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MEMORANDUM

ORIGINAL

TO: Docket Control

FROM: Ernest Johnson
Director
Utilities Division

for

DATE July 7, 2008

RE: STAFF REPORT FOR GROOM CREEK WATER USERS ASSOCIATION
(DOCKET NOS. W-01865A-07-0385 AND W-01865A-07-0384)

Attached is the Supplemental Staff Report for Groom Creek Water Users Association's applications for a permanent rate increase and a financing approval. Staff recommends approval of its rates and charges as shown in Revised Schedule BCA-4. Staff further recommends approval of alternate financing.

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 July 17, 2008.

EGJ:BCA:tdp

Originator: Brendan C. Aladi

Arizona Corporation Commission

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JUL -7 2008

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DOCKET CONTROL

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Service List for: Groom Creek Water Users Association
Docket Nos. W-01865A-07-0385 and W-01865A-07-0384

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**SUPPLEMENTAL STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**GROOM CREEK WATER USERS ASSOCIATION
DOCKET NOS. W-01865A-07-0385 & W-01865A-07-0384**

**APPLICATION
FOR A
PERMANENT RATE INCREASE
AND
FINANCING AUTHORITY**

JULY 7, 2008

STAFF ACKNOWLEDGMENT

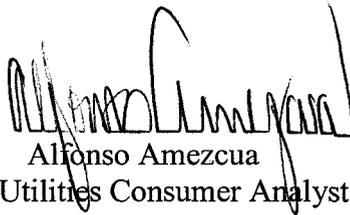
The Supplemental Staff Report for Groom Creek Water Users Association (Docket Nos. W-01865A-07-0385 and W-01865A-07-0384) is the responsibility of the Staff members listed below. Brendan C. Aladi is responsible for the review and analysis of the permanent rate increase and financing authority applications, Staff's revenue requirement, rate base, rate design, and debt service capacity. Marlin Scott, Jr. is responsible for the engineering and technical analysis. Alfonso Amezcua is responsible for reviewing customer complaints filed with the Commission.



Brendan C. Aladi
Public Utilities Analyst III



Marlin Scott, Jr.
Utilities Engineer



Alfonso Amezcua
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
GROOM CREEK WATER USERS ASSOCIATION
DOCKET NOS. W-01865A-07-0385 AND W-01865A-07-0384

On January 31, 2008, Staff docketed its Staff Report regarding the Groom Creek Water Users Association ("Groom Creek" or "Association") requests for a permanent rate increase and approval of financing. Groom Creek filed its objections to the Staff Report in a letter dated February 11, 2008. On March 5, 2008, a procedural conference was held during which Staff and Groom Creek representatives attempted to resolve their differences. Both parties agree that a hearing would help resolve the differences and were hopeful that some issues could be resolved prior to the hearing. As directed by a Procedural Order, dated March 18, 2008, Staff and the Association filed a joint pleading on April 15, 2008, outlining the issues to which Groom Creek and Staff had agreed. The Procedural Order also directed Staff to docket a written response to the remaining unresolved issues raised in the Groom Creek's objections by April 30, 2008. A subsequent Procedural Order, dated May 21, 2008, directed Staff to file a Supplemental Staff Report and state if the parties are in agreement with the Staff recommendations before July 5, 2008. The hearing in these matters was continued from May 22, 2008 to July 21, 2008, at 10:00 a.m. This report ("Supplemental Staff Report") presents Staff's current position on the rate and finance applications and discusses the unresolved issues.

Groom Creek is located approximately five miles southeast of Prescott, in Yavapai County. The Association provides water service to approximately 228 customers. It is not located in an Active Management Area.

The Association proposed total operating revenue of \$151,316, an increase of \$94,184, or 164.9 percent over its test year revenue of \$57,132. The Association's proposed revenue results in an operating income of \$106,992 for a 70.7 percent operating margin. The Association's requested rates, as filed, would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 1,532 gallons from \$18.60 to \$44.93, for an increase of \$26.33 or 141.6 percent, as shown on Schedule BCA-5. The Association also requested authorization to obtain a \$500,000 line of credit at approximately 9.7 percent to finance replacement of mains, valves, service lines and meters. At the hearing on May 15, 2008, Groom Creek acknowledged that its initial financing request was insufficient to fund its planned capital improvements. Subsequently, the Association submitted to Staff an engineering estimate for its most compelling needs for \$1,574,509.

Staff recommends total operating revenue of \$222,369, an increase of \$160,146, or 257.4 percent above the adjusted test year revenue of \$62,223. Staff's recommended revenues would result in an operating income of \$176,843 for an operating margin of 79.5 percent and produce a debt service coverage ratio ("DSC") of 1.25 on the current outstanding loan of \$145,437 and a new \$1.6 million 20-year amortizing loan at 4.9 percent. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 1,532 gallons from \$18.60 to \$66.85 per month, an increase of \$48.25 or 259.4 percent, as shown on Schedule BCA-5. Staff's recommended rates and service charges are presented in Revised Schedule BCA-4 of this report.

Staff reviewed the projects included in the Association's \$1,574,509 capital improvement estimate and found them to be reasonable and appropriate.

Staff concludes that a line of credit is an inappropriate financial instrument to finance the proposed long-term capital improvements. Rather, Staff concludes that the Association's issuance of a long-term amortizing loan of 18 to 30-years for the \$1.6 Million estimated cost of the capital improvements at a rate not to exceed 5.25 percent is appropriate, is within its corporate powers, is compatible with the public interest, would not impair its ability to provide services and would be consistent with sound financial practices.

Staff's understanding is that the Association Board members are in agreement with Staff's recommendations for rates, charges and financing.

Staff recommends:

- Approval of Staff's rates and charges as shown in Revised Schedule BCA-4. In addition to collection of its regular rates and charges, the Association may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D.5).
- Approval of Staff's Service Line and Meter Installation Charges as shown in Table C of the Revised Engineering Report (Attachment A).
- Authorization of the depreciation rates shown in Table B of the Revised Engineering Report (Attachment A).
- That the Commission order Groom Creek to maintain its records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").
- That the Association file with Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- That the Association inquire of customers that are not currently reported as having paid advances whether they have written documentation showing their name, date, and amount paid for meter and service line installations. If customers have the documentation, then the Association should adjust its records and refund the customers the amounts due, calculated in accordance with Commission rules within 60 days.
- That the Commission authorize Groom Creek to obtain an 18- to 30-year amortizing loan for an amount not to exceed \$1.6 million at a rate not to exceed 5.25 percent to finance the Staff recommended capital improvements and to deny the request for authority to obtain a \$500,000 line of credit.

- That any authorization granted in this proceeding to incur long-term debt which remains unused at December 31, 2012, terminate on that date.
- Authorizing Groom Creek to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.
- That a copy of the executed loan documents be filed with Docket Control, as a Compliance item in this docket, within 60 days of the execution of any transactions.
- That Groom Creek submit copies of all Approvals to Construct and Approvals of Construction as they are obtained from ADEQ for all projects covered by this financing.
- That all Approvals of Construction be submitted to Docket Control by no later than December 31, 2010.

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ATTACHMENTS

Revised Engineering Report Attachment A

Engineering Memorandum Attachment B

RATE CASE

Fact Sheet

Company:

Current Rates: Decision No. 62619, dated June 9, 2000.
 Type of Ownership: Association

Location: The Association is located approximately five miles southeast of Prescott in Yavapai County, Arizona. The Association is not located in an Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: June 25, 2007
 Current test year ended: December 31, 2006
 Prior test year ended: December 31, 1998 (rate increase).

Monthly Charges:

	<u>Current Rates</u>	Association <u>Proposed Rates</u>	Staff Recommended <u>Rates</u>
Monthly Minimum Charge 5/8 x 3/4 – inch meter	\$14.00	\$42.00	\$50.00
Gallons in Minimum	0	1,000	0
Commodity Charge:			
0 to 3,000 gallons (per 1,000 gallons)	\$3.00		
3,001 to 6,000 gallons (per 1,000 gallons)	\$3.50		
6,001 to 10,000 gallons (per 1,000 gallons)	\$4.00		
Over 10,000 gallons (per 1,000 gallons)	\$8.00		
1,001 to 6,000 gallons (per 1,000 gallons)		\$5.50	
6,001 to 10,000 gallons (per 1,000 gallons)		\$8.00	
10,001 to 20,000 gallons (per 1,000 gallons)		\$10.00	
Over 20,000 gallons (per 1,000 gallons)		\$12.00	
0 to 3,000 gallons (per 1,000 gallons)			\$11.00
3,001 to 6,000 gallons (per 1,000 gallons)			\$13.00
6,001 to 10,000 gallons (per 1,000 gallons)			\$15.50
Over 10,000 gallons (per 1,000 gallons)			\$31.00

<u>Typical residential bill:</u>	Current Rates	Association Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Average use (2,433 gallons)	\$21.30	\$49.88	\$76.77
Median use (1,532 gallons)	\$18.60	\$44.93	\$66.85

Customers:

Number of customers in prior test year (12/31/98): 215

Number of customers in the current test year (12/31/06): 228

Current test year customers by meter size:

5/8 X 3/4 – inch 228

Seasonal customers: approximately 137 (60 percent)

Customer notification for financing application sent: April 4, 2008

Customer notification for rate application filed: June 25, 2007

Number of customer complaints and/or opinions concerning rate/financing applications filed: 107
(67 were in favor of the rate increase)

Percentage of complaints to customer base: 47%

Summary of Filing

The test year results for Groom Creek Water Users Association (“Groom Creek” or “Association”) , as adjusted by the Arizona Corporation Commission (“Commission”) Utilities Division (“Staff”), show total operating revenue of \$62,223 and an operating income of \$16,697 on an Original Cost Rate Base (“OCRB”) of \$31,757, for an operating margin of 26.83 percent, as shown in Schedule BCA-1.

