

ORIGINAL



0000078598

MEMORANDUM

RECEIVED

30

TO: Docket Control

FROM: Ernest G. Johnson
for Director
Utilities Division

2007 NOV 14 P 1:51

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: November 14, 2007

RE: STAFF REPORT FOR MORMON LAKE WATER COMPANY'S
APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO.
W-01472A-07-0208)

Attached is the Staff Report for Mormon Lake 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 Commission's Docket Control by 4:00 p.m. on or before November 23, 2007.

EGJ:CRM:red

Originator: Charles R. Myhlhousen

Attachment: Original and sixteen copies

Arizona Corporation Commission

DOCKETED

NOV 14 2007

DOCKETED BY
KK

Service List for: Mormon Lake Water Company
Docket No. W-01472A-07-0208

Mr. Scott I. Gold
Mormon Lake Water Company
PO Box 38012
Mormon Lake, Arizona 86038

Mr. Christopher C. Kempley
Chief Counsel, 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 Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

MORMON LAKE WATER COMPANY

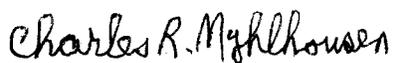
DOCKET NO. W-01472A-07-0208

**APPLICATION FOR A
PERMANENT RATE INCREASE**

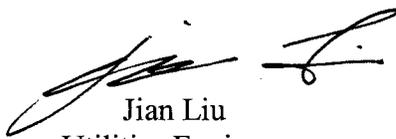
NOVEMBER 13, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Mormon Lake Water Company was the responsibility of the Staff members listed below. Charles R. Myhlhousen was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base and rate design. Jian Liu was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Charles R. Myhlhousen
Public Utility Analyst III



Jian Liu
Utilities Engineer



Carmen Madrid
Consumers Analyst I

EXECUTIVE SUMMARY
MORMON LAKE WATER COMPANY
DOCKET NO. W-01472A-07-0208

Mormon Lake Water Company ("Mormon" or "Company") is engaged in the business of providing utility service exclusively to Arizona customers in Coconino County. The Company is located approximately 30 miles southeast of Flagstaff on the southwest shores of Mormon Lake. It serves a small certificated area of about 1/8 square mile which contains 41 year around residents, 103 summer homes and a recreational vehicle park. Zero growth is expected in the foreseeable future.

The water system consists of four wells supplying water to two separate systems. The lower system serves the year-around residents and a recreational vehicle park. The upper system serves the summer homes located on a hillside.

The Company's rate application requested an increase in revenue of \$9,364 or 23.32 percent increase over test year revenue of \$40,152. The Company's proposed revenues of \$49,516 result in an operating loss of \$ 17,971 for no rate of return on the Company's original cost rate base ("OCRB") of \$44,442. The Company claims that its proposed rate increase is necessary at this time due to increased operating expenses and improvements in plant. The Company's requested rates would increase the typical residential bill with an average usage of 1,116 gallons from \$21.63 to \$23.41 for an increase of \$1.78 or 8.2 percent.

Staff's recommended rates would increase revenue by \$38,300 or a 95.39 percent increase over test year revenue of \$40,152. Staff recommended revenues of \$78,452 result in an operating income of \$8,517 for a 12.86 percent rate of return on an OCRB of \$66,246. While the rate of return may appear high, the OCRB is relatively low and the rates produce an operating margin of 10.86 percent. Staff's recommended rates would increase the typical residential bill with an average usage of 1,116 gallons from \$21.63 to \$42.48 for an increase of \$20.85 or 96.4 percent. Approximately 55 percent of the bills are at zero gallons. Therefore, the median usage is zero gallons.

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

TABLE OF CONTENTS

	<u>PAGE</u>
FACT SHEET	1
<i>CURRENT RATES:</i>	1
<i>RATES:</i>	1
<i>CUSTOMERS:</i>	2
<i>NOTIFICATIONS:</i>	2
SUMMARY OF FILING	3
COMPANY BACKGROUND	3
CONSUMER SERVICES	3
COMPLIANCE	3
ENGINEERING	4
RATE BASE	4
<i>PLANT-IN-SERVICE:</i>	4
<i>ACCUMULATED DEPRECIATION:</i>	4
<i>ADVANCES-IN-AID-OF-CONSTRUCTION:</i>	4
<i>CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION:</i>	4
<i>WORKING CAPITAL:</i>	5
OPERATING REVENUE	5
OPERATING EXPENSES	5
RATE OF RETURN	5
OPERATING MARGIN	6
REVENUE REQUIREMENT	6
RATE DESIGN	6
STAFF RECOMMENDATIONS	6

SCHEDULES

Summary of Filing	Schedule CRM-1
Rate Base	Schedule CRM-2
Statement of Operating Income	Schedule CRM-3

Rate Design.....Schedule CRM-4

Typical Bill AnalysisSchedule CRM-5

Attachment

Engineering ReportA

Fact Sheet

Current Rates: Decision No. 66035, July 3, 2003, with rates effective August 1, 1993.

Type of Ownership: Arizona "C" Corporation.

Location: The Company serves water customers about 30 miles southeast of Flagstaff, Arizona in Coconino County, on the southwest shores of Mormon Lake. It serves a small certificated area of about 1/8 square mile.

Prior Test Year Ended: December 31, 2001.

Current Test Year Ended: December 31, 2006.

Rates:

Permanent rate increase application filed: April 2, 2007, amended July 18, 2007 and August 11, 2007. The application became sufficient September 11, 2007.

Monthly Minimum Charges:

	Company Current <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Monthly Minimum Charge Based on 5/8 X 3/4 inch meter	\$18.00	\$23.00	\$34.50
Gallons in minimum	0	0	0
Commodity Charge Excess of minimum			
Tier Zero gallons to 2,000 gallons	\$3.25	3.58	
Tier Two 2,001 gallons to 14,000 gallons	4.50	4.95	
Tier Three All gallons over 14,000 gallons	6.00	6.60	
Tier One from zero gallons to 4,000 gallons			7.15
Tier Two from 4,001 gallons to 7,000 gallons			10.73
Tier three all gallons over 10,000 gallons			12.87
Typical residential bill (based on average usage of 1,116 gallons)	\$21.63	\$23.41	\$42.48

Customers:

Average number of customers in prior test year 144, current test year 144. This consists of 41 year around residents and 103 summer homes and a recreational vehicle park. Zero growth is expected.

