5,904. Staff's recommended rates would increase the typical residential bill with a median usage of 3,419 gallons, from $7.70 to $15.97 for an increase of $8.27 or 107.4 percent, as reflected on Schedule FBM-5.

Company Background

The Company received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 27705, dated June 16, 1953.

During the test year ended December 31, 2006, Dells provided water service to an average of 75 metered customers. 68 residential customers were served by 5/8 x 3/4-inch meters and 7 commercial[2] customers were served by 1-inch meters.

Consumer Services

Staff research of the Consumer Service database revealed that from January 01, 2004 to present, there have been no complaints, inquiries, or opinions filed for Dells, and the Company is in good standing.

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[1] 5/8 x 3/4 –inch meter.
[2] The commercial customers were re-confirmed by Company via e-mail, dated October 10, 2007.

Compliance

Staff's review of the Decision No. 58102 and related Staff memorandums revealed several areas of non-compliance with previous Commission Orders. A discussion of each non-compliance issue is presented below:

Sale of Assets and Cancellation of a Portion of the Wilhoit Certificate of Convenience and Necessity ("CC&N") Docket No. W-02056A-03-0490

On July 16, 2003, in Docket No. W-02056A-03-0490, Wilhoit filed an application for approval of the sale of that portion of its assets used to serve the Glenarm Farms water system to the City of Avondale and to cancel that portion of its CC&N. The assets requested to be transferred were encumbered by Maricopa County tax liens at the time totaling approximately $215,000.

The application indicated that the sale was being entered into under threat of condemnation. A Staff Report filed October 6, 2003, recommended approval of the sale and that the Commission order Wilhoit to file evidence that the State of Arizona would be paid amounts to satisfy the outstanding personal property tax obligation before the close of escrow.

The City of Avondale argued that the delinquent tax would be extinguished upon the sale to the City of Avondale in its capacity as a subdivision of the state. Staff's closing brief, however, indicated that cities are required to pay delinquent property taxes attached to the property they acquire. At the time of the hearing on the matter, the City of Avondale was on record as already providing service to the customers in the Glenarm Farms area.

Following a hearing, a Proposed Order was issued on January 7, 2004 which recommended approval of the sale and cancellation of a portion of the CC&N subject to several conditions, one of which was the filing of evidence that the outstanding tax liens were satisfied before the close of escrow or 30 days from the Decision, whichever occurred first.

According to the Commission's records, Wilhoit requested that consideration of the Proposed Order be pulled from the Open Meeting agenda and it was. Wilhoit never subsequently requested that it be placed back on the agenda. On June 7, 2004, the Commission's Legal Division sent a letter to Mr. Douglas Martin who represented Wilhoit Water Company, requesting that the Company have the case placed on an Open Meeting agenda before December 31, 2004. There was no docketed response to the letter.

The sale and deletion docket remains open and Wilhoit is still the company of record for this area on the Commission's maps and records. To facilitate the processing of the case, Staff sent a letter to the parties of record on September 13, 2006, requesting the following information:

1. Has the transaction been consummated? If so, on what date?
2. Please provide a copy of the executed sales agreement.

3. What are the parties intentions regarding the Proposed Order and the Commission's review and vote on this matter?
4. What is the status of the property tax delinquencies of Wilhoit Water Company relative to the area transferred to Avondale?

Staff did not receive any responses from any party and the letter to Wilhoit's attorney was returned as non-deliverable.

On June 21, 2007, in the course of the current rate cases, Staff sent Wilhoit a data request which included the four questions listed above. Wilhoit responded to that data request producing the sales agreement with the City of Avondale dated July 3, 2003. Wilhoit also represented that the sale was consummated on September 10, 2004, and that the attorney for the City of Avondale has been unable to resolve the tax issue.

The transfer case is now over four years old. Wilhoit's wells and pipe in the transfer area have been abandoned and are not included in the current rate requests. The City of Avondale is now directly serving the customers in the transfer area. Staff concludes that it would not be in the public interest to pursue or further process the sale of assets and CC&N cancellation for the Glenarm Farms area and recommends that the Commission administratively close Docket No. W-02056A-03-0490 and remove the appropriate area from Wilhoit's service territory as shown on the Commission's CC&N maps.

Prior Rate Case Docket No. W-02065A-90-005

In Decision No. 57237, dated February 14, 1991, the Commission expressed concern over probable cross-subsidization among Wilhoit's water systems. Accordingly, Wilhoit was ordered to maintain separate records of revenues, expenses, and rate bases for each of its systems. In the following rate case (Docket No. W-02065A-92-0120), Wilhoit was in compliance with this recordkeeping provision of the Order. However, the Company is no longer in compliance, and it could not support separate expenses and rate bases for each of its systems in the current rate case. Wilhoit is out of compliance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

Prior Rate Case Docket No. W-02065A-92-0120

Staff's review of a notice of legal action dated September 14, 1993, as filed by the Legal Division of the Commission revealed that there are several compliance items unresolved that arose from Decision No. 58102 dated December 9, 1992. Wilhoit was required to do the following:

a. Wilhoit Water Company, Inc. shall file copies with the Director of the Utilities Division of "paid-in-full" tax statements for current property tax payments within 90 days of the tax statement due date (Due 2/1/93).

b. Wilhoit Water Company, Inc. shall make arrangements with the appropriate taxing authorities to repay all accrued property tax and associated interest and to provide written summary to the Director of Utilities Division of the details of such arrangements/agreements (Due 6/9/93).

Wilhoit is not current on its property and sales tax payments. In addition, Wilhoit has delinquent taxes going back to the early 1990's. Copies of the amounts owed separated by water system from the Yavapai County Assessors' web site (dated October 23, 2007) are as follows:

Parcel No.	Company/Water System	Back Taxes Owed
907-60-190	The Dells Water Company	\$6,316.40
929-92-340	Wilhoit Water Company Thunderbird Meadows	\$39,661.22
929-92-290	Wilhoit Water Company Blue Hills	\$6,746.51
929-95-120	Wilhoit Water Company Yavapai Mobile Home Estates	\$26,735.81
929-95-131	Wilhoit Water Company Yavapai Mobile Home Estates	\$154.13
Total back taxes owed, as of October 23, 2007		\$79,614.07

According to a response to a Staff data request, Wilhoit through its Attorney's Martin & Bell, L.L.C., contacted the Yavapai County Treasurer's Office. Martin & Bell submitted a memo to Staff stating that Ross Jacobs, the County Treasurer "indicated a desire to work with the water companies to pay the back taxes in a timely fashion and indicated that he would be open to abating, an as yet undefined portion of the penalties and interest, if a reasonable repayment plan could be fashioned."

Wilhoit's attorneys indicated to Mr. Jacobs "that the Company did not currently have the financial wherewithal to commit to a repayment schedule, but that if the current rate requests pending before the Commission were successful, Wilhoit and Dells would be prepared to enter into a repayment agreement."

As Wilhoit has not made good on past compliance requirements from the previous cases, and there is a pattern of the Company not paying taxes, Staff concludes that it is appropriate to defer the effective date for any new rates approved regarding any of the Wilhoit systems or Dells until the month subsequent to the date a copy of a final agreement between Wilhoit and the Yavapai County Treasurer's office regarding payment of delinquent taxes is filed in this docket.

Other Compliance Items

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

Engineering Analysis

Staff inspected Dells' plant facilities on September 17, 2007. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

On July 6, 2007, the Company filed an approved Curtailment Tariff.

Rate Base

Staff's adjustments increased the Company's proposed rate base by $40,321 from a negative $34,417 to $5,904 as reflected on Schedule FBM-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

The Company failed to properly establish plant values when the water system was purchased in 1975. It is believed that plant is fully depreciated. The Company also failed to maintain its own records and can not substantiate plant additions since 1975.

The Company indicated that the plant balance was at $4,351 but the Company did not indicate from which plant account(s) this amount came. In addition, the Company indicated that there were no plant additions. However, in performing its audit, Staff found invoices that it considered plant and added them to the appropriate plant in service accounts for rate base calculations, as noted below.

Based on the prior rate case, Decision No. 56856 dated April 4, 1990, Staff, at that time, recognized Account 311, Pumping Equipment, as the only plant account that can be depreciated. Staff's Account 311 balance was $6,997 but only $3,597 can be depreciated at the authorized 5 percent depreciation rate.

<u>Structures and Improvements</u> – Adjustment "A" increased this account by $1,900, from $0 to $1,900 as reflected on Schedule FBM-2, page 3 of 4. A structure was erected in October 2005 at a cost of $1,900 to house the pressure tank and associated pumping equipment.

<u>Wells and Springs</u> – Adjustment "B" increased this account by $4,414, from $0 to $4,414, as reflected in Schedule FBM-2 page 3 of 4. This amount includes $4,000 from Decision No. 56856 and $414 in equipment and labor addition for one of the wells in March 2005.