The Association’s proposed rates would produce total operating revenue of \$151,316 and operating income of \$106,992, or a 70.71 percent operating margin. The Company’s proposed rates would increase the typical residential bill with a median usage of 1,532 gallons by \$26.33, from \$18.60 to \$44.93 per month, as shown in Schedule BCA-5.

Staff’s recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 1,532 gallons from \$18.60 to \$66.85 per month, an increase of \$48.25 or

259.4 percent, as shown on Schedule BCA-5. Staff recommends rates that would produce total operating revenue of \$222,369, operating income of \$176,843 and an operating margin of 79.53 percent.

Background

Groom Creek is an Arizona Association engaged in the business of providing water services in areas located approximately five miles southeast of Prescott, in Yavapai County. The Association received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 53067, dated June 9, 1982. Groom Creek's current rates were established in Decision No. 62619, dated June 9, 2000. Presently the Association has one Commission-approved long-term debt.

On June 25, 2007, Groom Creek filed both a financing application (Docket No. W-01865A-07-0384) and an application for a permanent rate increase (Docket No. W-01865A-07-0385). On July 25, 2007 Staff filed a Letter of Insufficiency. Staff issued a Letter of Sufficiency August 10, 2007. The financing application and the application for a permanent rate increase were combined per a Procedural Order issued on November 30, 2007, and the time clock in this matter was suspended. A subsequent Procedural Order dated December 27, 2007, directed Staff to file its report by January 31, 2008. The Association provided evidence in its Application that customers had been notified of the filing of the rate case by mail on June 25, 2007.

Staff docketed its initial report ("Staff Report") regarding Groom Creek requests for a permanent rate increase and approval of financing on January 31, 2008. Groom Creek filed its objections to the Staff Report in a letter dated February 11, 2008. On March 5, 2008, a procedural conference was held during which Staff and Groom Creek representatives attempted to resolve their differences. Both parties agreed that a hearing would help resolve the differences and were hopeful that some issues could be resolved prior to the hearing. As directed by a Procedural Order, dated March 18, 2008, Staff and the Association filed a joint pleading on April 15, 2008, outlining the issues to which Groom Creek and Staff had agreed. The Procedural Order also directed Staff to docket a written response to the remaining unresolved issues raised in the Groom Creek's objections by April 30, 2008. Staff filed its response on May 13, 2008. A subsequent Procedural order, dated May 21, 2008, directed Staff to file a Supplemental Staff Report and state whether the parties were in agreement with the Staff recommendations before July 5, 2008, and the hearing was continued from May 22, 2008 to July 21, 2008. This report ("Supplemental Staff Report") presents Staff's current position on the rate and finance applications. Staff's understanding is that the Association Board members are in agreement with Staff's current recommendations for rates, charges and financing.

Staff's review revealed that the Association does not maintain adequate records and could not produce supporting documentation for its plant additions and retirements. The Association's recordkeeping is not in compliance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

Consumer Services

Staff reviewed the Commission's records and found eight complaints (one billing, one new service, four quality of service, and two deposits) and ninety-nine opinions (sixty-seven in favor of rate increase and thirty-two opposed to the rate increase) for the period January 1, 2004 to July 2, 2008.

Engineering Analysis and Recommendations

Staff inspected the Association's plant facilities on August 21, 2007. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Revised Engineering Report (Attachment A) and Engineering Memorandum (Attachment B).

Staff recommends that the Association use Staff's depreciation rates as shown in Table B of the Revised Engineering Report.

Staff recommends approval of Staff's Service Line and Meter Installation Charges as shown in Table C of the Revised Engineering Report.

The Association submitted ADEQ documentation stating that the Association is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that the Association file a backflow prevention tariff in the form found on the Commission's website at www.azcc.gov/divisions/utilities/forms/cross_c.pdf. The tariff shall be docketed as a compliance item in this docket within 45 days of the effective date of order in this proceeding for review and certification by Staff.

Compliance

Groom Creek is current on its Utilities and Corporations annual reports. Groom Creek is also current on its sales and property tax payments.

Decision No. 62619, dated June 9, 2000 authorized the Association to collect \$450 for service line and meter installations. The Association had 215 customers at the end of 1998 and currently serves approximately 228 customers, an increase of 13 customers. The Association reported a balance of \$9,536 in the meter and meter installation account and did not adjust the balance down to \$6,921 per the prior Decision No. 62619.

The Chairman of the Association acknowledged that service line and meter installation charges had been collected prior to the election of the current Association Board. The status of refunds to customers is unknown and no records regarding refunds were maintained. Since the current Association Board took office, Groom Creek has collected service line and meter

installation charges from two customers. A partial refund has been made to one of those customers and no refund is yet due to the second customer.

Rate Base

Staff's adjustments decreased the Association's proposed rate base by \$28,261, from \$60,018 to \$31,757, as shown in Schedule BCA-2, page 1. Details of Staff's adjustments are discussed below.

Plant In Service – Adjustment A reclassifies the plant in service to reflect the balances authorized in the prior rate case, Decision No. 62619, as the beginning balances and makes adjustments to remove unsupported plant additions and retirements since the last test year through the end of the current test year totaling \$13,364. Adjustment B adds \$400 to Power Operated Equipment to reflect the total of invoices supporting plant additions.

Accumulated Depreciation – Adjustment C increases Accumulated Depreciation by \$20,279, from \$237,630 to \$257,909, as shown in schedule BCA-2, page 3. Staff calculated its balance by beginning with the balances authorized in the prior rate case and applying the authorized depreciation rates to Staff's recommended plant balances for the intervening years.

Working Capital – Adjustment D provides a cash working capital allowance of \$4,982 based on the formula method. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, purchased power expenses plus one twenty-fourth of purchased power expenses. Groom Creek did not claim a cash working capital allowance.

Operating Income Statement

Staff's adjustments increased the Association's proposed operating income by \$3,889, from \$12,808 to \$16,697, as shown in Schedule BCA-3 page 1. Details of Staff's adjustments to operating revenues and expenses are discussed below.

Operating Revenue

Metered Water Revenue – Adjustment A increases metered revenue by \$5,091, from \$55,902 to \$60,993, to reflect the revenue generated by the test year billing determinants in the Association's filing.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net increase of \$1,201, from \$44,324 to \$45,526.

Purchased Power – Adjustment B decreases this account by \$50, from \$3,501 to \$3,451, to reflect the aggregate of the test year purchased power invoices.

Repair and Maintenance Expense – Adjustment C increases this account by \$1,316, from \$2,426 to \$3,742, to recognize the total of the test year supported expenses.

Office Supplies Expense – Adjustment D decreases this account by \$592, from \$1,388 to \$796, to reflect the total documented test year expenses.

Outside Services – Adjustment E increases this account by \$6,365, from \$20,171 to \$26,536. This adjustment removes an unsupported amount of \$60, recognized a \$252 reclassification from water testing expense, recognizes an additional \$3,071 for the annualization of accounting service costs from 8 to 12 months, and recognizes an additional \$3,102 for the annualization of water operator costs from 8 to 12 months.

Water Testing – Adjustment F reduces water testing expense by \$252, from \$2,208 to \$1,956, to reclassify contracted operator expenses to Outside Services as discussed in the attached Revised Engineering Report.

Depreciation Expense – Adjustment G decreases this account by \$4,008, from \$4,871 to \$863, as shown on Schedule BCA-3, pages 1 and 3. This adjustment reflects application of Staff's recommended depreciation rates as shown in Table B of the Engineering Report to Staff's recommended depreciable plant balances on a going forward basis.