Notifications:

Customer notification was mailed June 21, 2007, and a corrected copy mailed on August 14, 2007.

Summary of Filing

Based on test year results, as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission"), Mormon Lakes Water Company ("Mormon" or "Company") suffered an operating loss of \$27,579 for no rate of return as shown on Schedule CRM-1.

The Company proposed rates produce operating revenues of \$49,516 and operating loss of \$17,971 for no rate of return on the Company's original cost rate base ("OCRB") of \$44,442. The Company's proposed rates would increase the typical residential bill with an average usage of 1,116 gallons from \$21.63 to \$23.41 for an increase of \$1.78 or 8.2 percent.

Staff's recommended rates produce a revenue level of \$78,452 and an operating income of \$8,517 for a 12.86 percent rate of return on an OCRB of \$66,246. Staff's recommended rates would increase the typical residential bill with an average usage of 1,116 gallons from \$21.63 to \$42.48 for an increase of \$20.85 or 96.4 percent.

The last rate case filing was for the test year ending December 31, 2001. The Company is registered as an Arizona "C" corporation with the Corporations Division of the Commission.

Company Background

On April 2, 2007, the Company filed an application for a permanent rate increase with the Commission. On May 2, 2007, the Company filing was found deficient. On July 18, 2007, and August 11, 2007, the Company submitted the deficient items. On September 11, 2007, the application was deemed sufficient.

Consumer Services

A review of the Commission's records from January 1, 2004, through October 15, 2007, reveals one complaint in the year 2007 concerning service which was resolved. There were three opinions opposed to the rate increase.

Compliance

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

The Company is not utilizing the National Association of Regulatory Utility Commissioners Uniform System of Accounts.

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

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

Engineering

The plant facilities were visited on September 25, 2007, by Jian Liu, Staff Utilities Engineer in the accompaniment of Jim Sorgata representing the Company.

The Arizona Department of Environment Quality ("ADEQ") has determined that this system has no deficiencies and is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. (Report dated March 26, 2007).

The Company is not located in any Active Management Area ("AMA") and is not subject to any of the AMA's reporting and conservation requirements. The system is in compliance with the new arsenic maximum contaminant level. See Engineering Report Attachment A.

Rate Base

Staff made adjustments to rate base of \$21,804. These adjustments were made to reflect a decrease in accumulated depreciation of \$16,749 and the inclusion of the formula-method for working capital allowance in the amount of \$5,055. Staff's recommended rate base is \$66,246. See Schedule CRM-2 page 1.

Plant-in-Service:

Staff made no adjustments to plant in service. Plant in service amount is \$177,627.

Accumulated Depreciation:

Staff decreased the Company's accumulated depreciation amount by \$16,749.

Staff's accumulated depreciation amount was calculated by adding depreciation expense for the years 2002 through December 31, 2006, of \$25,420 and subtracting accumulated depreciation for plant retirements of \$4,084 to the Commission approved accumulated depreciation balance in the prior test year ended December 31, 2001, of \$95,100. See schedule CRM-2 page 3 of 3.

Advances-in-Aid-of-Construction:

The Company has no advances in aid of construction.

Contributions-in-Aid-of-Construction:

The Company has no contributions in aid of construction.

Working Capital:

The Company neglected to claim any cash working capital allowance. Staff included a cash working capital allowance of \$5,055 calculated using the formula-method.

Operating Revenue

Staff analysis of the revenue and the bill count did not produce any adjustments. See Schedule CRM-3, page 1.

Operating Expenses

Staff adjustments to operating expenses resulted in an increase of \$244 from \$67,487 to \$67,731 as shown on Schedule CRM-3 page 1. Adjustments are discussed below.

Adjustment A increased chemical expense by \$620 from zero to \$620 to reflect Staff's reclassification from miscellaneous expense.

Adjustment B increased repairs and maintenance by \$1,922 from \$164 to \$2,086 to reflect Staff's reclassification from miscellaneous expense.

Adjustment C decreased water testing by \$426 from \$1,145 to \$719 to reflect Staff's recommended expense level.

Adjustment D decreased miscellaneous expense by \$2,542 from \$ 3,253 to \$711 to reflect Staff's reclassifying the chemical expense of \$620, repairs and maintenance expense of \$1,922, out of miscellaneous expense.

Adjustment E increased depreciation expense by \$690 from \$6,857 to \$7,547 to reflect Staff's calculated amount.

Adjustment F decreased taxes other than income by \$70 from \$70 to zero. Staff reclassified \$45 to income taxes and removed \$25 for sales taxes as any sales tax expense must be removed as sales tax collections are removed from revenue.

Adjustment G increased income taxes by \$50 from zero to \$50. Staff reclassified \$45 of this amount from taxes other than income expense with an additional \$5 to reflect the minimum state income tax.

Rate of Return

The Company's proposed rates and charges would provide an operating loss of \$17,971 for no rate of return.

Staff recommended rates and charges would provide an operating income of \$8,517 for a rate of return of 12.86 percent.

Operating Margin

The Company's proposed rates and charges would provide an operating loss and no operating margin.

Staff's recommended rates and charges would provide an operating income of \$8,517 for an operating margin of 10.86 percent.

Revenue Requirement

The Company's narrative portion of the application stated that it needs this rate increase because of the need to repair infrastructure and an increase in operational costs.

Rate Design

The Company's proposed rates would increase the typical residential bill with an average usage of 1,116 gallons from \$21.63 to \$23.41 for an increase of \$1.78 or 8.2 percent. Staff's recommended rates would increase the typical residential bill with an average usage of 1,116 gallons from \$21.63 to \$42.48 for a \$20.85 increase or 96.40 percent.

The Company proposed tariff is utilizing an inverted three-tier rate design for all meter sizes. Staff concurs with this rate design for the 5/8 x 3/4 and 3/4 inch meter sizes except the tier break over gallons. Staff is recommending a two-tier rate design for one inch and larger meter sizes. See Schedule CRM-4.