Pumping Equipment – Adjustment "C" increased this account by $6,997, from $0 to $6,997, as reflected in Schedule FBM-2, page 3 of 4. This amount is from Decision No. 56856.

Water Treatment Equipment – Adjustment "D" increased this account by $416, from $0 to $416 as reflected on Schedule FBM-2 page 3 of 4. A chlorinator was added in February 2005.

Distribution Reservoirs and Standpipes – Adjustment "E" increased this account by $3,337, from $0 to $3,337 as reflected on Schedule FBM-2 page 3 of 4. This amount includes $2,400 from Decision No. 56856 and $937 in equipment (air compressor) and labor addition in March 2005.

Transmission and Distribution Mains – Adjustment "F" increased this account by $10,838, from $0 to $10,838 as reflected in Schedule FBM-2 page 3 of 4. This amount is from Decision No. 56856.

Other Tangible Plant – Adjustment "G" reduced this account from $4,351 to $0, as reflected in Schedule FBM-2 page 3 of 4. The Company filed $4,351 in total plant but the Company did not specify from which plant account(s) the total was derived. Staff put the $4,351amount in other tangible plant and then removed it as part of Staff's adjustments, starting at the plant balances from Decision No. 56856.

Accumulated Depreciation

Staff utilized the accumulated depreciation from Decision No. 56856 and calculated each subsequent year's depreciation utilizing the Commission authorized depreciation rate for plant additions through the end of the test year.

Staff reduced accumulated depreciation by $14,188 from $38,698 to $24,510, as reflected on Schedule FBM-2, page 4 of 4.

Advances/Contributions

The Company's filing indicated no advances in aid of construction or contributions in aid of construction and Staff concurs.

Working Capital

The Company failed to claim any cash working capital allowance. Staff utilized the formula method to calculate this allowance.

Staff increased working capital by the formula method (1/24 of purchased power and water, from 0 to $99, and 1/8 of operation and maintenance expenses from 0 to $2,483), as reflected in Schedule FBM-2 page 1 of 4.

Operating Income Statement

Operating Revenue

Staff increased test year operating revenue by $756, from $13,214 to $13,970 as reflected on Schedule FBM-3, page 2 of 4, Adjustment A. Staff's adjustment was the result of the inclusion of proper revenue level from seven 1-inch customers whom the Company had incorrectly billed as 5/8-inch meter customers.

Operating Expenses

As previously mentioned in the Compliance section of this report, Wilhoit did not maintain records to separately identify expenses for its individual water systems. As a result identifying the expenses directly attributable to the individual Wilhoit systems or Dells could not be achieved. In an attempt to overcome this recordkeeping deficiency, Glenarm allocated certain expenses among its systems using the following percentages: Thunderbird, 45 percent; Yavapai, 35 percent; Blue Hills, 20 percent; and Dells, 0 percent. According to Glenarm, these allocation factors represent relative customer counts for the systems at an unspecified historical date.

Staff developed an alternate allocation factor for allocating expenses that could not be directly attributed to one of the Wilhoit systems or Dells since the customer counts used by Wilhoit are stale and because in some instances customer count is not the preferred allocation basis. Staff's customer based allocation factors by water system are as follows: Thunderbird, 34.69 percent; Yavapai, 29.81 percent; Blue Hills, 17.34 percent; and Dells 18.16 percent.

The specific adjusted expense accounts are discussed below.

Staff's overall adjustments to operating expenses resulted in a net increase of $9,822, from $13,187 to $23,009 as reflected on Schedule FBM-3, page 1 of 4.

Salaries and Wages – Adjustment B increased this account by $8,031, from $0 to $8,031 as reflected on Schedule FBM-3, page 2 of 4. The Company claims that it pays the owners a management fee but failed to indicate the amount in its application. Staff believes that it is appropriate to disregard the uncertain management fee and instead applied Staff's allocation methodology of the total salaries and wages claimed for the Wilhoit water system to determine the appropriate salaries and wages expense for Dells. The total Wilhoit salaries and wages amount is $44,231 and based on Staff's allocation methodology to Dells of 18.16 percent, produced $8,031 to Dells that Staff allowed as its salaries and wages expense.

Purchased Power – Adjustment C decreased this account by $223, from $2,594 to $2,371 as reflected on Schedule FBM-3, page 2 of 4. Staff disallowed $233 of power bills to a not used and useful well that Staff discovered on its site visit. The $233 reflects the test year power costs for that well.

Chemicals – Adjustment D increased this amount from $0 to $1,180 as reflected in Schedule FBM-3 page 2 of 4. The Company could only submit partial invoices for bleach expenses for the chlorinator so Staff requested a full year estimate and the Company submitted[3] $575 as a full year expense for bleach. Staff also added the invoiced labor cost of $605, from water testing expense, to check and add bleach as necessary.

Repair and Maintenance Expense – Adjustment E increased this account by $2,916, from $3,316 to $6,232 as reflected on Schedule FBM-3, page 3 of 4. Staff's increases came from 1) $325 in Staff allocation methodology of Wilhoit repairs and maintenance costs that Staff could not assign to a particular water system, and 2) $2,643 in billed repairs and maintenance to Wilhoit but are specific to Dells. Staff disallowed $52 in repairs and maintenance that were actually chemicals expense.

Office Supplies and Expense – Adjustment F increased this account by $472 from $0 to $472 as reflected on Schedule FBM-3, page 3 of 4. Staff estimated the costs for this account by taking the number of customers, number of mailings, postage rate, and estimated costs of necessary office supplies for a year. Staff's estimated total expense to this account is $2,602 and Staff applied its allocation methodology to allot amounts to the Wilhoit water systems.

Water Testing – Adjustment G decreased this account by $880, from $2,402 to $1,522 as reflected on Schedule FBM-3, page 3 of 4. This adjustment reflects the normalized annual water testing costs determined by Staff and reported in Table A of the attached Engineering Report.

Rents – Adjustment H decreased this account by $750, from $2,400 to $1,650 as reflected on Schedule FBM-3, page 3 of 4. The Company claims that it pays Glenarm $200 a month in rental fees. Staff disallowed this rental fee and instead used a four-way equal split allocation between the four water systems of the total rent expense cost of the three Wilhoit water systems.

General Liability Insurance – Adjustment I increased this account by $600, from $0 to $600 as reflected on Schedule FBM-3, page 4 of 4. This adjustment is from Staff's allocation methodology from the latest Wilhoit workman's compensation liability insurance.

Miscellaneous Expense – Adjustment J decreased this account by $1,479, from $1,654 to $175 as reflected on Schedule FBM-3, page 4 of 4. Staff disallowed $1,654 for which the Company could not provide supporting invoices. Staff, however, added $100 from Staff allocation methodology of Wilhoit miscellaneous expense. Staff also added $75 in water association dues.

Depreciation Expense – Adjustment K increased this account by $138, from $0 to $138 as reflected on Schedule FBM-3, page 4 of 4. This adjustment reflects Staff's addition of plant assets and their recommended component depreciation rates, as recommended by Staff.

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[3] Estimate was submitted via e-mail.

<u>Taxes Other Than Income</u> – Adjustment L decreased this account by $821, from $821 to $0 as reflected on Schedule FBM-3, page 4 of 4. These were sales taxes paid to the Arizona Department of Revenue and should be removed from expenses since the corresponding collected taxes were removed from revenue.

<u>Property Tax Expense</u> – Adjustment M increased this account by $637, from $0 to $637 as reflected in Schedule FBM-3, page 4 of 4. This adjustment reflects the Company's year 2006 property tax bill. The Company did not report any tax expense in its application due to the fact that the Company has been delinquent since 2001. Staff recommends that the Company be required to docket a payment plan with Yavapai County as a condition to a rate increase.

Revenue Requirement

The Company's narrative description in its application stated that Dells is seeking this rate increase to help pay for system maintenance. In addition, the Company is seeking a modest return on its investment. It has not had a rate adjustment for approximately fifteen years and the costs to operate the water company have increased with inflation in the interim.

Staff utilized an operating margin instead of a return on rate base to determine the revenue requirement. The Company's very small rate base does not produce sufficient revenue from a rate of return to support the Company's needs. Therefore, Staff utilized operating margin to determine revenue requirement.

Operating Margin

Dells proposed rates and charges would provide an operating income of $7,954 for an operating margin of 37.62 percent.

Staff's recommended rates and charges would provide an operating income of $4,174 for an operating margin of 15.18 percent.

Rate Design

Schedule FBM-4 presents a complete list of Dells present, proposed, and Staff's recommended rates and charges.

Dells proposed rates would increase the typical residential bill with a median usage of 3,419 gallons from $7.70 to $14.09 for an increase of $6.39 or 83.0 percent.

Staff's recommended rates would increase the typical residential bill with a median usage of 3,419 gallons from $7.70 to $15.97 for an increase of $8.27 or 107.4 percent.

Staff concurs with the Company's service line and meter installation charges as shown in Table 8 of the attached Engineering Report.