Income Tax Expense – Adjustment H decreases this account by \$1,578 from \$1,578 to \$0 to remove income tax expense claimed for which the Association should not be liable. The Association has received confirmation that it is exempt from Federal income tax under the Internal Revenue Code, Section 501 (c) (12).

Revenue Requirement

Staff recommends total operating revenue of \$222,369, a \$160,146 or 257.74 percent increase over the Staff adjusted test year operating revenue of \$62,223. Staff's recommended revenue provides an operating income of \$176,843 and operating margin of 79.53 percent as shown in Schedule BCA-1. Staff's recommended revenue produces a pro forma 1.25 Debt Service Coverage ("DSC") on the current outstanding loan of \$145,438 and a new \$1.6 million 20-year amortizing loan at 4.9 percent², and it would provide sufficient cash flow for all obligations.

Rate Design

Revised Schedule BCA-4 presents a complete list of the Association's present, proposed, and Staff's recommended rates and charges.

² The \$1.6 Million loan is discussed below.

The present rate design is an inverted, four-tier commodity rate structure with breakover points at 3,000, 6,000 and 10,000 gallons for all meter sizes with no gallons in the minimum.

The Association proposes to continue use of a four-tier rate structure. However, the proposed rate structure has breakover points at 6,000, 10,000 and 20,000 gallons for all meter sizes with 1,000 gallons in the minimum. The Association's proposed rates would increase the median usage (1,532 gallon) 5/8 x 3/4-inch meter residential customer's bill from \$18.60 to \$44.93, an increase of \$26.33 or 141.6 percent.

Staff recommends a four-tier, inverted rate structure for 5/8 x 3/4-inch and 3/4-inch meters and a two-tier, inverted rate structure for larger meters. Currently, all customers are served by 5/8 x 3/4-inch meters. The breakover points for 5/8 x 3/4-inch and 3/4-inch meters are at 3,000, 6,000 and 10,000 gallons. The breakover points for larger meters increase with size. Staff's recommended rates would increase the median usage (1,532 gallons) 5/8 x 3/4-inch meter residential customer's bill from \$18.60 to \$66.85, an increase of \$48.25 or 259.4 percent.

The Association proposes new services line and meter installation charges as shown in Revised Schedule BCA-4. Staff recommends approval of the "total" charges as shown in Table C of the Revised Engineering Report, with separate charges for the service line and meter portions.

The Association proposes to increase service charges for Establishment Fee from \$10 to \$75. Staff finds \$30 to be a reasonable and normal charge and recommends it.

The Association proposes no service charge for Establishment (After hours). Staff finds \$40 to be a reasonable and normal charge and recommends it.

The Association proposes to increase service charges for Reconnection (delinquent) from \$10 to \$50. Staff finds \$30 to be a reasonable and normal charge and recommends it.

The Association proposes to increase Meter Tests (if correct) from \$7.50 to \$25. Staff finds \$25 to be a reasonable and normal charge and recommends it.

The Association proposes to increase service charges for Re-establishment (Within 12 months) from \$14 to \$75. Staff recommends a charge equal to the monthly minimum charge times the number of months off the system, per A.C.C. R14-2-403 D.

The Association proposes to increase non-sufficient funds ("NSF") charges from \$25 to \$40. Staff finds \$25 to be a reasonable and normal charge and recommends it.

The Association proposes to increase Deferred Payments (per month) from \$5 to \$10. Staff finds 1.50 percent of the monthly outstanding balance to be a reasonable and normal charge and recommends it.

The Association proposes to increase Meter Re-reads (if correct) from \$5 to \$25. Staff finds \$25 to be a reasonable and normal charge and recommends it.

The Association proposes to increase late payment charge-per month from \$0³ to \$10. Staff finds 1.50 percent of the monthly outstanding balance to be a reasonable and normal charge and recommends it.

Staff Recommendations - Rates

Staff recommends:

- Approval of Staff's rates and charges as shown in Revised Schedule BCA-4. In addition to collection of its regular rates and charges, the Association may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D.5).
- Approval of Staff's Service Line and Meter Installation Charges as shown in Table C of the Revised Engineering Report (Attachment A)
- Authorization of the depreciation rates shown in Table B of the Revised Engineering Report.
- That the Commission order Groom Creek to maintain its records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").
- That the Association file with Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after a Decision in this matter is issued.
- That the Association inquire of customers that are not currently reported as having paid advances, whether they have written documentation showing their name, date, and amount paid for meter and service line installations. If customers provide the documentation, then the Association should adjust its records and refund the customers the amounts due, calculated in accordance with Commission rules, within 60 days.

³ Application indicates a late payment charge of \$5, the filed tariff schedule shows no late payment charge.

FINANCING

Introduction

On June 25, 2007, Groom Creek filed a financing application with the Commission requesting authorization to obtain a line of credit in the amount of \$500,000 for a water main replacement project.

The Association's original engineering cost estimate for all of the proposed capital improvements was \$2,974,952. The cost estimate for the first phase, which Staff found to be reasonable and appropriate, was \$491,134.

At the hearing on May 15, 2008, Groom Creek acknowledged that its initial financing request was insufficient to fund its planned capital improvements. Subsequently, the Association submitted to Staff an engineering estimate for its most compelling needs which totaled \$1,574,509. Staff finds these capital improvements and estimated costs to be reasonable and appropriate. A primary component of Staff's revenue requirement presented in this Supplemental Staff Report is the debt service requirement of a loan required to fund these prioritized capital improvements. Specifically, Staff developed a revenue requirement sufficient to provide debt service on a \$1.6 million 20-year amortizing loan at 4.9 percent per annum.

Public Notice

On March 31, 2008, Groom Creek mailed notice to its customers of the financing application. Notice was published in the *Prescott Daily Courier* on March 30 and 31, 2008, and a corrected notice was published on April 3 and 4, 2008. Groom Creek plans to mail each customer a revised notice with Staff's revenue, rate and financing recommendations from this Supplemental Staff Report on July 7, 2008.

Purpose and Terms of the Proposed Financing

The Association is requesting⁴ a line of credit approval in the amount of \$500,000 at 9.7⁵ percent interest for a water distribution main replacement project that will consist of:

- Replacement of all transite pipes with PVC.
- Installation of gate valves and blow-off valves.
- Replacement of all existing service lines.
- Replacement of Water Meters.
- Installation of 43 remaining service taps for future services.

⁴ Staff believes that Groom Creek's Board of Director's supports Staff's recommendation for a \$1.6 million loan and related capital improvement plan, but the Association has not filed a change to its initial request. These funds are for water mains, a storage tank and booster system (Refer to the Engineering Memorandum, Attachment B for detail).

⁵ According to the Association's February 11, 2008, objection letter, it has a quote at 8 percent.

The Association is proposing to increase storage tank capacity and install fire hydrants on the new distribution mains.

Engineering Analysis

Staff examined the first phase of the initial construction plans and estimated cost of \$491,134 for the Groom Creek's construction projects and found them to be reasonable and appropriate. As previously noted, at the hearing on May 15, 2008, Groom Creek acknowledged that its initial financing request was insufficient to fund its planned capital improvements and submitted to Staff an engineering estimate for its primary needs, totaling \$1,574,509. Staff finds these capital improvements and estimated costs to be reasonable and appropriate. The Engineering Memorandum (Attachment B) provides details for these construction projects. Staff makes no "used and useful" determination of the proposed plant and no particular future treatment should be inferred for rate-making or rate base purposes.

Financial Analysis

Staff's analysis is based on Groom Creek's financial statements dated December 31, 2006. The financial analysis shown in Schedule BCA-6 presents selected financial information from the financial statements and the pro forma effect of a new \$1.6 million, 20-year amortizing loan at 4.9 percent per annum combined with Staff's recommended revenues and expenses from the rate case. Schedule BCA-6 also shows the capital structure and both debt service coverage ("DSC") and times interest earned ("TIER") ratios.

Capital Structure

As of December 31, 2006, Groom Creek's capital structure consisted of 3.7 percent short-term debt, 77.8 percent long-term debt, and 18.4 percent equity. Groom Creek's drawing of the entire proposed loan of \$1.6 million would result in a pro forma capital structure comprised of 3.2 percent short-term debt, 94.9 percent long-term debt and 1.9 percent equity as shown in Schedule BCA-6.

Interest and Debt Service Coverage

Staff also examined the effects of the proposed financing on the Association's TIER and DSC.

DSC represents the number of times internally generated cash (i.e., earnings before interest, income tax, depreciation and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

TIER represents the number of times earnings before income tax expense covers interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating income

is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

Schedule BCA-6 shows that for the year ending December 31, 2006, Groom Creek had a 2.24 TIER and a 1.21 DSC. The pro forma analysis shows that Staff's recommended revenue with a fully drawn \$1.6 million 20-year, 4.9 percent amortizing loan results in a pro forma 2.09 TIER and 1.25 DSC. The pro forma TIER and DSC show that Groom Creek would have adequate cash flow to meet all obligations, including the proposed debt.