The Company proposes to increase service charges. Staff concurs.

Staff Recommendations

Staff recommends:

- Approval of Staff's rates and charges as shown on Schedule CRM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax per Commission rule (14-2-409-D-5).
- That the Company file with Docket Control, as a compliance item, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

- That the Company uses the depreciation rates delineated in Table B, page 12, of the Engineering Report on a going forward basis.
- That the Company utilizes the National Association of Regulatory Utility Commissioners (“NARUC”), Uniform System of Accounts (“USoA”) and docketed an affidavit with Docket Control, as a compliance item, within six months from the date a Decision is issued in this rate case matter attesting that the Company keeps its books and records in accordance with the NARUC and USoA.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$40,062	\$40,062	\$49,426	\$78,362
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	90	90	90	90
Total Operating Revenue	\$40,152	\$40,152	\$49,516	\$78,452
Operating Expenses:				
Operation and Maintenance	\$59,166	\$58,740	\$59,166	\$58,740
Depreciation	6,857	7,547	6,857	7,547
Property & Other Taxes	1,464	1,394	1,464	1,394
Income Tax	0	50	0	2,254
Total Operating Expense	\$67,487	\$67,731	\$67,487	\$69,935
Operating Income/(Loss)	(\$27,335)	(\$27,579)	(\$17,971)	\$8,517
Rate Base O.C.L.D.	\$44,442	\$66,246	\$44,442	\$66,246
Rate of Return - O.C.L.D.	-61.51%	-41.63%	-40.44%	12.86%
Operating Margin	-68.08%	-68.69%	-36.29%	10.86%

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	Adjustment	Staff
Plant in Service	\$177,627	\$0	\$177,627
Less:			
Accum. Depreciation	133,185	(16,749) A	116,436
Net Plant	\$44,442	\$16,749	\$61,191
Less:			
Plant Advances	\$0	\$0	\$0
Accumulated Deferred Income Taxes	0	0	0
Total Advances	\$0	\$0	\$0
Contributions Gross	\$0	\$0	\$0
Less:			
Amortization of CIAC	0	0	0
Net CIAC	\$0	\$0	\$0
Total Deductions	\$0	\$0	\$0
Plus:			
1/24 Power	\$0	\$1,226 B	\$1,226
1/8 Operation & Maint.	0	3,829 B	3,829
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$0	\$5,055	\$5,055
Rate Base	\$44,442	\$21,804	\$66,246

Explanation of Adjustments

- A See Schedule CRM -2 page 3
- B Staff's inclusion of formula-method cash working capital based on recommended operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	0	0	0
304 Structures & Improvements	13,087	0	13,087
307 Wells & Springs	38,851	0	38,851
311 Pumping Equipment	2,752	0	2,752
320 Water Treatment Equipment	12,356	0	12,356
330 Distribution Reservoirs & Stan	23,520	0	23,520
331 Transmission & Distribution M	3,900	0	3,900
333 Services	0	0	0
334 Meters & Meter Installations	20,511	0	20,511
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipm	43,867	0	43,867
340 Office Furniture & Equipment	181	0	181
341 Transportation Equipment	2,090	0	2,090
343 Tools Shop & Garage Equipm	9,987	0	9,987
344 Laboratory Equipment	2,593	0	2,593
345 Power Operated Equipment	0	0	0
346 Communication Equipment	3,932	0	3,932
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$177,627	\$0	\$177,627

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$133,185
Accumulated Depreciation - Per Staff	116,436 A
Total Adjustment	<u>(\$16,749)</u>

Explanation of Adjustment:

A - Accumulated depreciation per Decision No. 66035	\$95,100
Plus: Depreciation expense from year 2002 through year 2006	<u>25,420</u>
Subtotal	120,520
Less: Plant Retirement	(4,084)
Total	<u>116,436</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$40,062	\$0	\$40,062
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	90	0	90
Total Operating Revenue	\$40,152	\$0	\$40,152
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	26,058	0	26,058
615 Purchased Power	3,360	0	3,360
618 Chemicals	0	620 A	620
620 Repairs and Maintenance	164	1,922 B	2,086
621 Office Supplies & Expense	916	0	916
630 Outside Services	24,048	0	24,048
635 Water Testing	1,145	(426) C	719
641 Rents	0	0	0
650 Transportation Expenses	222	0	222
657 Insurance - General Liability	0	0	0
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	3,253	(2,542) D	711
403 Depreciation Expense	6,857	690 E	7,547
408 Taxes Other Than Income	70	(70) F	0
408.11 Property Taxes	1,394	0	1,394
409 Income Tax	0	50 G	50
Total Operating Expenses	\$67,487	\$244	\$67,731
OPERATING INCOME/(LOSS)	(\$27,335)	(\$244)	(\$27,579)
Other Income/(Expense):			
419 Interest and Dividend Income	\$74	\$0	\$74
421 Non-Utility Income	5	0	5
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)	\$79	\$0	\$79
NET INCOME/(LOSS)	(\$27,256)	(\$244)	(\$27,500)

STAFF ADJUSTMENTS

A -	CHEMICALS - Per Company	\$0	
	Per Staff	620	<u>\$620</u>

Staff reclassified chemical expense from miscellaneous expense in the amount of \$620 increasing chemical expense from zero to \$620.

B -	REPAIRS AND MAINTENANCE - Per Company	\$164	
	Per Staff	2,086	<u>\$1,922</u>

Staff reclassified repairs and maintenance expense from miscellaneous in the amount of \$1,922 increasing repairs and maintenance expense from \$164 to \$2,086.

C-	WATER TESTING - Per Company	1,145	
	Per Staff	719	<u>(\$426)</u>

To reflect Engineering's recommended expense level.

D -	MISCELLANEOUS EXPENSE - Per Company	\$3,253	
	Per Staff	711	<u>(\$2,542)</u>

Miscellaneous expense reduced by \$2,542 for amounts reclassified to chemical expense of \$620 and to repairs and maintenance expense of \$1,922.