For service charges and monthly service charges for fire sprinkler, Staff recommends charges that are consistent with other water companies' tariffs.

Staff Recommendations

Staff recommends the approval of Staff recommended rates and charges as reflected in Schedule FBM-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 as provided for in A.A.C. R14-2-409.D.

Staff recommends that the Company submit, 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.

Staff recommends that the Company, be ordered to maintain separate revenues, expenses, and rate bases for Dells and each of the Wilhoit water systems, and additionally, provide separate balance sheets for each water system. The Company must submit, as a compliance item in this Docket, an affidavit stating that the Company is maintaining its books in accordance with NARUC USOA within 180 days of the Order in this proceeding.

Staff recommends that any new rates approved in this Docket not go into effect until after an agreement to pay current and delinquent property taxes between the Company and the Yavapai County Treasurer's Office is executed and filed with the Utilities Division Director.

Staff recommends that the Company use depreciation rates by individual NARUC category (See Engineering Report).

Staff recommends approval of the meter and service line installation charges as discussed in the Engineering Report.

Staff recommends that the Company install a well meter on Well No. 55-802749 forty five (45) days after the Decision becomes effective. Staff estimates that costs of purchasing one 1-inch well meter and meter installation are about $750.

Staff further recommends that the Company monitor the system and submit the gallons pumped and sold to determine the actual water loss for one full year. The results of this monitoring and reporting should be docketed as a compliance item in this case within 13 months of the effective date of the Order issued in this proceeding. If the reported water loss for the period is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the Order issued in this proceeding.

Staff recommends that the Company file with Docket Control, as a compliance item within 60 days from the effective date of an Order in this proceeding, a letter from ADWR indicating that the water use and monitoring requirements have been resolved.

The system also does not have adequate storage capacity to serve the existing base of customers. Staff recommends that the Company file the ADEQ Approval of Construction for the plants related to the storage capacity improvement with Docket Control as a compliance item by December 31, 2008. (See Engineering Report.)

Staff recommends that the Company file a new rate case within five years of the effective date of the Decision in this proceeding.

Dells Water Company
Docket No. W-1384A-07-0314
Test Year Ended December 31, 2006

Schedule FBM-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	$ 13,214	$ 13,970	$ 21,141	$ 27,496
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	$ 13,214	**$ 13,970**	$ 21,141	**$ 27,496**
Operating Expenses:				
Operation and Maintenance	$ 12,366	$ 22,540	$ 12,366	$ 22,234
Depreciation	$ -	$ 138	$ -	$ 138
Taxes Other Than Income	$ 821	$ -	$ 821	$ -
Property Taxes	$ -	$ 637	$ -	$ 637
Income Tax	$ -	$ -	$ -	$ 313
Total Operating Expense	$ 13,187	**$ 23,315**	$ 13,187	**$ 23,322**
Operating Income/(Loss)	$ 27	**$ (9,345)**	$ 7,954	**$ 4,174**
Rate Base O.C.L.D.	$ (34,417)	$ 5,904	$ (34,417)	$ 5,904
Rate of Return - O.C.L.D.	N/M	N/M	N/M	70.71%
Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Operating Margin	0.20%	N/M	37.62%	**15.18%**

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.

RATE BASE

---------- Original Cost -------------

	Company as Filed	Staff Adjustment	Ref	Staff Recommended
Plant in Service	$ 4,351	$ 23,551	A	$ 27,902
Less:				
Accum. Depreciation	$ 38,698	$ (14,188)	B	$ 24,510
Net Plant	$ (34,347)	$ 37,739		**$ 3,392**
Less:				
Plant Advances	$ -	$ -		$ -
Accumulated Deferred Income Taxes	$ 70	$ -		$ 70
Total Advances	$ 70	$ -		$ 70
Contributions Gross	$0	$0		$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	$ -	$ -		$ -
Total Deductions	$ 70	$ -		**$ 70**
Plus:				
1/24 Power	$ -	$ 99	C	$ 99
1/8 Operation & Maint.	$ -	$ 2,483	C	$ 2,483
Inventory	$ -	$ -		$ -
Prepayments	$ -	$ -		$ -
Total Additions	$ -	$ 2,582		**$ 2,582**
Rate Base	**$ (34,417)**	**$ 40,321**		**$ 5,904**

Explanations of Adjustments
A - See Schedule FBM-2, Page 2 of 4
B - See Schedule FBM-2, Page 4 of 4
C - Allowance for cash working capital

Dells Water Company
Docket No. W-1384A-07-0314
Test Year Ended December 31, 2006

PLANT ADJUSTMENTS

	Company as Filed	Staff Adjustment		Staff Recommended
301 Organization	$ -	$ -		$ -
302 Franchises	0	0		0
303 Land & Land Rights	0	0		0
304 Structures & Improvements	0	$ 1,900	a	$ 1,900
307 Wells & Springs	0	$ 4,414	b	$ 4,414
311 Pumping Equipment	0	$ 6,997	c	$ 6,997
320 Water Treatment Equipment	0	$ 416	d	$ 416
330 Distribution Reservoirs & Standpipes	0	$ 3,337	e	$ 3,337
331 Transmission & Distribution Mains	0	$ 10,838	f	$ 10,838
333 Services	0	0		0
334 Meters & Meter Installations	0	0		0
335 Hydrants	0	0		0
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipment	0	0		0
340 Office Furniture & Equipment	0	0		0
341 Transportation Equipment	0	0		0
343 Tools Shop & Garage Equipment	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	$ 4,351	$ (4,351)	g	0
105 C.W.I.P.	0	0		0
TOTALS	$ 4,351	$ 23,551		$ 27,902

a thru g For explanations of Adjustments, see Schedule FBM-2, Page 3 of 4.

STAFF PLANT ADJUSTMENTS

a	STRUCTURES & IMPROVEMENTS - Per Company	$	-	
	Per Staff	$	1,900	$ 1,900

To reflect the cost of a structure put in place in 2005.

b	WELLS & SPRINGS - Per Company	$	-	
	Per Staff	$	4,414	$ 4,414

To reflect the original cost recognized from prior Decision No. 56856 of $4,000 plus $414 for a pump put in place in 2005.

c	PUMPING EQUIPMENT - Per Company	$	-	
	Per Staff	$	6,997	$ 6,997

To reflect the original cost recognized from prior Decision 56856.

d	WATER TREATMENT EQUIPMENT - Per Company	$	-	
	Per Staff	$	416	$ 416

To reflect the addition of a chlorinator put in place in 2005.

e	DISTRIBUTION RESERVOIRS & STANDPIPES - Per Company	$	-	
	Per Staff	$	3,337	$ 3,337

To reflect the original cost recognized from prior Decision No. 56856 of $2,400 plus $937 for a pressure tank put in place in 2005.

f	TRANSMISSION & DISTRIBUTION MAINS - Per Company	$	-	
	Per Staff	$	10,838	$ 10,838

To reflect the original cost recognized from prior Decision No. 56856.

g	OTHER TANGIBLE PLANT - Per Company	$	4,351	
	Per Staff	$	-	$ (4,351)

From the "revised" company filing, Page 14, Plant Summary, dated 8/14/2007.
Company filed total plant of $4,351 but it did not indicate what plant account(s) the balance is from. Staff put the $4,351 balance in other tangible plant and removed it as part of Staff's adjustments. Staff made its adjustments starting with the plant balances per Staff from prior Decision No. 56856.

Dells Water Company
Docket No. W-1384A-07-0314
Test Year Ended December 31, 2006

ACCUMULATED DEPRECIATION ADJUSTMENT

		Amount
Accumulated Depreciation - Per Company	$	38,698
Accumulated Depreciation - Per Staff	$	24,510
Total Adjustment		**($14,188)**

Staff made Plant corrections based on data from prior Decision No. 56856.
Company filed that all plant assets are fully depreciated.