Conclusions and Recommendations - Financing

Staff concludes that a line of credit is an inappropriate financial instrument to finance the proposed long-term capital improvements. Staff further concludes that issuance of a long-term amortizing loan of 18 to 30-years for the \$1.6 million estimated cost of the first phase capital improvements at a rate not to exceed 5.25 percent is appropriate, within Groom Creek's corporate powers, is compatible with the public interest, would not impair Groom Creek's ability to provide services and would be consistent with sound financial practices.

Staff recommends that the Commission authorize Groom Creek to obtain an 18- to 22-year amortizing loan for an amount not to exceed \$1.6 million at a rate not to exceed 5.25 percent to finance the Staff recommended capital improvements and that the Commission deny the request for authority to obtain a \$500,000 line of credit.

Staff further recommends that any authorization granted in this proceeding to incur long-term debt which remains unused at December 31, 2012, terminate on that date.

Staff further recommends authorizing Groom Creek to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that a copy of the executed loan documents be filed with Docket Control, as a Compliance item in this docket, within 60 days of the execution of any transactions.

RESPONSE TO THE ASSOCIATIONS OBJECTIONS

The Association's letter, dated February 11, 2008, specifying objections to the Staff Report enumerates five issues as follows: 1) financing type; 2) rates/revenues; 3) tax exempt status; 4) service line and meter installation charges; and 5) inconsistencies in service charges between the narrative and schedules. Staff's understanding is that all of the issues are resolved and that Groom Creek is in agreement with recommendations made in the Supplemental Staff Report. Item nos. 1 and 2 are resolved by agreement on the amount and type of financing, the revenue requirement necessary to provide adequate debt service and the rate design. Item no. 3 regarding the Association's tax exempt status was not a disputed item, and the attachment to the Association's objection letter confirms its tax exempt status. Item no. 4 regarding meter line and

service installation charges was resolved by joint agreement between Staff and the Association as noted in Staff's April 15, 2008, pleading. The recommended charges are shown in Revised Schedule BCA-4. Item no. 5 is resolved by this Supplemental Staff Report that corrects the inconsistencies in service charges between the narrative and the schedules. The correct service charges are presented in Revised Schedule BCA-4.

The Association's objection letter requested that copies of customer complaints and opinions be forwarded to it. Staff has provided a copy of all complaints to the Association, and opinions regarding the rate applications are posted on the Commission's web site.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$55,902	\$60,993	\$151,316	\$221,139
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	1,230	1,230	0	1,230
Total Operating Revenue	\$57,132	\$62,223	\$151,316	\$222,369
Operating Expenses:				
Operation and Maintenance	\$35,373	\$42,161	\$35,373	\$42,161
Depreciation	4,871	863	4,871	863
Property & Other Taxes	2,502	2,502	2,502	2,502
Income Tax	1,578	0	1,578	0
Total Operating Expense	\$44,324	\$45,526	\$44,324	\$45,526
Operating Income/(Loss)	\$12,808	\$16,697	\$106,992	\$176,843
Rate Base O.C.L.D.	\$60,018	\$31,757	\$60,018	\$31,757
Rate of Return - O.C.L.D.	21.34%	52.58%	178.27%	556.86%
Times Interest Earned Ratio (Pre-Tax)	2.24	0.20	1.26	2.09
Debt Service Coverage Ratio (Pre-Tax)	1.21	0.21	0.78	1.25
Operating Margin	22.42%	26.83%	70.71%	79.53%

- 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	Adjustment	Staff
Plant in Service	\$296,908	(\$12,964) A,B	\$283,944
Less:			
Accum. Depreciation	237,630	20,279 C	257,909
Net Plant	\$59,278	(\$33,243)	\$26,035
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	\$144 D	\$144
1/8 Operation & Maint.	0	4,839 D	4,839
Inventory	0	0	0
Prepayments	740	0	740
Total Additions	\$740	\$4,982	\$5,722
Rate Base	\$60,018	(\$28,261)	\$31,757

Explanation of Adjustment:

- A - Refer to Schedule BCA-2, Page 2.
- B - Refer to Schedule BCA-2, Page 2.
- C - Refer to Schedule BCA-2, Page 3.
- D - To provide cash working capital allowance based on the formula method.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	\$0	\$12,579	A	\$12,579
302 Franchises	0	0		0
303 Land & Land Rights	18,000	(6,000)	A	12,000
304 Structures & Improvements	8,953	(321)		8,632
307 Wells & Springs	14,908	(5,770)	A	9,138
311 Pumping Equipment	25,331	(16,670)	A	8,661
320 Water Treatment Equipment	0	728	A	728
330 Distribution Reservoirs & Standpipes	56,515	(11,454)	A	45,061
331 Transmission & Distribution Mains	94,671	33,152	A	127,823
333 Services	0	29,795	A	29,795
334 Meters & Meter Installations	9,536	(2,615)	A	6,921
335 Hydrants	0	0		0
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipment	50,158	(46,245)	A	3,913
340 Office Furniture & Equipment	710	734		1,444
341 Transportation Equipment	0	0		0
343 Tools Shop & Garage Equipment	7,550	(5,777)	A	1,773
344 Laboratory Equipment	0	0		0
345 Power Operated Equipment	10,576	4,900	A,B	15,476
346 Communication Equipment	0	0		0
347 Miscellaneous Equipment	0	0		0
348 Other Tangible Plant	0	0		0
105 C.W.I.P.	0	0		0
TOTALS	\$296,908	\$ (12,964)		\$283,944

Explanation of Adjustment:

- A - To reclassify the plant in service to reflect the balances authorized in the prior rate case (Decision No. 62619) as the beginning balances and to remove unsupported additions and retirements through the end of the test year.

Adjustments for plant additions and retirements are as follows:

Account #	Adjustments
301	\$ 12,579
302	\$ -
303	\$ (6,000)
304	\$ (321)
307	\$ (5,770)
311	\$ (16,670)
320	\$ 728
330	\$ (11,454)
331	\$ 33,152
333	\$ 29,795
334	\$ (2,615)
335	\$ -
336	\$ -
339	\$ (46,245)
340	\$ 734
341	\$ -
343	\$ (5,777)
344	\$ -
345	\$ 4,500
346	\$ -
347	\$ -
348	\$ -
105	\$ -
Total	\$ (13,364)

- B - To recognize \$400 of invoices supporting plant additions.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$237,630
Accumulated Depreciation - Per Staff	257,909 C
Total Adjustment	\$20,279

Explanation of Adjustment:

- C - Staff calculated accumulated depreciation using the balances authorized in the prior rate case (Decision No. 62619) as the beginning balances and applying the authorized depreciation rates to Staff's recommended plant balances for the intervening years.

ACCT	ACCUMULATED DEPRECIATION		
	Staff Calculated	Company Application	Staff Adjustment
<u>No. Description</u>			
301 Intangibles	\$ 7,698	\$ -	\$ 7,698
303 Land and Land Rights	-	-	-
304 Structures and Improvements	8,632	8,953	(321)
307 Wells and Srings	9,138	11,402	(2,264)
311 Pumping Equipment	8,661	25,331	(16,670)
320 Water Treatment Equipment	728	-	728
330 Distribution Reservoirs & Standpipes	45,061	55,784	(10,723)
331 Transmission and Distribution Mains	127,823	81,925	45,898
333 Services	29,795	-	29,795
334 Meters and Meter Installation	6,921	9,536	(2,615)
335 Hydrants	-	-	-
339 Other Plant and Miscellaneous Equipment	3,913	37,876	(33,963)
340 Office Furniture and Fixtures	1,444	527	917
341 Transportation Equipment	-	-	-
343 Tools and Work Equipment	1,773	2,518	(745)
345 Power Operated Equipment	6,322	3,777	2,545
346 Communications Equipment	-	-	-
348 Other Tangible Plant	-	-	-
105 C.W.I.P.	-	-	-
Total	\$ 257,909	\$237,630	\$ 20,279