E -	DEPRECIATION - Per Company	\$6,857	
	Per Staff	7,547	<u>\$690</u>

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

Pro Forma Annual Depreciation Expense:

Plant in Service	\$177,627	
Less: Non Depreciable Plant	0	
Fully Depreciated Plant	0	
Depreciable Plant	<u>\$177,627</u>	
Times: Staff Proposed Depreciation Rate	4.25%	
Credit to Accumulated Depreciation	<u>\$7,547</u>	
Pro Forma Annual Depreciation Expense	<u>\$7,547</u>	

STAFF ADJUSTMENTS (Cont.)

F -	TAXES OTHER THAN INCOME - Per Company	\$70	
	Per Staff	0	<u>(\$70)</u>

This expense reduced in the amount of \$70 for sales taxes in the amount of \$25. \$45 was reclassified to income tax.

G -	INCOME TAX - Per Company	\$0	
	Per Staff	50	<u>\$50</u>

This expense increased from zero to \$50 for state income tax. Staff reclassified \$45 from miscellaneous expense and with an additional \$5 to reflect the minimum state income tax.

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$18.00	\$23.00	\$34.50
3/4" Meter	20.00	25.00	51.75
1" Meter	50.00	65.00	86.25
1½" Meter	100.00	125.00	172.50
2" Meter	150.00	190.00	276.00
3" Meter	200.00	255.00	517.50
4" Meter	300.00	385.00	862.50
6" Meter	400.00	510.00	1,172.50
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
All meter sizes			
Tier One zero gallons to 2,000 gallons	3.25	3.58	n/a
Tier Two from 2,001 gallons to 14,000 gallons	4.50	4.95	n/a
Tier Three all gallons over 14,000 gallons	6.00	6.60	n/a
5/8 x 3/4 inch and 3/4 inch meters			
Tier one zero gallons to 4,000	n/a	n/a	\$ 7.15
Tier Two from 4,001 gallon to 7,000 gallons	n/a	n/a	10.73
Tier Three all gallon over 7,000 gallons	n/a	n/a	12.87
One inch meter			
Tier one zero gallons to 4,000	n/a	n/a	10.73
Tier Two all gallons over 4,000 gallons	n/a	n/a	12.87
One and one half inch meter			
Tier one zero gallons to 4,000	n/a	n/a	10.73
Tier Two all gallons over 4,000 gallons	n/a	n/a	12.87
Two inch meter			
Tier one zero gallons to 4,000	n/a	n/a	10.73
Tier Two all gallons over 4,000 gallons	n/a	n/a	12.87
Three inch meter			
Tier one zero gallons to 4,000	n/a	n/a	10.73
Tier Two all gallons over 4,000 gallons	n/a	n/a	12.87
Four inch meter			
Tier one zero gallons to 4,000	n/a	n/a	10.73
Tier Two all gallons over 4,000 gallons	n/a	n/a	12.87
Six inch meter			
Tier one zero gallons to 4,000	n/a	n/a	10.73
Tier Two all gallons over 4,000 gallons	n/a	n/a	12.87
Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	\$400.00	\$400.00	\$400.00
3/4" Meter	400.00	400.00	400.00
1" Meter	500.00	500.00	500.00
1½" Meter	715.00	715.00	715.00
2" Meter	1,170.00	1,170.00	1,170.00
3" Meter	1,585.00	1,585.00	1,585.00
4" Meter	2,540.00	2,540.00	2,540.00
6" Meter	4,815.00	4,815.00	4,815.00
Service Charges			
Establishment	\$30.00	\$40.00	\$40.00
Establishment (After Hours)	50.00	60.00	60.00
Reconnection (Delinquent)	50.00	60.00	60.00
Reconnection (Delinquent) after hours	75.00	85.00	85.00
Meter Test (If Correct)	35.00	45.00	45.00
Deposit	*	*	*
Deposit Interest	6.00%	6.00%	6.00%
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	25.00	25.00
Deferred Payment	0.00%	0.00%	0.00%
Meter Re-Read (If Correct)	6.00	10.00	10.00
Late Fee	***	***	***
Monthly Service Charge for Fire Sprinkler			
4" or Smaller	****	****	****
6"	****	****	****
8"	****	****	****
10"	****	****	****
Larger than 10"	****	****	****

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)
*** 1.50 percent per month on the 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 separate and distinct from the primary

TYPICAL BILL ANALYSIS

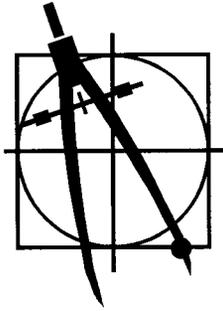
General Service 5-8 x 3-4 - Inch Meter

Average Number of Customers: 143

<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	1,116	\$21.63	\$23.41	\$1.78	8.2%
Median Usage	N/A	N/A	N/A	N/A	N/A
<u>Staff Proposed</u>					
Average Usage	1,116	\$21.63	\$42.48	\$20.85	96.4%
Median Usage	N/A	N/A	N/A	N/A	N/A

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$18.00	\$23.00	27.8%	\$34.50	91.7%
1,000	21.25	23.00	8.2%	41.65	96.0%
2,000	24.50	26.58	8.5%	48.80	99.2%
3,000	29.00	31.53	8.7%	55.95	92.9%
4,000	33.50	36.48	8.9%	63.10	88.4%
5,000	38.00	41.43	9.0%	73.83	94.3%
6,000	42.50	46.38	9.1%	84.56	99.0%
7,000	47.00	51.33	9.2%	95.29	102.7%
8,000	51.50	56.28	9.3%	108.16	110.0%
9,000	56.00	61.23	9.3%	121.03	116.1%
10,000	60.50	66.18	9.4%	133.90	121.3%
15,000	84.50	92.58	9.6%	198.25	134.6%
20,000	114.50	125.58	9.7%	262.60	129.3%
25,000	144.50	158.58	9.7%	326.95	126.3%
50,000	294.50	323.58	9.9%	648.70	120.3%
75,000	444.50	488.58	9.9%	970.45	118.3%
100,000	594.50	653.58	9.9%	1,292.20	117.4%
125,000	744.50	818.58	10.0%	1,613.95	116.8%
150,000	894.50	983.58	10.0%	1,935.70	116.4%
175,000	1,044.50	1,148.58	10.0%	2,257.45	116.1%
200,000	1,194.50	1,313.58	10.0%	2,579.20	115.9%