Accumulated Depreciation from prior Decision No. 56856	$	20,818
Accumulated Depreciation of Added Plant	$	3,692
Total Accumulated Depreciation	**$**	**24,510**

Dells Water Company
Docket No. W-1384A-07-0314
Test Year Ended December 31, 2006

STATEMENT OF OPERATING INCOME

	Company As Filed	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	$ 13,214	$ 756		$ 13,970
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	0	0		0
Total Operating Revenue	$ 13,214	$ 756	A	**$ 13,970**
Operating Expenses:				
601 Salaries and Wages	$ -	$ 8,031	B	$ 8,031
610 Purchased Water	0	0		0
615 Purchased Power	2,594	(223)	C	2,371
618 Chemicals	0	1,180	D	1,180
620 Repairs and Maintenance	3,316	2,916	E	6,232
621 Office Supplies & Expense	0	472	F	472
630 Outside Services	0	0		0
635 Water Testing	2,402	(880)	G	1,522
641 Rents	2,400	(750)	H	1,650
650 Transportation Expenses	0	0		0
657 Insurance - General Liability	0	600	I	600
659 Insurance - Health and Life	0	0		0
666 Regulatory Commisssion Expense - Rate Case	0	0		0
675 Miscellaneous Expense	1,654	(1,479)	J	175
403 Depreciation Expense	0	138	K	138
408 Taxes Other Than Income	821	(821)	L	0
408.11 Property Taxes	0	637	M	637
409 Income Tax	0	0		0
Total Operating Expenses	$ 13,187	$ 9,822		**$ 23,009**
OPERATING INCOME/(LOSS)	**$ 27**	**$ (9,066)**		**$ (9,039)**
Other Income/(Expense):				
419 Interest and Dividend Income	$ -	$ -		$ -
421 Non-Utility Income	0	0		0
427 Interest Expense	0	0		0
4XX Reserve/Replacement Fund Deposit	0	0		0
426 Miscellaneous Non-Utility Expense	0	0		0
Total Other Income/(Expense)	$ -	$ -		$ -
NET INCOME/(LOSS)	**$ 27**	**$ (9,066)**		**$ (9,039)**

Dells Water Company
Docket No. W-1384A-07-0314
Test Year Ended December 31, 2006

STAFF ADJUSTMENTS

A	METERED WATER REVENUE - Per Company	$ 13,214	
	Per Staff	$ 13,970	$ 756

Company incorrectly billed seven (7) 1-inch meter customers as 5/8" meter customers.

B	SALARIES AND WAGES - Per Company	$ -	
	Per Staff	$ 8,031	$ 8,031

Staff took the total salaries and wages from the three affiliated Wilhoit water systems and Staff applied new allocation methodology.

Total salaries and wages from the three Wilhoit systems			$ 44,231
Thunderbird allocation	128	34.69%	$ 15,343
Yavapai allocation	110	29.81%	$ 13,185
Blue Hills allocation	64	17.34%	$ 7,672
Dells allocation	67	18.16%	$ 8,031
Total customers	369	100.00%	$ 44,231

C	PURCHASED POWER - Per Company	$ 2,594	
	Per Staff	$ 2,371	$ (223)

Staff removed power charges from a second well location that is not used and useful. Company failed to terminate the well's pump electricity account with the local power company.

D	CHEMICALS - Per Company	$ -	
	Per Staff	$ 1,180	$ 1,180

Per Staff data request, estimated yearly chemicals	$ 575
Labor invoices submitted for water testing reclassified to chemicals	$ 605
	$ 1,180

STAFF ADJUSTMENTS (Cont.)

E	REPAIRS AND MAINTENANCE - Per Company				$ 3,316	
	Per Staff				$ 6,232	$ 2,916

To add repairs and maintenance from Staff allocation methodology, to add other repairs and maint specific to Dells from Wilhoit, and disallowance of chemicals expense.

Staff All Sites repairs and maint allocation methodology	$ 325
Added other all sites repairs and maint specific to Dells	$ 2,643
Disallowed chemicals expense	$ (52)
	$ 2,916

F	OFFICE SUPPLIES & EXPENSE - Per Company	$ -	
	Per Staff	$ 472	$ 472

To adjust expense to a Staff determined reasonable amount based on number of customers, number of mailings, postage rate, and estimated costs of necessary office supplies for a year, and utilizing Staff's allocation methodology.

Total Staff estimated office supplies & expense			$ 2,602
Thunderbird allocation	128	34.69%	$ 903
Yavapai allocation	110	29.81%	$ 776
Blue Hills allocation	64	17.34%	$ 451
Dells allocation	67	18.16%	$ 472
Total customers	369	100.00%	$ 2,602

G	WATER TESTING - Per Company	$ 2,402	
	Per Staff	$ 1,522	$ (880)

To apply Staff Engineering recommended water testing costs.

H	RENTS - Per Company	$ 2,400	
	Per Staff	$ 1,650	$ (750)

To adjust rent expense based on Staff's allocation methology.

Total rents from the three Wilhoit systems		$ 6,600
Thunderbird allocation	25.00%	$ 1,650
Yavapai allocation	25.00%	$ 1,650
Blue Hills allocation	25.00%	$ 1,650
Dells allocation	25.00%	$ 1,650
	100.00%	$ 6,600

STAFF ADJUSTMENTS (Cont.)

I	INSURANCE - GENERAL LIABILITY - Per Company			$ -	
	Per Staff			$ 600	$ 600

To adjust insurance expense based on Staff's allocation methodology.

Total insurance--general liability from the three Wilhoit systems			$ 3,307
Thunderbird allocation	128	34.69%	$ 1,147
Yavapai allocation	110	29.81%	$ 986
Blue Hills allocation	64	17.34%	$ 574
Dells allocation	67	18.16%	$ 600
Total customers	369	100.00%	$ 3,307

J	MISCELLANEOUS EXPENSE - Per Company	$ 1,654	
	Per Staff	$ 175	$ (1,479)

Disallowance of unsupported expenses, reallocation of miscellaneous expenses based on Staff's new allocation methodology, and addition of $75 in membership dues.

K	DEPRECIATION - Per Company	$ -	
	Per Staff	$ 138	$ 138

Pro Forma Annual Depreciation Expense:

Plant in Service	$ 27,902
Less: Non Depreciable Plant	$ -
Fully Depreciated Plant	$ 24,510
Depreciable Plant	$ 3,392
Times: Staff Proposed Depreciation Rate Going Forward	4.07%
Credit to Accumulated Depreciation	$ 138
Less: Amort. Of CIAC @ 0.00%	$ -
Pro Forma Annual Depreciation Expense	**$ 138**

L	TAXES OTHER THAN INCOME - Per Company	$ 821	
	Per Staff	$ -	$ (821)

To remove sales tax expense.

M	PROPERTY TAXES - Per Company	$ -	
	Per Staff	$ 637	$ 637

To record the full 2006 property tax assessment of $637.

Dells Water Company
Docket No. W-1384A-07-0314
Test Year Ended December 31, 2006

RATE DESIGN

All Classes of Customers

	Present	-Proposed Rates-	
Monthly Usage Charge	Rates	Company	Staff
5/8" x 3/4" Meter	$ 6.00	$ 8.00	$ 11.00
3/4" Meter	9.00	18.00	16.50
1" Meter	15.00	30.00	27.50
1½" Meter	30.00	60.00	55.00
2" Meter (Turbo)	48.00	96.00	88.00
3" Meter (Turbo)	N/A	180.00	176.00
4" Meter (Turbo)	N/A	300.00	275.00
6" Meter (Turbo)	N/A	600.00	550.00
Residential Class			
Gallons Included in Minimum	2000	0	0
Flat Rate per 1,000 gallons above 2,000 gallons	1.20	1.78	
Per 1,000 Gallons up to 3,000			1.37
Per 1,000 Gallons from 3,001 up to 10,000			2.06
Per 1,000 Gallons above 10,000			2.47
Commercial Class			
Per 1,000 Gallons from 0 to 34,000	N/A	N/A	2.06
Per 1,000 Gallons above 34,000	N/A	N/A	2.47
Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	265	520	520
3/4" Meter	295	600	600
1" Meter	345	690	690
1½" Meter	520	935	935
2" Meter (Turbo)	725	1,595	1,595
3" Meter (Turbo)	N/A	2,275	2,275
4" Meter (Turbo)	N/A	3,520	3,520
6" Meter (Turbo)	N/A	6,275	6,275

Dells Water Company
Docket No. W-1384A-07-0314
Test Year Ended December 31, 2006

RATE DESIGN - (Cont.)

All Classes of Customers

Service Charges			
Establishment	$ 20	$ 100	$ 30
Establishment (After Hours)	N/A	N/A	N/A
Reconnection (Delinquent)	60	100	60
Meter Test (If Correct)	50	150	50
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	35.00	30.00
Deferred Payment	6%	6%	6%
Meter Re-Read (If Correct)	15.00	35.00	15.00
Late Fee	N/A	N/A	***
Monthly Service Charge for Fire Sprinkler			
4" or Smaller	N/A	N/A	****
6"	N/A	N/A	****
8"	N/A	N/A	****
10"	N/A	N/A	****
Larger than 10"	N/A	N/A	****

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)
*** 1.5% of monthly unpaid balance.
**** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines seperate and distinct from the primary water service line.