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	\$55,902	\$5,091	A	\$60,993
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	1,230	0		1,230
Total Operating Revenue	\$57,132	\$5,091		\$62,223
Operating Expenses:				
601 Salaries and Wages	\$0	\$0		\$0
610 Purchased Water	0	0		0
615 Purchased Power	3,501	(50)	B	3,451
618 Chemicals	0	0		0
620 Repairs and Maintenance	2,426	1,316	C	3,742
621 Office Supplies & Expense	1,388	(592)	D	796
630 Outside Services	20,171	6,365	E	26,536
635 Water Testing	2,208	(252)	F	1,956
641 Rents	0	0		0
650 Transportation Expenses	0	0		0
657 Insurance - General Liability	1,460	0		1,460
659 Insurance - Health and Life	0	0		0
666 Regulatory Commission Expense - Rate Case	0	0		0
675 Miscellaneous Expense	4,220	(0)		4,220
403 Depreciation Expense	4,871	(4,008)	G	863
408 Taxes Other Than Income	0	0		0
408.11 Property Taxes	2,502	0		2,502
409 Income Tax	1,578	(1,578)	H	0
Total Operating Expenses	\$44,324	\$1,201		\$45,526
OPERATING INCOME/(LOSS)	\$12,808	\$3,889		\$16,697
Other Income/(Expense):				
419 Interest and Dividend Income	\$5,330	\$0		\$4,590
421 Non-Utility Income	0	0		0
427 Interest Expense	7,910	(0)		7,910
426 Miscellaneous Non-Utility Expense	0	0		0
Total Other Income/(Expense)	(\$2,580)	\$0		(\$3,320)
NET INCOME/(LOSS)	\$10,228	\$3,889		\$13,376

STAFF ADJUSTMENTS

A -	METERED WATER REVENUE - Per Company Per Staff	\$55,902 <u>60,993</u>	<u>\$5,091</u>
	To reflect the revenue generated by the test year billing determinants.		
B -	PURCHASED POWER - Per Company Per Staff	\$3,501 <u>3,451</u>	<u>(\$50)</u>
	To reflect the aggregate of the test year purchased power invoices.		
C -	REPAIRS AND MAINTENANCE - Per Company Per Staff	\$2,426 <u>3,742</u>	<u>\$1,316</u>
	To recognize the total of the test year supported expenses.		
D -	OFFICE SUPPLIES & EXPENSE - Per Company Per Staff	\$1,388 <u>796</u>	<u>(\$592)</u>
	To reflect the documented test year expenses.		
E -	OUTSIDE SERVICES - Per Company Per Staff	\$20,171 <u>26,536</u>	<u>\$6,365</u>
	To remove an unsupported amount of \$60, to add \$252 for reclassification from water testing expense, to add \$3,071 and \$3,102 for annualizations of accounting costs and water operator services, respectively.		
F -	WATER TESTING - Per Company Per Staff	\$2,208 <u>1,956</u>	<u>(\$252)</u>
	To reclassify invoices to outside services.		

STAFF ADJUSTMENTS (Cont.)

G - DEPRECIATION - Per Company \$4,871
Per Staff 863 (\$4,008)

To reflect application of Staff's recommended depreciation rates to Staff's recommended plant, by account.

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment G - Test Year Depreciation Expense

	[A]	[B]	[C]	[D]	[E]
DESCRIPTION	Plant In Service Per Staff	NonDepreciable or Fully Depreciated Plant	Depreciable Plant (Col A - Col B)	Depreciation Rate	Depreciation Expense (Col C x Col D)
301 - Intangibles	\$12,579	\$ -	\$ 12,579	2.50%	\$ 314
302 - Franchise Cost	-	-	-	0.00%	-
303 - Land and Land Rights	12,000	12,000	-	0.00%	-
304 - Structures and Improvements	8,632	8,632	-	3.33%	-
307 - Wells & Spring	9,138	9,138	-	3.33%	-
310 - Power Generation Equip.	-	-	-	5.00%	-
311 - Electric Pumping Equipment	8,661	8,661	-	12.50%	-
320 - Water Treatment Equipment	728	728	-	3.33%	-
330 - Distribution Resrvr & Standpipe	45,061	45,061	-	2.22%	-
331 - Transmission & Distr. Mains	127,823	127,823	-	2.00%	-
333 - Services	29,795	29,795	-	3.33%	-
334 - Meter	6,921	6,921	-	8.33%	-
335 - Hydrants	-	-	-	2.00%	-
339 - Other Plant & Misc Equipment	3,913	3,913	-	6.67%	-
340 - Office Furniture and Fixtures	1,444	1,444	-	6.67%	-
341 - Transportation Equipment	-	-	-	20.00%	-
343 - Tools & Work Equipment	1,773	1,773	-	5.00%	-
345 - Power Operated Equipment	15,476	4,500	10,976	5.00%	549
347 - Miscellaneous Equipment	-	-	-	10.00%	-
Total Plant	\$283,944	\$260,389	\$23,555		\$863

Composite Depreciation Rate (Depr Exp / Depreciable Plant): 3.66%
CIAC: \$ -
Amortization of CIAC (Line 25 x Line 26): \$ -
Depreciation Expense Before Amortization of CIAC: \$ 863
Less Amortization of CIAC: \$ -
Test Year Depreciation Expense - Staff: **\$ 863**
Depreciation Expense - Company: **\$ 4,871**

Staff's Total Adjustment:

\$ (4,008)

Groom Creek Water Users Association
Docket No. W-01865A-07-0385 & 07-0384
Test Year Ended December 31, 2006

Schedule BCA-3
Page 4 of 4

H -	INCOME TAX - Per Company	\$1,578	
	Per Staff	0	<u>(\$1,578)</u>

To remove income tax expense claimed for which Company is not liable.
Company has applied for and received income tax exemption under
the Internal Revenue Code, Section 501 (C).

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Association	Staff
5/8" x 3/4" Meter	\$14.00	\$42.00	\$ 50.00
3/4" Meter	17.25	N/A	50.00
1" Meter	28.75	N/A	125.00
1 1/2" Meter	57.50	N/A	250.00
2" Meter	92.00	N/A	400.00
3" Meter	172.50	N/A	800.00
4" Meter	287.50	N/A	1,250.00
6" Meter	575.00	N/A	2,500.00
Gallons in Minimum	0.00	1,000	0.00
<u>Company Current & Staff Recommended 5/8 X 3/4-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		11.00
Second Tier - 3,001 - 6,000 gallons	3.50		13.00
Third Tier - 6,001 - 10,000 gallons	4.00		15.50
Fourth Tier - Over 10,000 gallons	8.00		31.00
<u>Company Proposed 5/8 X 3/4-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Company Current & Staff Recommended 3/4-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		11.00
Second Tier - 3,001 - 6,000 gallons	3.50		13.00
Third Tier - 6,001 - 10,000 gallons	4.00		15.50
Fourth Tier - Over 10,000 gallons	8.00		31.00
<u>Company Proposed 3/4-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Company Current 1-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Association	Staff
<u>Company Proposed 1-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 1-inch Meters</u>			
First Tier - 0 - 12,000 gallons			15.50
Second Tier - Over 12,000 gallons			31.00
 <u>Company Current 1.5-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 1.5-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 1.5-inch Meters</u>			
First Tier - 0 - 18,000 gallons			15.50
Second Tier - Over - 18,000 gallons			31.00
 <u>Company Current 2-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 2-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 2-inch Meters</u>			
First Tier - 0 - 25,000 gallons			15.50
Second Tier - Over - 25,000 gallons			31.00

RATE DESIGN

Monthly Usage Charge	Present Rates	-Proposed Rates- Association	Staff
<u>Company Current 3-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 3-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 3-inch Meters</u>			
First Tier - 0 - 43,000 gallons			15.50
Second Tier - Over -43,000 gallons			31.00
<u>Company Current 4-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 4-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 4-inch Meters</u>			
First Tier - 0 - 63,000 gallons			15.50
Second Tier - Over - 63,000 gallons			31.00
<u>Company Current 6-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 6-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 6-inch Meters</u>			
First Tier - 0 - 123,000 gallons			15.50
Second Tier - Over - 123,000 gallons			31.00

RATE DESIGN

Service Line and Meter Installation Charges	-----Association's-----		-----Staff Recommended-----		
	Present Rates	Proposed Charges	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	\$450.00	\$7,500.00	\$1,700.00	\$ 300.00	\$ 2,000.00
3/4" Meter	515.00	N/A	1,700.00	380.00	2,080.00
1" Meter	590.00	N/A	1,750.00	420.00	2,170.00
1 1/2" Meter	820.00	N/A	1,785.00	630.00	2,415.00
2" Meter	1,380.00	N/A	1,945.00	1,130.00	3,075.00
3" Meter	1,935.00	N/A	2,120.00	1,635.00	3,755.00
4" Meter	3,030.00	N/A	2,485.00	2,515.00	5,000.00
6" Meter	5,535.00	N/A	3,045.00	4,710.00	7,755.00
Service Charges					
Establishment	\$10.00	\$75.00	\$30.00		
Establishment (After Hours)	0.00	0.00	40.00		
Reconnection (Delinquent)	10.00	50.00	30.00		
Meter Test (If Correct)	7.50	25.00	25.00		
Deposit	*	*	*		
Deposit Interest Per Annum	*	*	*		
Re-Establishment (Within 12 Months)	14.00	75.00	**		
NSF Check	25.00	40.00	25.00		
Deferred Payment - Per Month	5.00	10.00	1.50%		
Meter Re-Read (If Correct)	5.00	25.00	25.00		
Late Payment Charge-Per Month	0.00	10.00	1.50%		
Monthly Service Charge for Fire Sprinkler					
4" or Smaller	\$0.00	\$0.00	***		
6"	0.00	0.00	***		
8"	0.00	0.00	***		
10"	0.00	0.00	***		
Larger than 10"	0.00	0.00	***		

* Per Commission Rules (R14-2-403.B)
 ** Months off system times the minimum (R14-2-403.D)
 *** 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 water service line.