**Engineering Report for Mormon Lake
Water Company**

Docket No. W-01472A-07-0208 (Rates)

**By: Jian W Liu
Utilities Engineer**

October 15, 2007

CONCLUSIONS

- A. Non-account water for Mormon Lake Water Company was calculated to be 3.94%, which is within acceptable limits.
- B. Staff has concluded that Mormon Lake Water Company has a unique and complex water system and peak day demand placed on the Company's water system is significantly greater than that of the typical water system. This demand was demonstrated by the fact that the Company hauled water during the summer months in the test year 2006 to supplement its well production in order to provide continuous level of service.
- C. Based on the Company's arsenic concentration of 3.0 parts per billion ("ppb") from its point-of-entry #1, the Company is currently meeting the new arsenic maximum contaminant level of 10 ppb.
- D. The Company is not located in any Active Management Area ("AMA") and is not subject to any of the AMA's reporting and conservation requirements.
- E. The Company has no outstanding Arizona Corporation Commission compliance issues.
- F. ADEQ has determined that this system (03-014) has no deficiencies and is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. (Report dated March 26, 07).

RECOMMENDATIONS

- 1. Water testing expenses are based upon participation in the ADEQ Monitoring Assistance Program. Annual testing expenses should be adjusted to \$719 as described in Table A.

2. Staff recommends the adoption of its depreciation rates as delineated in Table B.
3. The Company does not plan to change its service line and meter installation charges. These charges are refundable advances and the Company's planned charges are less than Staff's recommended range for these charges. Therefore, Staff recommends acceptance of the Company's planned charges.

TABLE OF CONTENTS

	<u>PAGE</u>
ENGINEERING REPORT FOR MORMON LAKE.....	1
WATER COMPANY	1
CONCLUSIONS.....	1
RECOMMENDATIONS.....	1
B. DESCRIPTION OF THE WATER SYSTEM.....	1
C. WATER USE.....	6
WATER SOLD.....	6
NON-ACCOUNT WATER.....	6
SYSTEM ANALYSIS	6
D. GROWTH	7
E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE	7
COMPLIANCE	7
WATER TESTING EXPENSE.....	7
ARSENIC	8
F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE.....	8
G. ARIZONA CORPORATION COMMISSION (“COMMISSION”) COMPLIANCE	9
H. DEPRECIATION RATES	9
I. OTHER ISSUES.....	10
1. SERVICE LINE AND METER INSTALLATION CHARGES.....	10
2. CURTAILMENT PLAN TARIFF.....	11
3. SYSTEM ADEQUACY	11

A. LOCATION OF COMPANY

Mormon Lake Water Company (“Company”) serves the community of Mormon Lake which is located approximately 30 miles southeast of Flagstaff. Figure 1 shows the location of the Company within Coconino County and Figure 2 shows the certificated area covering approximately 80 acres or 1/8 square-mile.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on September 25, 2007, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Jim Sorgatz, the operator of the water system. The water system consists of four wells supplying water to two distribution systems. The lower distribution system serves year-round residences. The upper distribution system serves summer homes located on a hillside and RV Park. Plant facilities and system operation are discussed in more detail below.

Wells, Centralized Treatment and Lower Distribution System: The four wells pump to a central treatment booster station. This treatment booster station has an iron and manganese removal unit and three storage tanks (two 15,000 gallon tanks and one 24,000 gallon tank). The lower booster system has a 3 Horsepower (Hp) booster pump and a 760 gallon pressure tank serving 41 permanent residential customers.

Upper Distribution System: The upper booster system, consists of a 5-Hp vertical booster pump, that pumps water through the lower distribution system and up the hill into two 12,000 gallon storage tanks. An old 20,000 gallon storage tank was retired in 2002. This upper system serves 103 summer homes and a 55 space RV Park which operates from May 15th to October 15th each year. This system’s distribution mains range in size from 3/4-inch polyethylene pipe to 1-1/2-inch galvanized-iron pipe. Most of the pipes are unburied but the pipes that are buried are covered by only a shallow soil mantle. During the winter this upper distribution system is drained and taken out of service.

A system schematic of this process is shown as Figure 3. A detailed plant facility listing follows:

Table 1. Well Data

Well Information	Well A	Well C	Well D	Well 2
ADWR ID No.	55-518665	55-564454	55-564838	55-608464
Casing Size	6-inch	5-inch	5-inch	6-inch
Casing Depth	105 ft.	115 ft.	122 ft.	72 feet
Pump Size	1/3-Hp	1/2-Hp	1/2-Hp	1/3-Hp

Pump Type	Submersible	Submersible	Submersible	Submersible
Pump Yield	8 GPM	8 GPM	7 GPM	8 GPM
Wellhead meter	1-inch	5/8x3/4-inch	5/8x3/4-inch	5/8x3/4-inch
Year Drilled	1987	1998	1998	1972

Table 2. Central Treatment Booster Station

Equipment	Capacity
Iron & manganese removal units	Two 50 GPM Sand Iron Filters
Multimedia Final Filter	One 70 GPM
Liquid chlorinators	Two (2)
Storage tank	Two 15,000 gal. & one 24,000 gal.
Booster System – Lower System	3-Hp booster & 760 gal. Pressure tank
Booster System – Upper System	5-Hp booster pump & two 12,000 gal. Storage tanks

Table 3. Water Mains

Diameter	Material	Length
2-1/2-inch	PVC	1,050 ft.
2-inch	GIP	2,500 ft.
2-inch	PVC	1,500 ft.
3/4-inch/1-inch	Poly	9,300 ft.
	Total:	14,350 ft.

Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	156
1-1/2-inch	1
Total:	157

Table 5. Structures

Structures
Booster station pump house, 10' x 20'

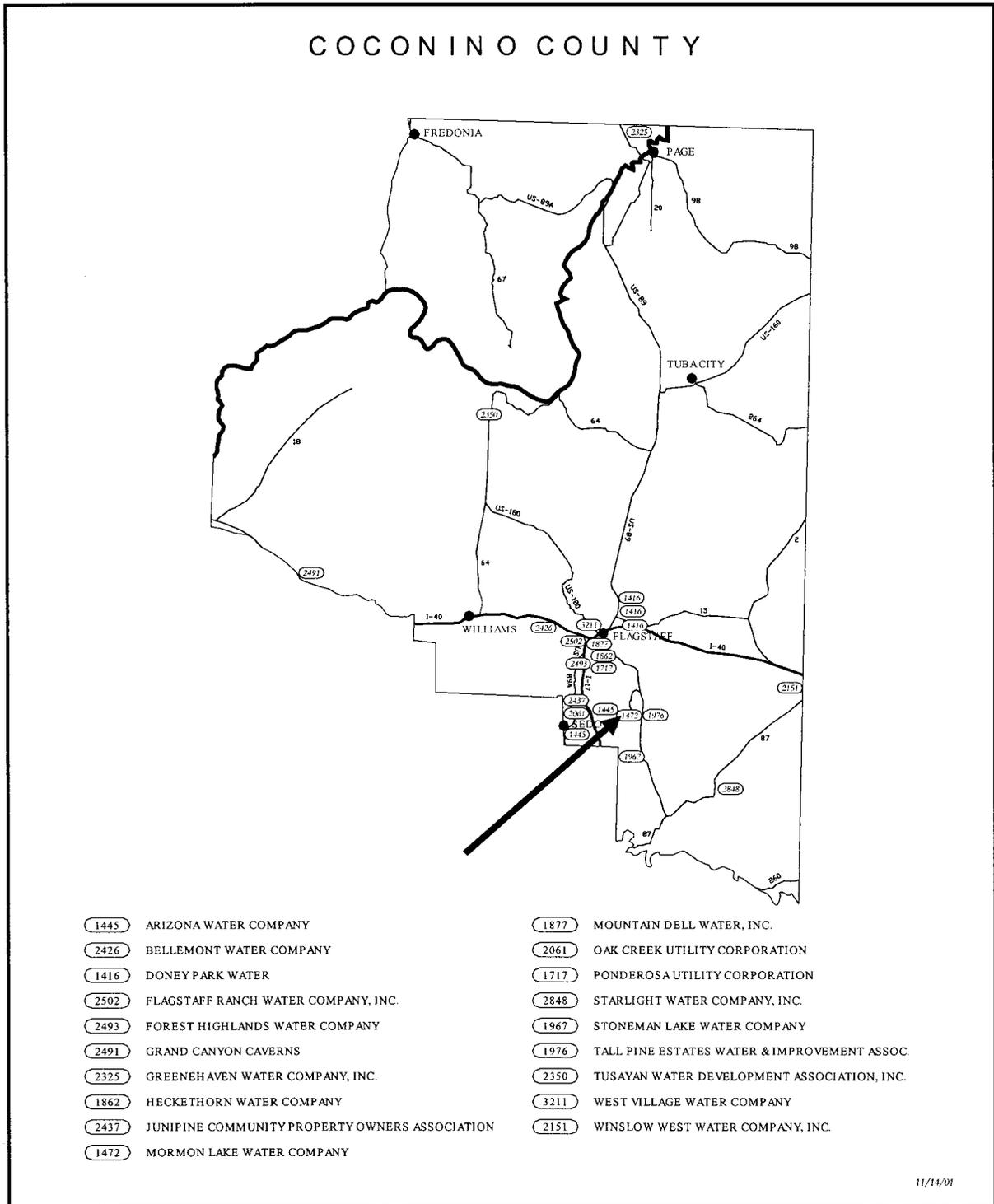


Figure 1. Coconino County Map

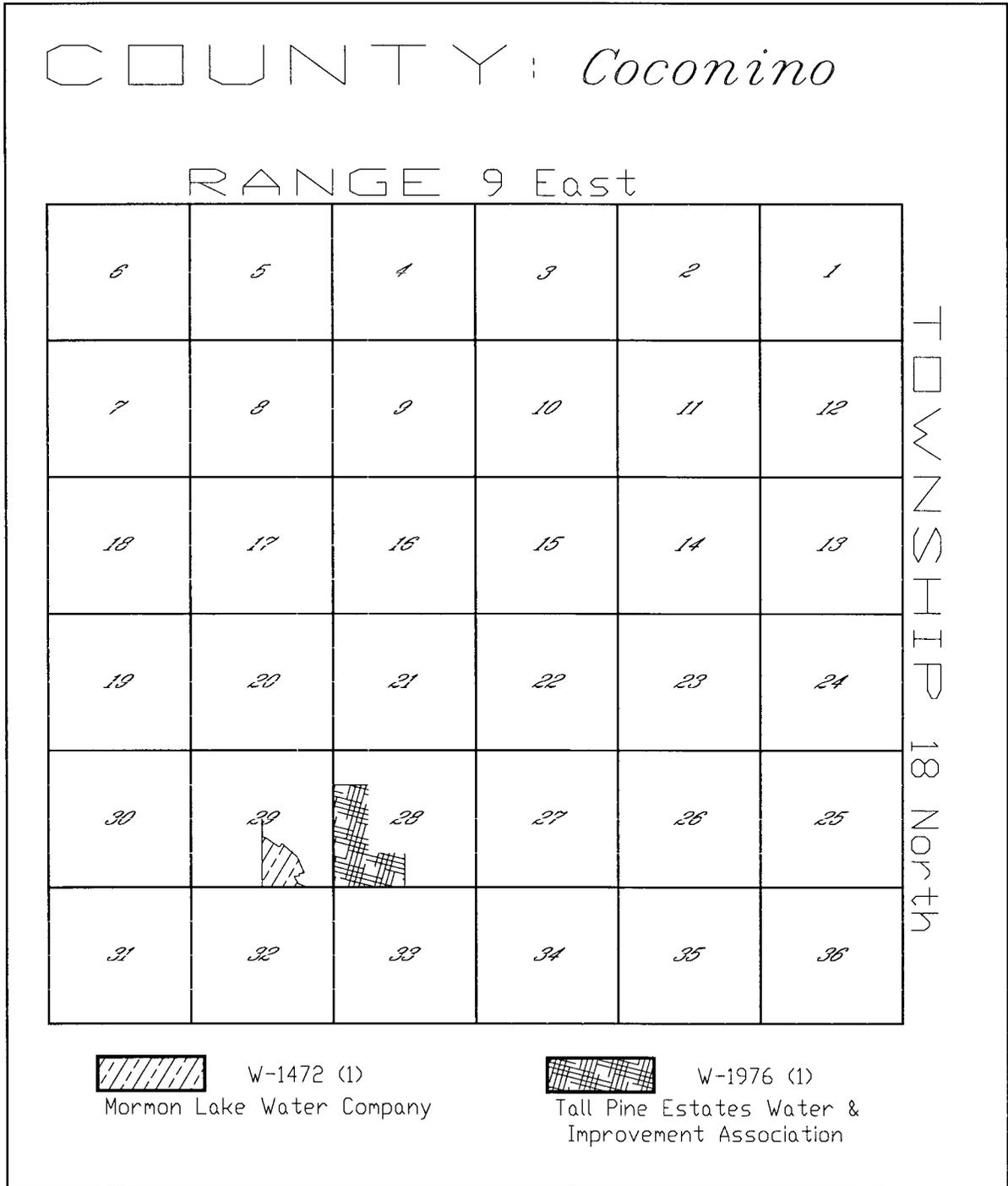


Figure 3. Certificated Area

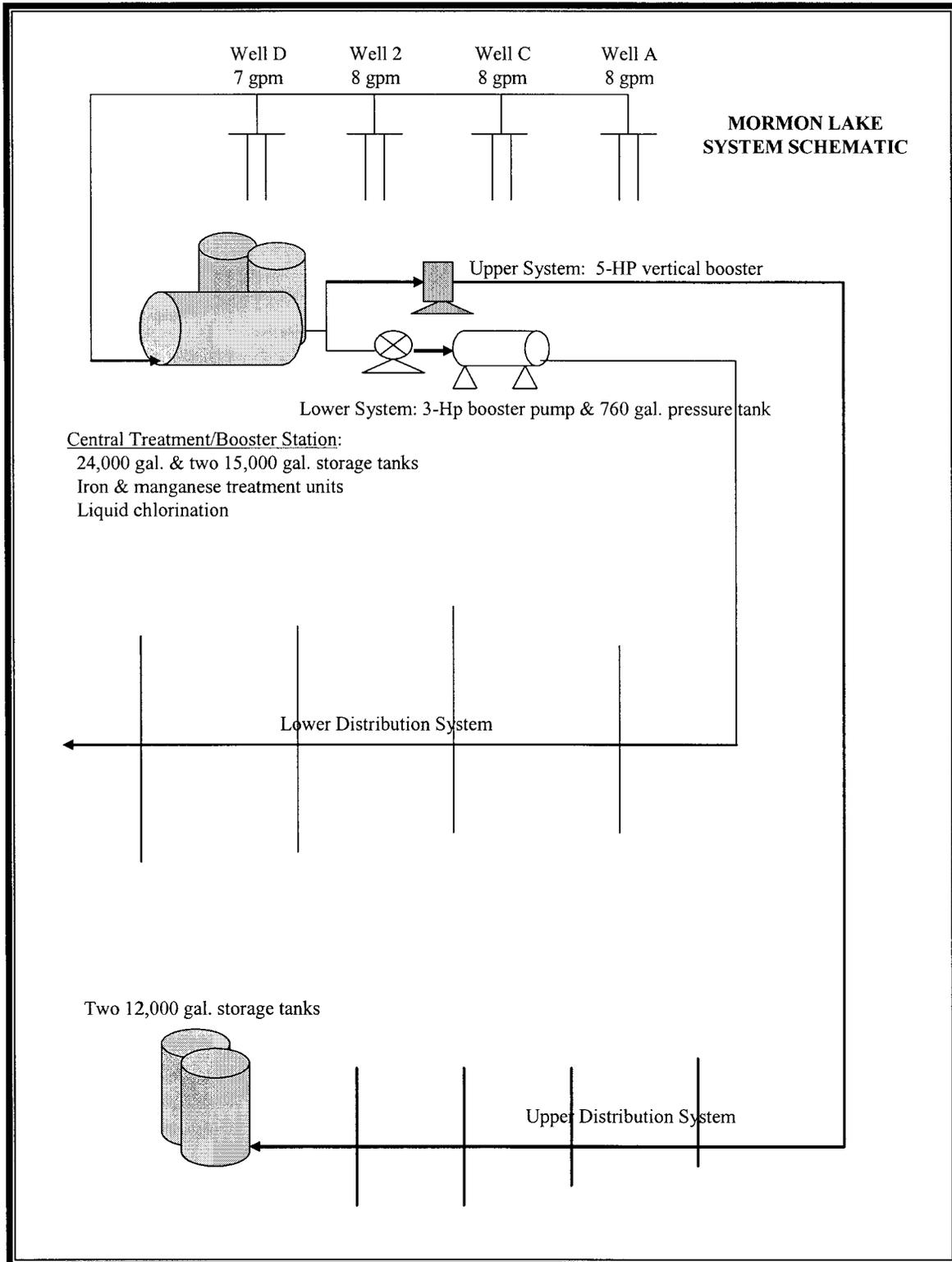


Figure 3. System Schematic

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2006 is presented below. Customer consumption experienced a high monthly water use of 107 gallons per day (“GPD”) per connection and a low monthly water use of 26 GPD per connection for an average annual use of 57 GPD per connection.