Dells Water Company
Docket No. W-1384A-07-0314
Test Year Ended December 31, 2006

Schedule FBM-5

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

Average Number of Customers: 68

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,886	$ 9.46	$ 16.70	$ 7.24	76.5%
Median Usage	3,419	$ 7.70	$ 14.09	$ 6.39	83.0%
Staff Recommend					
Average Usage	**4,886**	**$ 9.46**	**$ 18.99**	**$ 9.53**	**100.7%**
Median Usage	**3,419**	**$ 7.70**	**$ 15.97**	**$ 8.27**	**107.4%**

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$ 6.00	$ 8.00	33.3%	$ 11.00	83.3%
1,000	6.00	9.78	63.0%	12.37	106.2%
2,000	6.00	11.56	92.7%	13.74	129.0%
3,000	7.20	13.34	85.3%	15.11	109.9%
4,000	8.40	15.12	80.0%	17.17	104.3%
5,000	9.60	16.90	76.0%	19.22	100.2%
6,000	10.80	18.68	73.0%	21.28	97.0%
7,000	12.00	20.46	70.5%	23.33	94.4%
8,000	13.20	22.24	68.5%	25.39	92.3%
9,000	14.40	24.02	66.8%	27.44	90.6%
10,000	15.60	25.80	65.4%	29.50	89.1%
15,000	21.60	34.70	60.6%	41.83	93.6%
20,000	27.60	43.60	58.0%	54.16	96.2%
25,000	33.60	52.50	56.3%	66.49	97.9%
50,000	63.60	97.00	52.5%	128.14	101.5%
75,000	93.60	141.50	51.2%	189.79	102.8%
100,000	123.60	186.00	50.5%	251.44	103.4%
125,000	153.60	230.50	50.1%	313.09	103.8%
150,000	183.60	275.00	49.8%	374.74	104.1%
175,000	213.60	319.50	49.6%	436.39	104.3%
200,000	243.60	364.00	49.4%	498.04	104.4%

Engineering Report

Dells Water Company
By Dorothy Hains, P. E.
Docket No. W-01384A-07-0314
(Rates)

EXECUTIVE SUMMARY

Recommendations

1. Staff recommends that Dells Water Company ("the Company") use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6, in the future. (See §K and Exhibit 6 for a discussion and a tabulation of the recommended rates.)

2. Staff recommends approval of the meter and service line installation charges listed in Table 8. (See §L of report for discussion and details.)

3. Water testing expenses are based upon participation in the Arizona Department of Environmental Quality ("ADEQ") Monitoring Assistance Program. Annual testing expenses should be adjusted to $1,522. (See §J and Tables 7 for discussion and details.)

4. Staff recommends that the Company install a well meter on Well # 55-802749 forty five (45) days after the Decision becomes effective. Staff estimates that costs of purchasing one 1-inch well meter and meter installation are about $750. (See §E for discussion and details.)

5. Staff further recommends that the Company monitor the system and submit the gallons pumped and sold to determine the actual water loss for one full year. The results of this monitoring and reporting should be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss for the period is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding. (See §E for discussion and details.)

6. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2008, a letter from ADWR indicating that the Company's water use and monitoring requirements have been resolved. (See §H of report for discussion and details.)

7. The system also does not have adequate storage capacity to serve the existing base of customers. Staff recommends that the Company file the ADEQ Approval of Construction for the plants related to the storage capacity improvement with Docket Control as a compliance item by December 31, 2008. (See §C & L for discussion and details .)

Conclusions:

1. The most recent lab analysis provided by the Company indicates that the arsenic levels in the wells used by the Company are exceeding the new arsenic MCL.

2. A check of the Compliance Section database indicated that the Company had no delinquencies.

3 The Company is in compliance with ADEQ water quality standards and is delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (See §G of report for discussion and details.)

4. The most recent lab analysis provided by the Company indicates that the arsenic levels in the wells used by the Company are 3.2 μg/l which are below the new arsenic MCL. (See §D of report for discussion and details.)

5. Dells Water Company is in Arizona Department of Water Resources ("ADWR") Prescott Active Management Area, and ADWR has indicated that the Company's reported water use and monitoring requirements are in question and will be audited. (See §H of report for discussion and details.)

TABLE OF CONTENTS

EXHIBITS

ENGINEERING REPORT
DELLS WATER COMPANY, INC
DOCKET NO. W-01384A-07-0314 (RATES)

A. PURPOSE OF REPORT

This report was prepared in response to the application of Dells Water Company. ("Dells" or "Company") with the Arizona Corporation Commission ("ACC" or "the Commission") for a rate increase. An inspection and evaluation of the Company's water system was conducted by Dorothy Hains, Water Engineer, in the accompaniment of Jim West, representative from the Dells Water ("Dells"), Kevin Cunningham, Prescott Pump's employee, Freddie Malapit, ACC Staff on September 17, 2007.

B. LOCATION OF SYSTEM

The Company is located northeast of the City of Prescott ("City") and west of HWY 89 near the Willow Creek, in Yavapai County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission regulated companies in Yavapai County and in the immediate area. The Company serves an area approximately half square mile in size that is a portion of Section 13, of Township 14 North, Range 2 West.

C. DESCRIPTION OF SYSTEM

I. System Description

The Company owns and operates a water system that consists of two wells, a storage tank and distribution system. Both wells are located on the same lot (Parcel #106-13-026F). The Company served approximately 70 metered customers during the test year; the majority of which are residential. Exhibit 3 is a schematic drawing of the water system. A detailed listing of the Company's water system facilities are as follows:

Table 1 Well Data

ADWR No.	Location	Pump (HP)	Yield (GPM)	Casing Size (in inches) & Depth (in ft)	(Meter Size inches)	Year drilled
55-802748	Parcel #106-13-026F	1	8	4" casing & 30' deep	¾	n/a
55-802749	Parcel #106-13-026F	3	40	4" casing & 30' deep	none	n/a
		TOTAL:	48			

Table 1A Plant Not Used and Useful

ADWR ID No.	Location	Pump (HP)	Yield (GPM)	Casing Size (in inches) & Depth (in ft)	Year abandoned from service	Year drilled
55-802747	Parcel #106-13-026F	n/a	n/a	n/a	n/a	n/a
n/a*	Parcel #106-13-026F	none	none	Approx 3' casing, 15' deep	n/a	n/a
n/a*	Parcel #106-13-026F	none	none	Approx 3' casing, 15' deep	n/a	n/a
55-802750	adjacent to HWY 89	n/a:	n/a	4" casing & 250' deep	n/a	n/a

Note: * Well is hand dug well.

Table 2 Storage Tank

Capacity (Gallons)	Quantity	Location
5,000	1	Parcel #106-13-026F
Total: 5,000 gallons		

Table 3 Distribution Mains

Diameter (inches)	Material	Length (feet)
6	polyvinyl chloride ("PVC")	19,700

Table 4 Meters

Size (inches)	Quantity
5/8 x 3/4	59
¾	n/a
1	8
1½	n/a
2	n/a
Total	67

II. System Analysis

The system currently serves 70 meter customers. The existing storage tank has capacity to provide service to approximately 36 customers based on water use data provided by the Company for 2006. See §L for further discussion.

D. ARSENIC

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter ("µg/l") or parts per billion ("ppb") to 10 µg/l. The most recent lab analysis provided by the Company indicates that the arsenic levels in the wells used by the Company are 3.2 µg/l which are below the new arsenic MCL.

E. WATER USAGE

Table 5 summarizes water usage in the Company's CC&N area. Exhibit 4 is a graph that shows water consumption data in gallons per day per connection for the system during the test year.

Table 5 Water Usage

Month	Number of Customers	Water Sold (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (gal/day/customer)
Jan 06	79	477,537	n/a	0	195
Feb 06	78	571,912	n/a	0	262
Mar 06	78	392,002	n/a	0	162
Apr 06	78	607,520	n/a	0	260
May 06	78	916,925	n/a	0	379
Jun 06	78	1,021,813	n/a	0	437
Jul 06	75	940,776	n/a	0	405
Aug 06	74	788,805	n/a	0	344
Sep 06	74	735,218	n/a	0	331
Oct 06	70	630,242	n/a	0	290
Nov 06	70	386,673	n/a	0	184
Dec 06	70	388,232	n/a	0	179
Total		7,857,673			
Average					286

I. Water Sold

Based on information provided by the Company, during the test year the Company experienced an overall daily average use of 286 gallons per day ("gpd") per customer, a high use of 437gpd per customer and a low use of less than 162 gpd per customer. The highest total monthly use occurred in June, when a total of 1,021,831 gallons were sold to 78 customers. The lowest total monthly use occurred in March, when 392,002 gallons were sold to 78 customers.

II. 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.

The Company reported 7,857,673 gallons of water sold and did not report the number of gallons pumped during the test year. The Company installed one well meter in March 2007 and the second production well is not equipped with well meter. Based on the unknown "actual" gallons pumped, the water loss percent cannot be determined at this time. Staff recommends that the Company install a well meter on Well # 55-802749 forty five (45) days after the Decision becomes effective. Staff estimates that costs of purchasing a 1-inch well meter and meter installation are about $750.

Staff further recommends that the Company monitor the system and submit the gallons pumped and sold to determine the actual water loss for one full year. The results of this monitoring and reporting should be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss for the period is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

F. GROWTH PROJECTION

Based on the service meter data contained in the Company's annual reports, the number of customers decreased from 71 at the end of 1999 to 70 by the end of 2006, with an average growth rate of 2 customers per year from 2002 to 2006. Based on the linear regression analysis, the Company could have approximately 77 customers by the end of 2011. The following table summarizes actual and projected growth in the Company's existing certificated service area.