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

Average Number of Customers: 228

<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	2,433	\$21.30	\$49.88	\$28.58	134.2%
Median Usage	1,532	\$18.60	\$44.93	\$26.33	141.6%
<u>Staff Recommend</u>					
Average Usage	2,433	\$21.30	\$76.77	\$55.47	260.4%
Median Usage	1,532	\$18.60	\$66.85	\$48.25	259.4%

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	\$14.00	\$42.00	200.0%	\$50.00	257.1%
1,000	17.00	42.00	147.1%	61.00	258.8%
2,000	20.00	47.50	137.5%	72.00	260.0%
3,000	23.00	53.00	130.4%	83.00	260.9%
4,000	26.50	58.50	120.8%	96.00	262.3%
5,000	30.00	64.00	113.3%	109.00	263.3%
6,000	33.50	69.50	107.5%	122.00	264.2%
7,000	37.50	77.50	106.7%	137.50	266.7%
8,000	41.50	85.50	106.0%	153.00	268.7%
9,000	45.50	93.50	105.5%	168.50	270.3%
10,000	49.50	101.50	105.1%	184.00	271.7%
15,000	89.50	151.50	69.3%	339.00	278.8%
20,000	129.50	201.50	55.6%	494.00	281.5%
25,000	169.50	261.50	54.3%	649.00	282.9%
50,000	369.50	561.50	52.0%	1,424.00	285.4%
75,000	569.50	861.50	51.3%	2,199.00	286.1%
100,000	769.50	1,161.50	50.9%	2,974.00	286.5%
125,000	969.50	1,461.50	50.7%	3,749.00	286.7%
150,000	1,169.50	1,761.50	50.6%	4,524.00	286.8%
175,000	1,369.50	2,061.50	50.5%	5,299.00	286.9%
200,000	1,569.50	2,361.50	50.5%	6,074.00	287.0%

WIFA LOAN FINANCIAL ANALYSIS

Staff Adjusted Test Year and Recommended Revenue Reflecting
the Effects of the Staff Recommended \$1.6 Million Debt¹

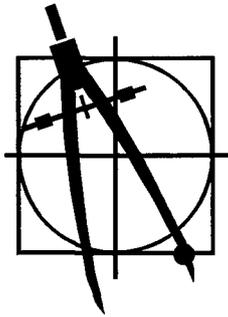
INCOME STATEMENT

	<u>Test Year</u>	<u>Pro Forma</u>
Operating Revenue:	\$62,223	\$ 222,369
Operating Expenses:		
Purchased Water/Pumping Power	\$3,451	\$3,451
Admin. & General	\$33,012	33,012
Maintenance & Testing	\$5,698	5,698
Depreciation (d)	\$863	863
Property Taxes	\$2,502	2,502
Other taxes	0	0
Total Operating Expense	<u>\$45,526</u>	<u>\$45,526</u>
Pre-Tax Operating Income (a)	\$16,697	\$176,843
Interest Expense (b)	<u>7,463</u>	<u>84,750</u>
Pre-Tax Net Income	<u>\$9,234</u>	<u>\$92,093</u>
Principal Repayment (c)	\$7,003	\$ 57,018
Reserve/Replacement Deposit (e)	0	25,460
TIER (Times Interest Earned Ratio)		
(a) ÷ (b)	2.24	2.09
DSC		
[(a) + (d)] ÷ [(b) + (c)]	1.21	1.25

CAPITAL STRUCTURE

Short-term Debt	\$7,003	3.7%	\$ 57,018.03	3.2%
Long-term Debt	\$145,438	77.8%	\$1,695,423	94.9%
Common Equity	\$34,380	18.4%	\$34,380	1.9%
Total Capital	\$186,821	100.0%	\$1,786,821	100.0%

¹ Twenty-year amortizing loan at 4.9 percent per annum.



**REVISED Engineering Report for Groom Creek
Water Users Association**

Docket No. W-01865A-07-0385 (Rates)

By: Marlin Scott, Jr.
Utilities Engineer

April 10, 2008

CONCLUSIONS

- A. Groom Creek Water Users Association (“Association”) has a water loss of 7%, which is below the targeted 10% level.
- B. The Association system’s current two well source and storage capacities are adequate to serve its present customer base and reasonable growth.
- C. The Arizona Department of Environmental Quality (“ADEQ”) reported no deficiencies and has determined that the Association’s system, PWS #13-040 is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- D. The Association reported its arsenic concentration for its two wells at less than 1 part per billion (“ppb”). Based on this arsenic concentration, the Association is in compliance with the new arsenic standard of 10 ppb.
- E. The Association is not located in an Active Management Area (“AMA”) and therefore, is not subject to any AMA reporting and conservation requirements.
- F. The Association has no delinquent Commission compliance issues.
- G. The Association has an approved curtailment tariff that became effective on May 25, 2005.

RECOMMENDATIONS

- 1. Staff recommends an annual water testing expense of \$1,956 be used for purposes of this application and further recommends that the remaining \$252 of the reported \$2,208 be classified as part of the water operator’s fee.
- 2. Staff recommends that the Association use Staff’s depreciation rates delineated in Table B.

3. Staff recommends approval of Staff's Service Line and Meter Installation Charges as delineated in Table C.
4. Staff recommends that the Association file a backflow prevention tariff in the form found on the Commission's website at www.azcc.gov/divisions/utilities/forms/Cross_c.pdf. This tariff shall be docketed as a compliance item in this docket within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

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A. LOCATION OF ASSOCIATION

Groom Creek Water Users Association (“Association”) serves a community located approximately five miles south of Prescott. Figure 1 shows the location of the Association within Yavapai County and Figure 2 shows the certificated area covering approximately 1/8 square-mile or 80 acres.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on August 21, 2007, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Jerry Hodgson, President of the Association. The current system consists of two well sites, two booster systems and a distribution system serving approximately 225 customers. A system schematic is shown as Figure 3 and a detailed plant facility listing is as follows:

Table 1. Well Sites

Plant Items	Well #1	Well #2
Casing Size	8-inch	6-inch
Casing Depth	190 ft.	240 ft.
Submersible Pump	3-Hp	2-Hp
Pumping Rate	45 GPM	25 GPM
Chlorination	Liquid	Liquid
Meter Size	1-1/2” x 2”	1-1/2” x 2”
Storage Tanks	Two 44,000 gal.	5,000 gal.
Booster Pumps	Two 5-Hp	5-Hp
Pressure Tanks	3,000 gal.	Two 75 gal.
Chain Link Fencing	60 ft. x 60 ft.	40 ft. x 40 ft.
Generator	15 kW propane	-

Table 2. Water Mains

Diameter	Material	Length
3-inch	Transite	2,950 ft.
4-inch	Transite	8,200 ft.
5-inch	Transite	2,050 ft.
6-inch	Transite	5,650 ft.
	Total:	18,850 ft.