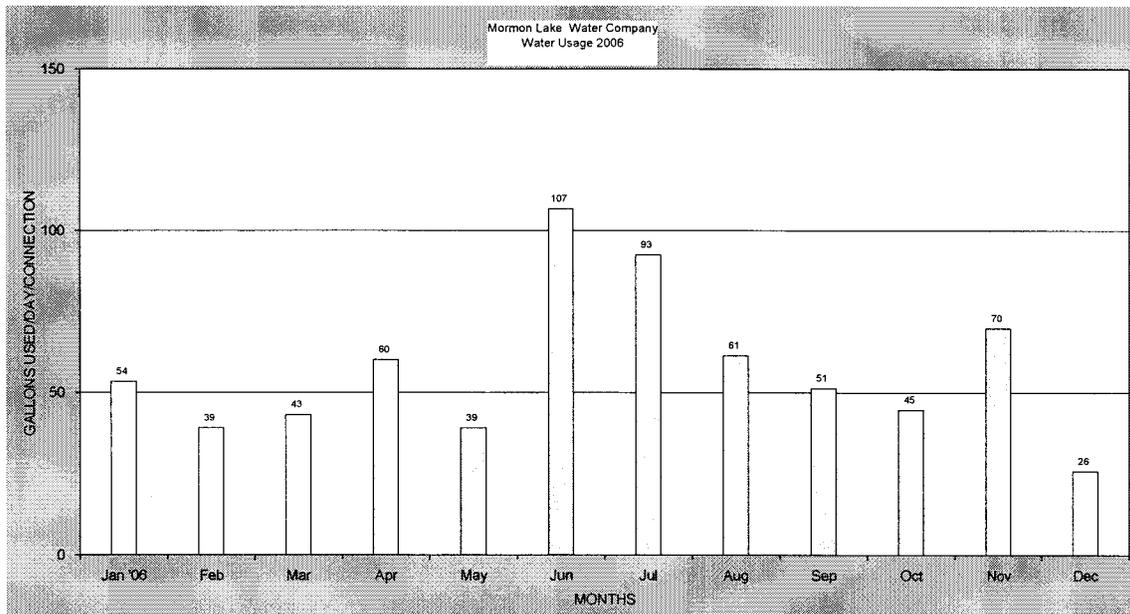


Figure 4. Water Use

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 for Mormon Lake Water Company was calculated to be 3.94%, which is within acceptable limits.

System Analysis

The current well capacity of 31 GPM and storage capacity of 78,000 gallons (54,000 + 24,000 gallons) is not capable of serving the current number of connections during the summer months, without hauling water to supplement production. The Company has had considerable problems maintaining pressure and tank levels during high demand times, primarily from Memorial Day through the end of July. The Company sees a large influx

of visitors from the Valley that come to visit family and friends and to escape the summer heat.

Based on its investigation, Staff has concluded that Mormon Lake Water Company has a unique and complex water system and peak day demand placed on Company's water system is significantly greater than that of the typical water system. This demand was demonstrated by the fact that the Company hauled water during the summer months in the test year 2006 to supplement its well production in order to provide a continuous level of service.

D. GROWTH

For many years there were no new homes added to the Company's service area. The number of service connections was 145 in 2001. During the test year 2006, the Company still had 145 customers. It is projected that this trend of little or no growth will continue for the foreseeable future.

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

Compliance

The Company's water system has been assigned two Public Water Systems ("PWS") Identification Numbers, #03-014 and #03-091. The lower distribution system or pressure zone which serves the year-round residences, is assigned PWS #03-014. The upper distribution system or pressure zone which serves the summer homes and RV Park, is assigned PWS #03-091. The Company and ADEQ have an agreement that the upper system, PWS #03-091, is an unregulated system since it is only a summer time distribution system.

ADEQ has determined that PWS #03-014 has no deficiencies and is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. (Report dated March 26, 2007).

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP") for its Lower System, PWS #03-014. 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 cost at \$1,145.19 during the test year using a 2006 MAP invoice of \$357.94 for 42 year-round residences. Staff used the 2006 MAP fee of \$336.94 in Table A below to calculate Staff's recommended annual monitoring expense with participation in the MAP. Water testing expenses should be adjusted to the annual expense amount shown in Table A, which is \$719.

Table A. Water Testing Cost

Monitoring – 1 POE (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total coliform – monthly	\$17.5	54	\$945	\$315
Inorganics – Priority Pollutants	\$240	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP	MAP
Nitrate - annual	\$25	3	\$75	\$25
Nitrite – once per period	MAP	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP	MAP
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP	\$337
Lead & Copper - annual	\$25	5	\$125	\$42
Total				\$719

Note: ADEQ's MAP invoice for the 2006 Calendar Year was \$357.94 for PWS #03-014 having 42 connections. PWS #03-091 is an unregulated system and therefore does not participate in MAP.

Arsenic

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The most recent lab analysis indicated that the arsenic level for the Company's source supply is 3.0 ppb. Based on this arsenic concentration, the Company is currently meeting the new arsenic MCL of 10 ppb.

F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

The Company is not located in any Active Management Area ("AMA") and is not subject to any of its AMA monitoring and reporting requirements.

G. ARIZONA CORPORATION COMMISSION (“Commission”) COMPLIANCE

A check of the Utilities Division Compliance Section database showed no delinquent compliance items for the Company.

H. DEPRECIATION RATES

In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by National Association of Regulatory Utility Commissioners (“NARUC”) category. (For example, a uniform 5% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B, and were used to re-calculate the annual depreciation expense for the Company. It is recommended that the Company use depreciation rates by individual NARUC category, as delineated in Table B.

Table B. Depreciation Rates

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

340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

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

I. OTHER ISSUES**1. Service Line and Meter Installation Charges**

The Company does not plan to change its existing service line and meter installation charges listed in the following table. These charges are refundable advances and the Company's planned charges are less than Staff's recommended range for these charges. Therefore, Staff recommends acceptance of the Company's planned charges.

Table C. Service Line and Meter Installation Charges

Meter Size	Current Charges	Proposed Charges
5/8 x3/4-inch	\$400	\$400
3/4-inch	\$400	\$400
1-inch	\$500	\$500
1-1/2-inch	\$715	\$715
2-inch	\$1,170	\$1,170
3-inch	\$1,585	\$1,585
4-inch	\$2,540	\$2,540
6-inch	\$4,815	\$4,815

2. Curtailment Plan Tariff

The Company has an approved Curtailment Plan Tariff on file with the Commission.

3. System Adequacy

Due to the Company's unique service requirements, Staff recommends that the production capacity and storage capacity of this system be considered adequate. The combination of the following are what make this water system and its service situation unique:

- a. System actually considered as 2 separate systems by ADEQ.
- b. One system closed down during winter.
- c. Closed winter system not regulated by ADEQ.
- d. No foreseeable growth.
- e. Extremely large fluctuation between average and peak flows.
- f. Year-round system in compliance with ADEQ.

It is only because of the combination of the above facts that Staff considers this system adequate.