Table 6 Actual and Projected Growth

year	Nos. of Customers	
1999	71	Reported
200	65	Reported
2001	66	Reported
2002	63	Reported
2003	64	Reported
2004	67	Reported
2005	66	Reported
2006	70	Reported
2007	71	Estimated

2008	72	Estimated
2009	74	Estimated
2010	76	Estimated
2011	77	Estimated

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

Staff received compliance status reports from ADEQ dated May 31, 2007, in which ADEQ stated that the system (PWS #13-029) has no major deficiencies. ADEQ has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

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

The Company is within the Prescott AMA, and consequently is subject to ADWR reporting and conservation requirements. In response to Staff's requests for a compliance status, ADWR provided a copy of its Advisory letter to Wilhoit Water Company dated October 11, 2007. According to the letter, the Company's three water systems (Yavapai, Blue Hills and Dell's) are not in compliance with ADWR requirements for calendar year 2006, based on ADWR's audit of the Company's 2006 Annual Withdrawal and User Report. The Company shall provide conformation of repair or installation of new meters for all its wells to ADWR by December 11, 2007. The Company's 2007 Annual Withdrawal and User Report will have to include the partial meter readings for the fourth quarter of 2007.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2008, a letter from ADWR indicating that the Company's water use and monitoring requirements have been resolved.

I. ACC COMPLIANCE

A check of the Compliance Section database indicated that the Company had no delinquencies.

J. WATER TESTING EXPENSES

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

The Company reported its water testing expense at $2,402.38 during the test year by combining the testing costs and water operator's fees. Staff has reviewed these expenses and has recalculated the annual expense by adding the omitted monitoring requirements for lead & copper and Disinfection/Disinfection By-Product ("D/DBP"). Annual D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process. Table 7 shows Staff's adjusted annual monitoring expense estimate of $1,522 with participation in the MAP.

Table 7. Water Testing Cost

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests per test year	Annual Cost
Total coliform – monthly	$68*	12	$816
Inorganics – Priority Pollutants	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP
Phase II and V:			
Nitrate – annual	$55*	1	$55
Nitrite – once per period	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP
IOCs, SOCs, & VOCs	MAP	MAP	MAP
Lead & Copper – per 3 years - Sampling & shipping samples	$45 $75	5/3 1/3	$75 $25
D/DBP:			
TTHM/HH5 – per 3 years - Sampling & shipping samples	$335 $50	1/3 1/3	$112 $17
Maximum Residual Disinfection Level ("MRDL")	$15*	3	$45
MAP Fee		422.19*	$422.19
Total			**$1,522**

Note: * means that there was invoice to support the cost.

K. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates are presented in Exhibit 6, and should be used to calculate the annual depreciation expense for the Company in this application. It is recommended that the Company use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6, in the future.

L. OTHER ISSUES

I. Service Line and Meter Installation Charges

The Company is proposing to revise its meter and service line installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's experience of what are reasonable and customary charges. Therefore, Staff recommends approval of separate meter and service line installation charges as shown under the Staff Recommended column in Table 8.

Table 8 Service Line and Meter Installation Charges

Meter Size	Current Charges[1]	Company Proposed Charges	Staff Recommended Service Line Charges	Staff Recommended Meter Charges	Staff Recommended Total Charges
5/8 x3/4-inch	$265	$520	$385	$135	$520
3/4-inch	$295	$600	$385	$215	$600
1-inch	$345	$690	$435	$255	$690
1-½-inch	$520	$935	$470	$465	$935
2-inch (turbo)	$725	$1,595	$630	$965	$1,595
2-inch (compound)	N/A	N/A	N/A	N/A	N/A
3-inch (turbo)	N/A	$2,275	$805	$1,470	$2,275
3-inch (compound)	N/A	N/A	N/A	N/A	N/A
4-inch (turbo)	N/A	$3,520	$1,170	$2,350	$3,520
4-inch (compound)	N/A	N/A	N/A	N/A	N/A
5-inch	N/A	N/A	N/A	N/A	N/A
6" (turbine)	N/A	$6,275	$1,730	$4,545	$6,275
6-inch (compound)	N/A	N/A	N/A	N/A	N/A

Note: 1. Data were based on Decision #56856.

II. Curtailment Tariff

The Company has an approved curtailment tariff on file with the Commission.

III. Cross Connection or Backflow Tariff

The Company has an approved curtailment tariff on file with the Commission.

IV. Storage Capacity

To resolve the existing storage capacity problem, there are several options that the Company could select: (1) Option #1 To install an additional storage tank; (2) Option #2 To deepen and to reconnect one of the capped wells ; and (3) Option #3 To interconnect to the water system to City of Prescott. Staff recommends that the Company file the ADEQ Approval of Construction for the plants related to the storage capacity improvement with Docket Control as a compliance item by December 31, 2008.

(1) Option #1 to install an additional storage tank
Staff estimates that the Company will need an additional 20,000 gallon of storage capacity to provide adequate storage for its existing customers. The table below lists Staff's estimated cost:

Item Description	Estimated cost ($)
One 20,000 gallon tank	30,000
Piping, control panel, electrical, etc.	15,000
labor	7,000
15% engineering & contingency	7,800
Total	**59,800**

(2) Option #2 to deepen and Reconnect one of the capped wells
Staff estimates that the Company will need a well that is a minimum of 250 feet deep. The table below lists Staff's estimated cost to rehabilitate one of the Company's existing capped well:

Item Description	Estimated cost ($)
Installation of a 250' deep 4" casing well	8,000
One well pump with minimum flow of 15 GPM	3,000
Piping, control panel, electrical, etc.	15,000
labor	7,000
15% engineering & contingency	4,9500
Total	**37,950**

(3) Option #3 to interconnect to the City of Prescott Water ("City") system
Because there is an existing transmission line, belonging to the City installed beneath HWY 89, Staff estimates that the construction will require 200 feet of 6 inch main from the Company's storage tank to the City's transmission line. The table below lists Staff's estimated cost:

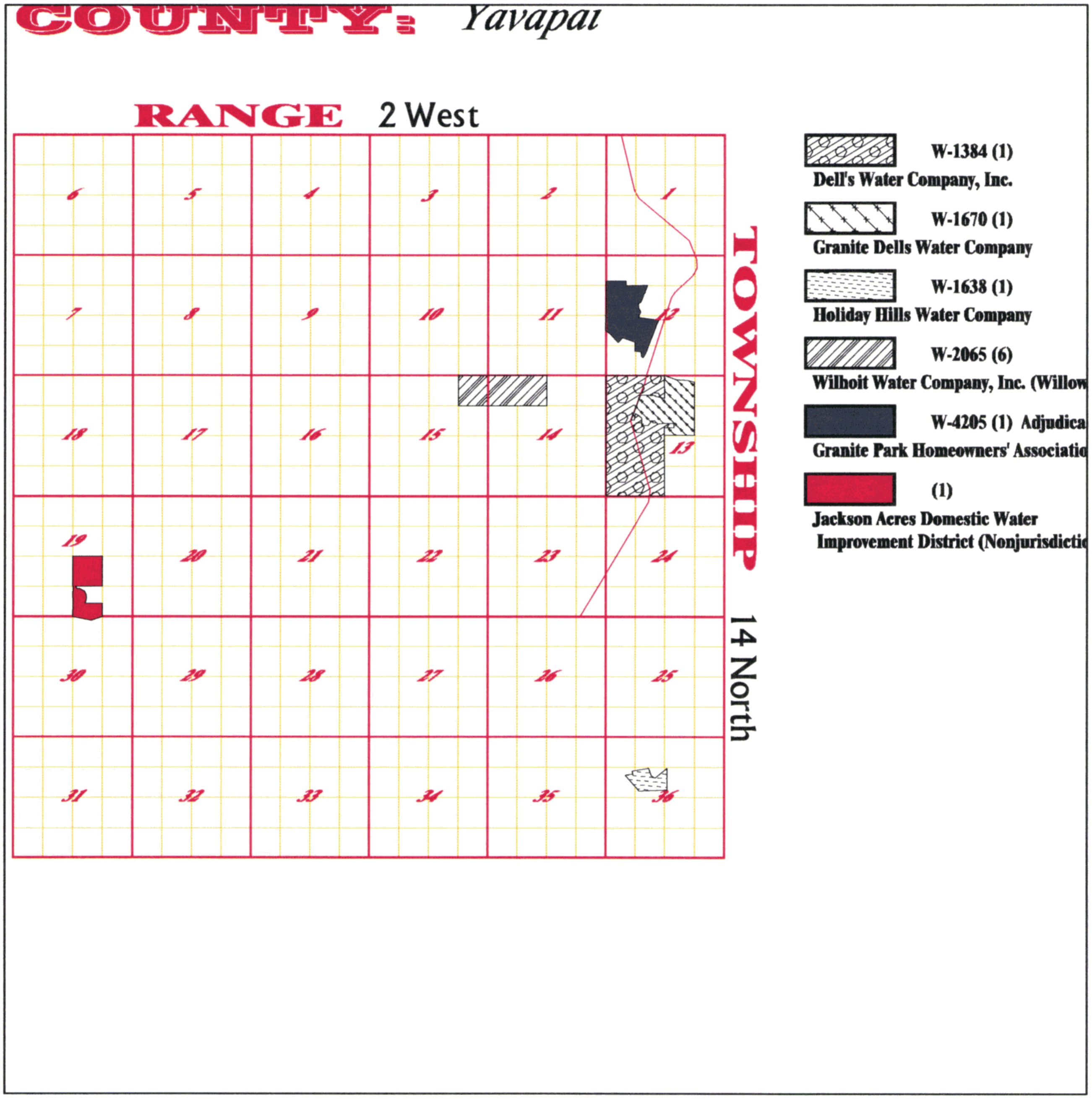
Item Description	Estimated cost ($)
Installation of 200' of 6" mains	13,200
Connection permit fee	1,000
labor	7,000
15% engineering & contingency	3,180
Total	**24,380**