Table 3. Customer Meters

Size	Quantity
5/8 x 3/4-inch	225
3/4-inch	-
1- inch	-
1-1/2-inch	-
2-inch	-
Total:	225

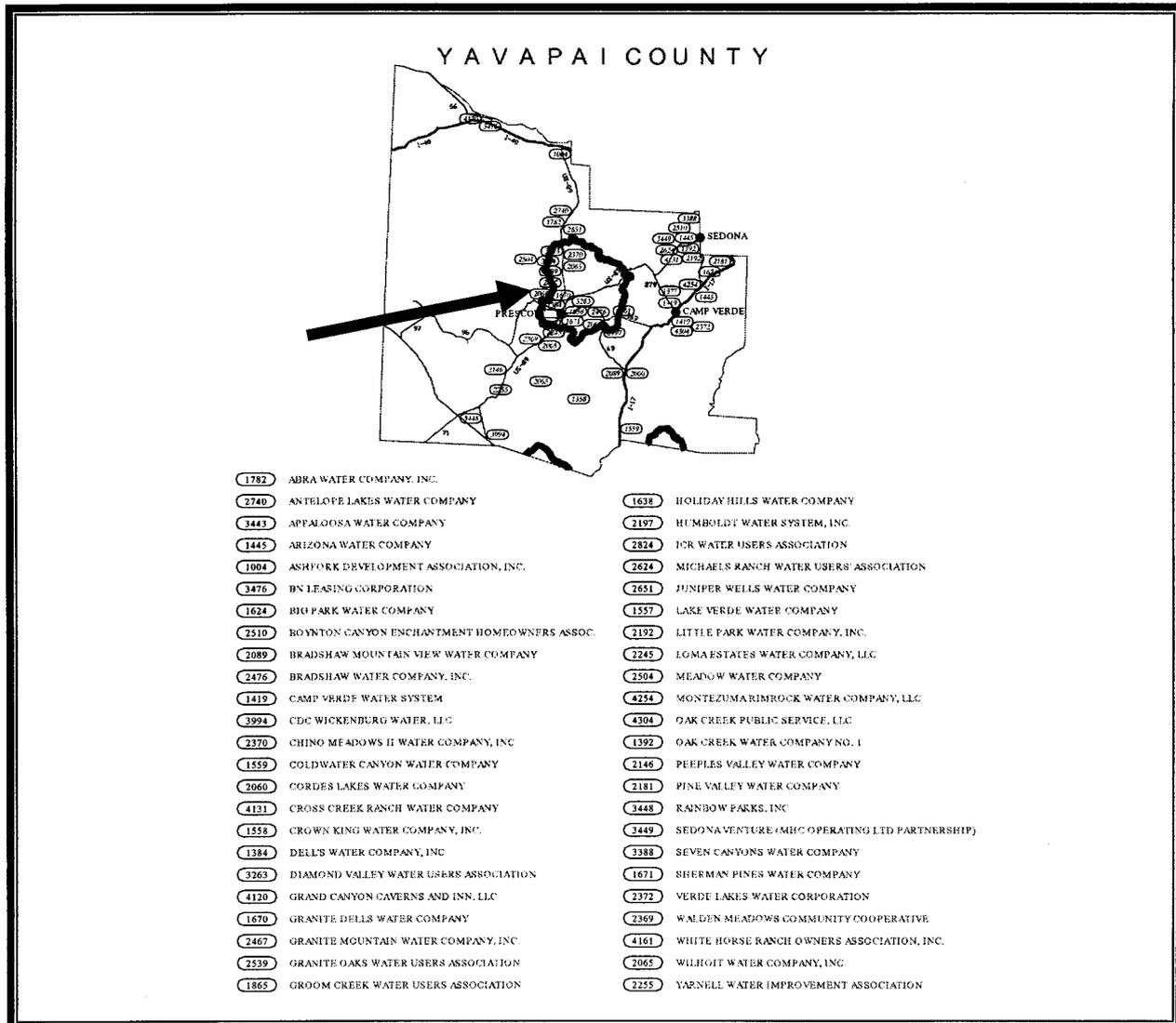


Figure 1. Yavapai County Map

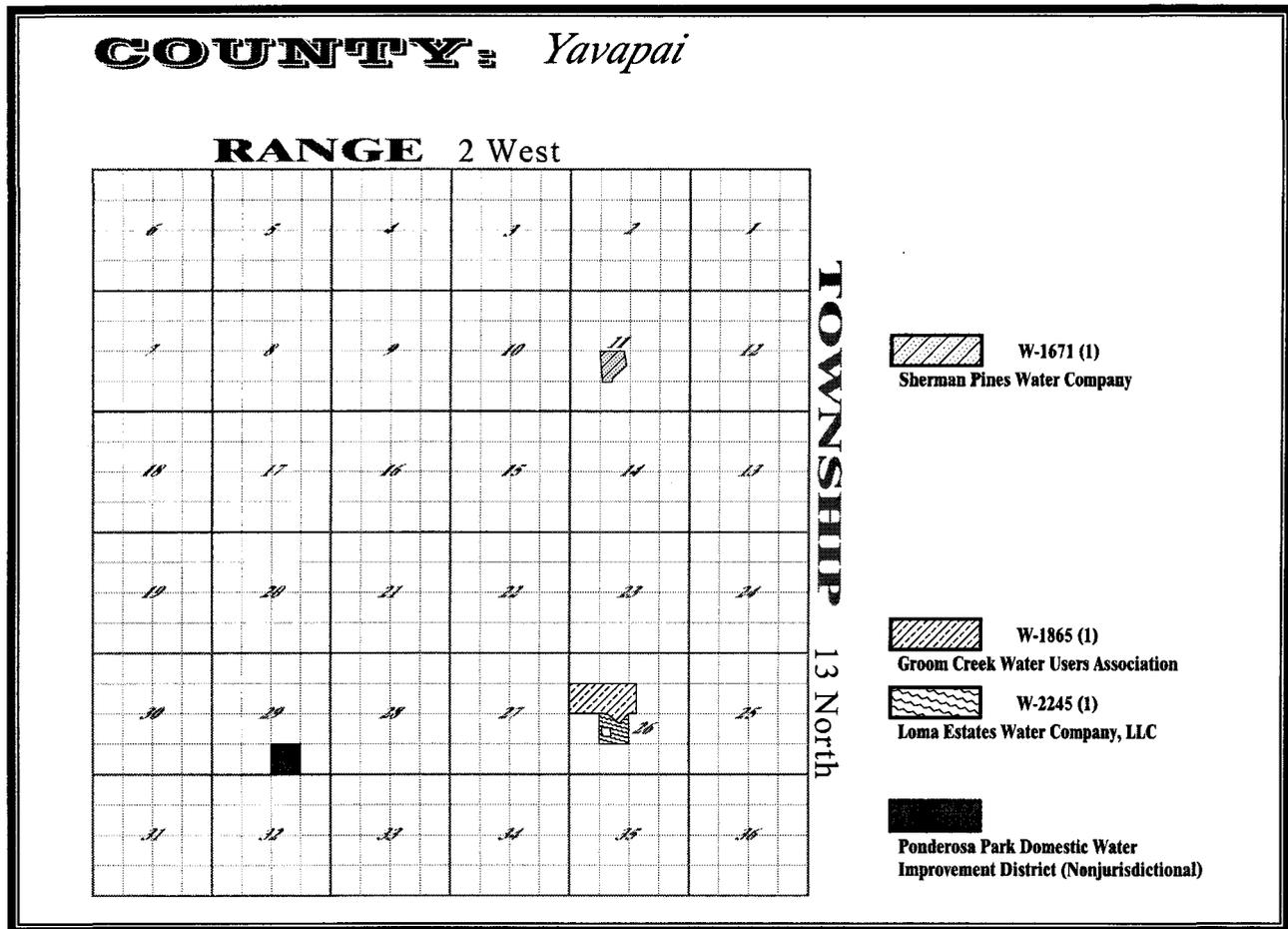


Figure 2. Certificated Area

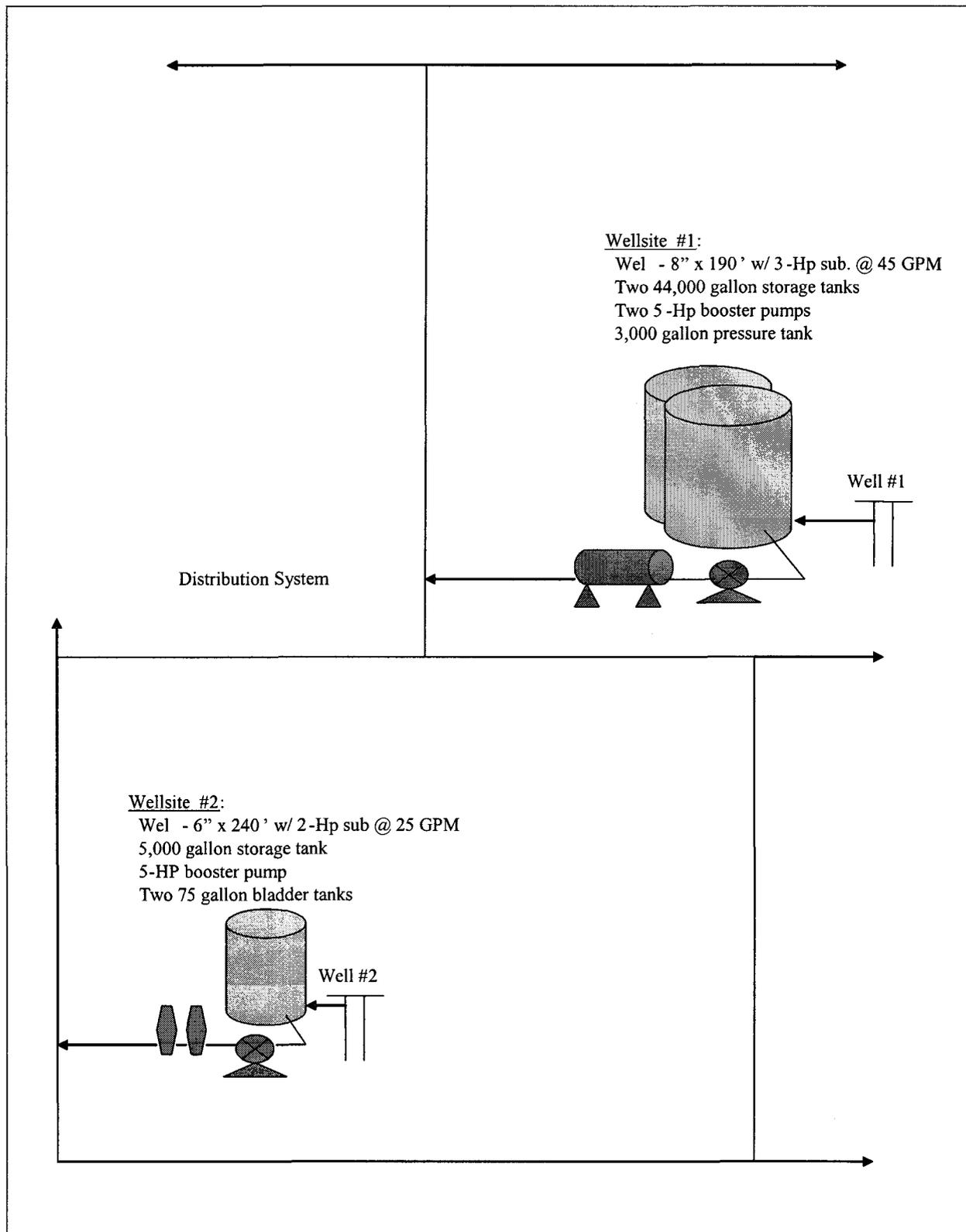


Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 represents the water consumption data for the test year 2006. The actual consumption was low due to usage reflected primarily by only 40 percent of the customers being full-time residences. A high monthly usage of 123 gallons per day (“GPD”) per connection in June and a low monthly water use of 55 GPD per connection in March were experienced, for an average monthly use of 79 GPD per connection.

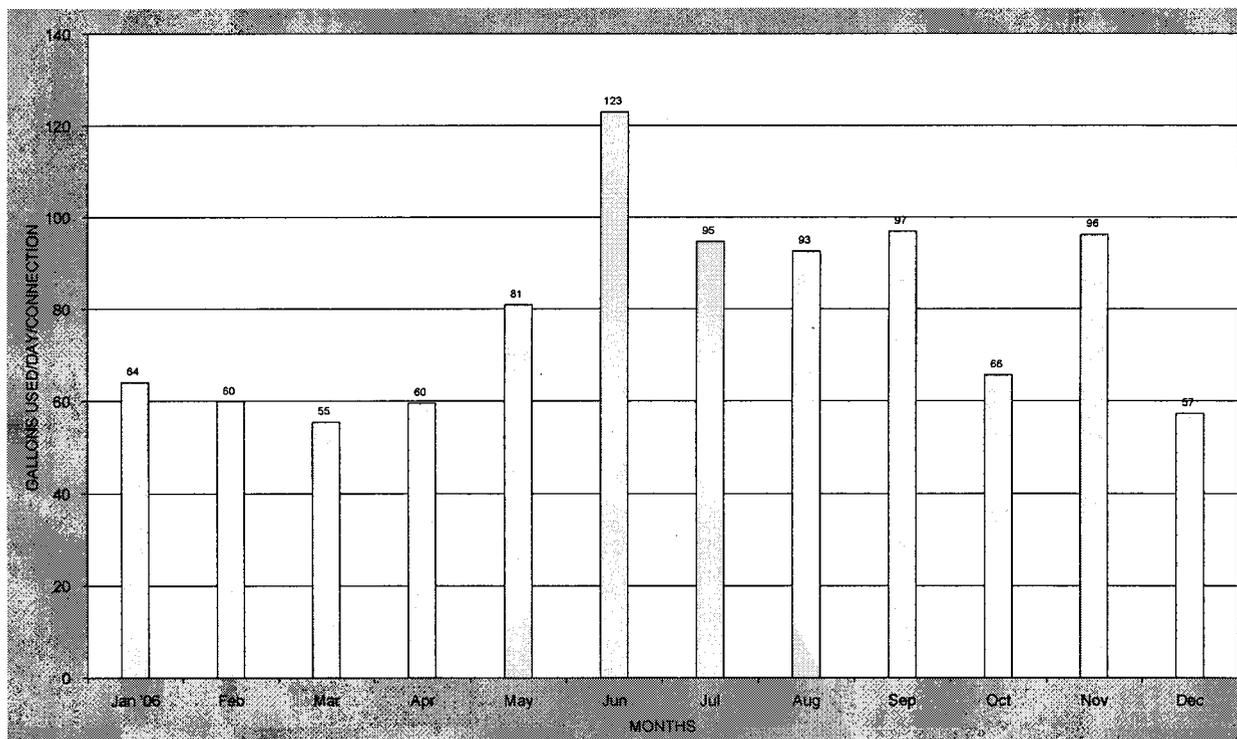


Figure 4. Water Use

Non-Account Water

Non-account water should be 10% or less. The Association reported 7,022,450 gallons of water pumped and 6,535,780 gallons of water sold, resulting in a water loss of 7%. This 7% is below Staff's recommended level of 10%.

System Analysis

The system's current two source well capacity totaling 70 GPM and 93,000 gallons of storage capacity is adequate to serve approximately 320 service connections. The system currently has 225 connections. Therefore, this system can adequately serve its current customer base and reasonable growth.

D. GROWTH

Based on customer data obtained from the Association’s Annual Reports, it is projected that the Association could have approximately 235 customers by 2011. Figure 5 depicts actual growth from 1991 to 2006 and projects an estimated growth for the next five years using linear regression analysis.



Figure 5. Growth Projection

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE

Compliance

According to an ADEQ Compliance Status Report, dated June 12, 2007, that was submitted with the rate application, ADEQ reported no deficiencies and has determined that the Association’s system, PWS #13-040, is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Association 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 \$2.57 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 Association reported its water testing expense at \$2,208 during the test year by combining water testing costs and a portion of 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. The Association chlorinates its wells and therefore, is required to monitor for D/DBP. Table A shows Staff's adjusted annual monitoring expense estimate of \$1,956 with participation in the MAP.