V. Others

There are other non-water testing related expenses such as "checking chlorinator and fill the chlorinator" and "preparation of Consumer Confidence Report" in the invoices identified for water testing. For purposes of clarification, Staff removed the expenses of "checking chlorinator and fill the chlorinator" and "preparation of Consumer Confidence Report" from its recommended water testing expense. Total expenses of "checking chlorinator and fill the chlorinator" and "preparation of Consumer Confidence Report" during the 2006 test year were $605 that Staff believes are reasonable and appropriate.

EXHIBIT 1

Dells Certificate Service Area

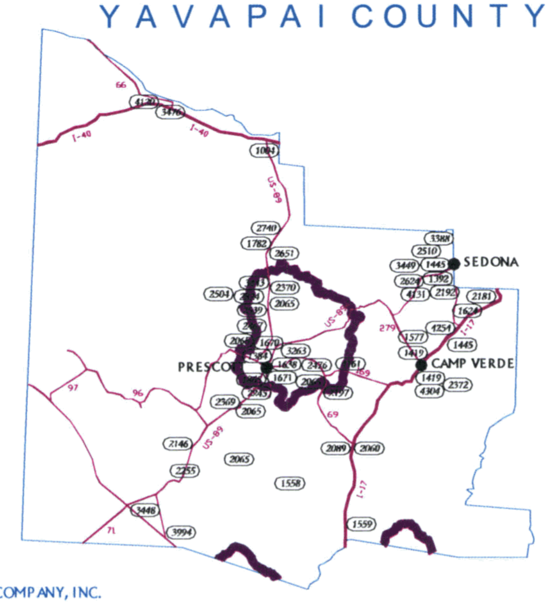


Dells Water Company
Docket No. W-01384A-07-0314
Page 11

EXHIBIT 2.

LOCATION OF DELLS WATER COMPANY SERVICE AREA

YAVAPAI COUNTY



1782	ABRAWATER COMPANY, INC.
2740	ANTELOPE LAKES WATER COMPANY
3443	APPALOOSAWATER COMPANY
1445	ARIZONAWATER COMPANY
1004	ASHFORK DEVELOPMENT ASSOCIATION, INC.
3476	BN LEASING CORPORATION
1624	BIG PARK WATER COMPANY
2510	BOYNTON CANYON ENCHANTMENT HOMEOWNERS ASSOC.
2089	BRADSHAW MOUNTAIN VIEW WATER COMPANY
2476	BRADSHAW WATER COMPANY, INC.
1419	CAMP VERDE WATER SYSTEM
3994	CDC WICKENBURG WATER, LLC
2370	CHINO MEADOWS II WATER COMPANY, INC.
1559	COLDWATER CANYON WATER COMPANY
2060	CORDES LAKES WATER COMPANY
4131	CROSS CREEK RANCH WATER COMPANY
1558	CROWN KING WATER COMPANY, INC.
1384	DELL'S WATER COMPANY, INC.
3263	DIAMOND VALLEY WATER USERS ASSOCIATION
4120	GRAND CANYON CAVERNS AND INN, LLC
1670	GRANITE DELLS WATER COMPANY
2467	GRANITE MOUNTAIN WATER COMPANY, INC.
2539	GRANITE OAKS WATER USERS ASSOCIATION
1865	GROOM CREEK WATER USERS ASSOCIATION
1638	HOLIDAY HILLS WATER COMPANY
2197	HUMBOLDT WATER SYSTEM, INC.
2824	ICR WATER USERS ASSOCIATION
2624	MICHAELS RANCH WATER USERS' ASSOCIATION
2651	JUNIPER WELLS WATER COMPANY
1557	LAKE VERDE WATER COMPANY
2192	LITTLE PARK WATER COMPANY, INC.
2245	LOMAESTATES WATER COMPANY, LLC
2504	MEADOW WATER COMPANY
4254	MONTEZUMARIMROCK WATER COMPANY, LLC
4304	OAK CREEK PUBLIC SERVICE, LLC
1392	OAK CREEK WATER COMPANY NO. I
2146	PEEPLES VALLEY WATER COMPANY
2181	PINE VALLEY WATER COMPANY
3448	RAINBOW PARKS, INC.
3449	SEDONAVENTURE (MHC OPERATING LTD PARTNERSHIP)
3388	SEVEN CANYONS WATER COMPANY
1671	SHERMAN PINES WATER COMPANY
2372	VERDE LAKES WATER CORPORATIVE
2369	WALDEN MEADOWS COMMUNITY COOPERATIVE
4161	WHITE HORSE RANCH OWNERS ASSOCIATION, INC.
2065	WILHOIT WATER COMPANY, INC.
2255	YARNELL WATER IMPROVEMENT ASSOCIATION

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EXHIBIT 3

SYSTEMATIC DRAWING

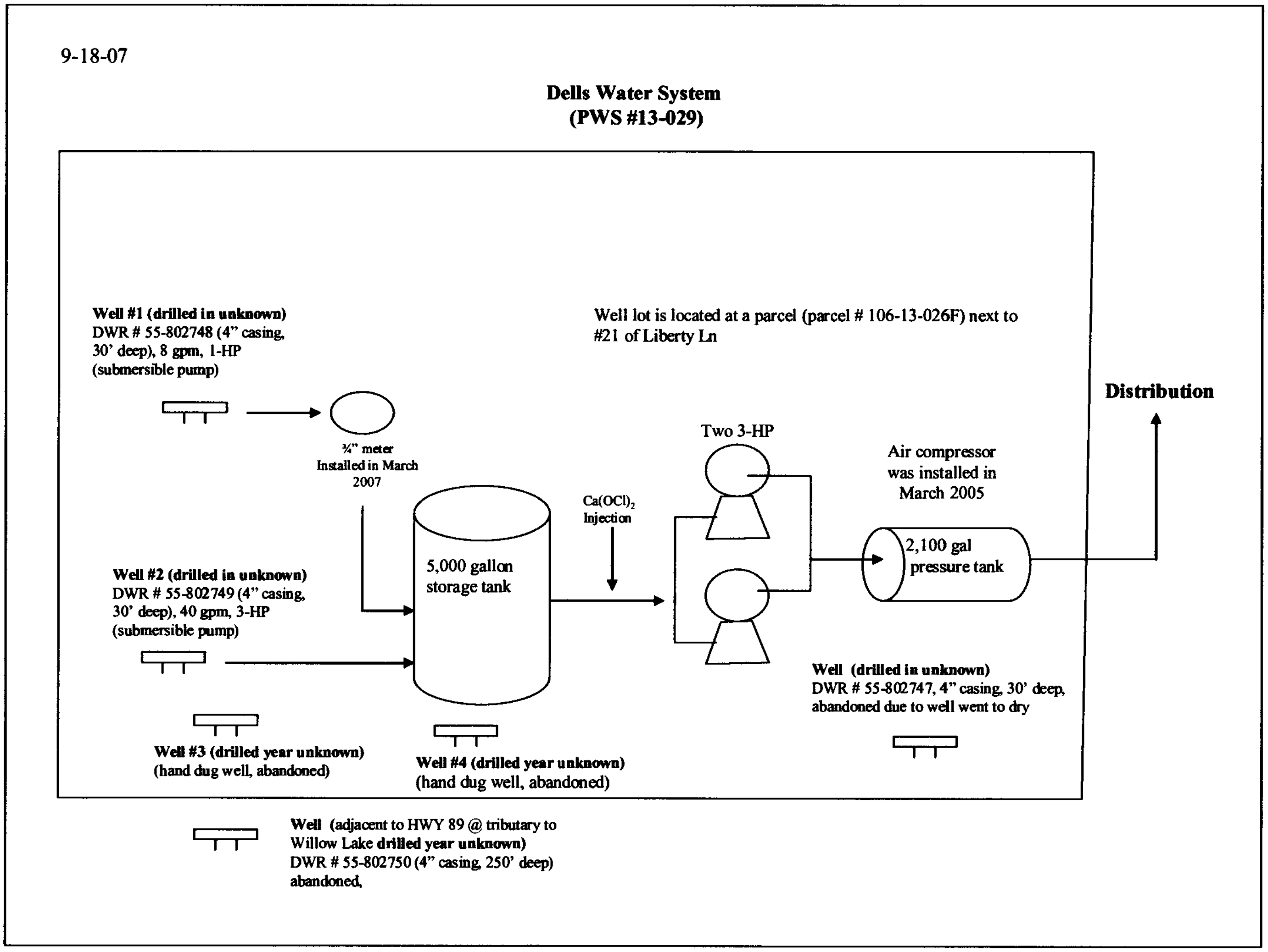

EXHIBIT 4

WATER USAGE ON THE DELLS WATER COMPANY SERVICE AREA

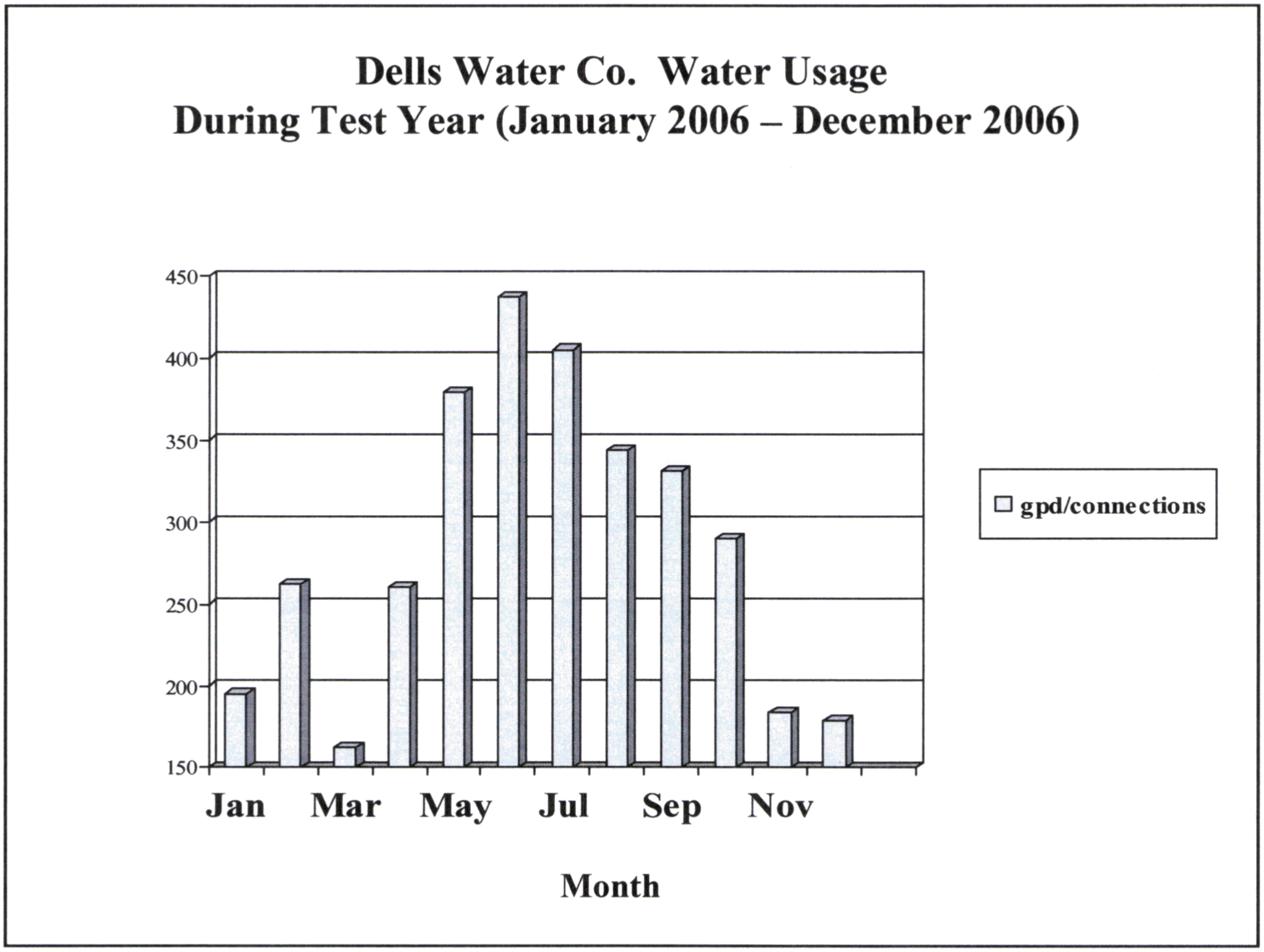

EXHIBIT 5

ACTUAL AND PROJECTED GROWTH IN DELLS WATER COMPANY SERVICE AREA

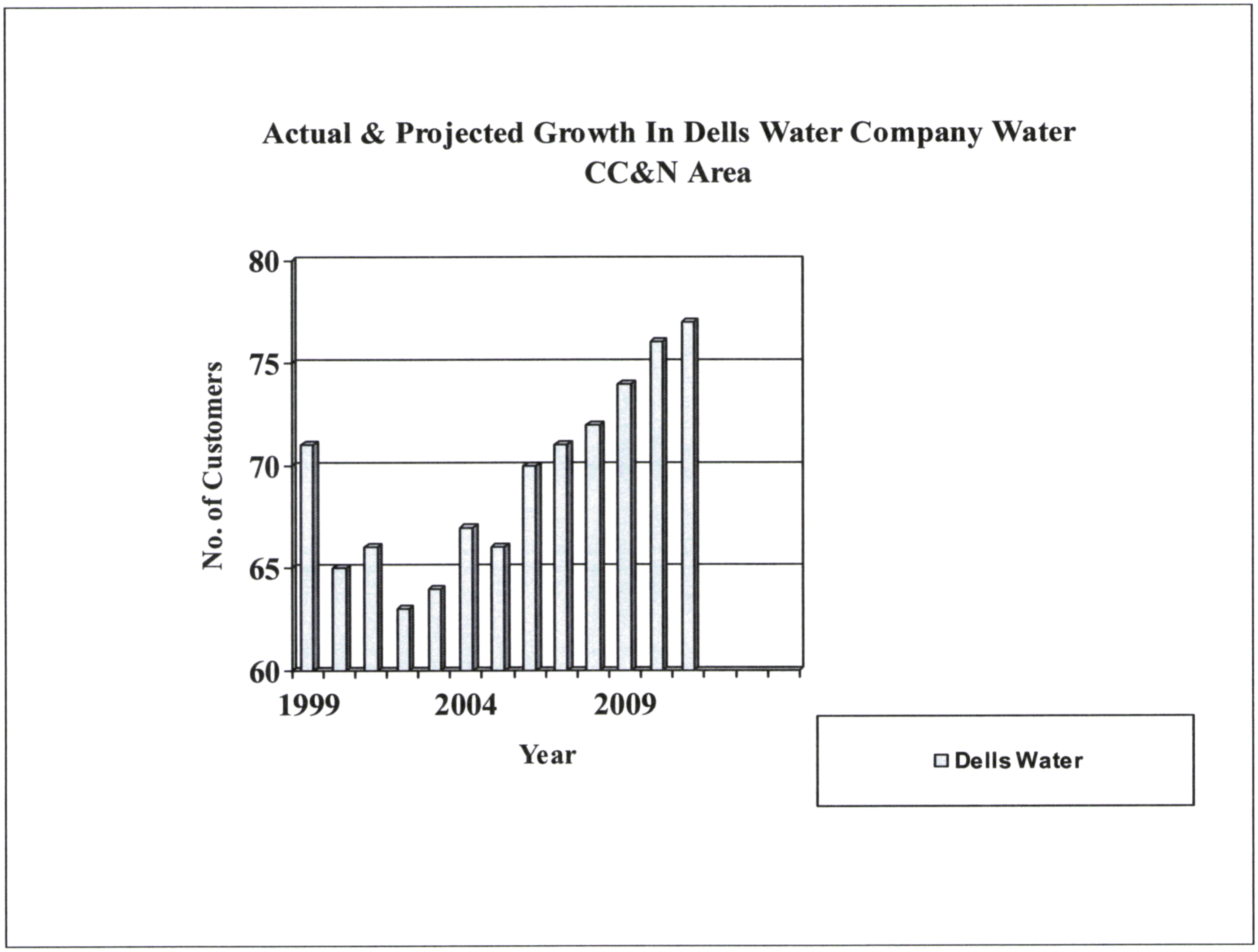

Exhibit 6

Water Depreciation Rates

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