Table A. Water Testing Cost

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests	Annual Cost
Total coliform – monthly	\$69	12	\$828
Inorganics – Priority Pollutants	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP
Phase II and V:			
Nitrate – annual	\$55	2	\$110
Nitrite – once per period	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP
MAP – IOCs, SOCs, & VOCs	MAP	MAP	## \$831
Lead & Copper – per 3 years	\$45	5	\$75
D/DBP:			
TTHM/HH5 – per 3 years	\$335	1	\$112
Total			\$1,956

Note: ADEQ - MAP invoice for the 2007 Calendar Year is \$830.82.

Staff recommends an annual water testing expense of \$1,956 be used for purposes of this application and further recommends that the remaining \$252 of the reported \$2,208 be classified as part of the water operator's fee.

Arsenic

The Association reported its arsenic concentration for its two wells at less than 1 part per billion (“ppb”). Based on this arsenic concentration, the Association is in compliance with the new arsenic standard of 10 ppb.

F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

The Association is not located in an Active Management Area (“AMA”) and therefore, is not subject to any AMA reporting and conservation requirements.

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent Commission compliance issues for the Association.

H. DEPRECIATION RATES

The Association has been using a depreciation rate of 5.00% in every National Association of Regulatory Utility Commissioners (“NARUC”) plant category. In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by 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 it is recommended that the Association use depreciation rates by individual NARUC category on a going-forward basis.

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**1a. Service Line and Meter Installation Charges**

The Association has requested a change to its service line and meter installation charge for only the 5/8 x 3/4-inch meter. The Association has requested a \$2,000 charge for this meter size based on recent contractor charges the Association has experienced. The installation charges are

refundable advances. The Association's requested charge is not within Staff's customary range of charges for a 5/8 x 3/4-inch meter.

To support its request, the Association submitted on March 12, 2008, documents for, a) contractor's backhoe and operator's fees, b) mobilization cost, c) plumber's fee, d) material costs and e) County permit fees. In addition, the Association noted that its water mains were located in the center of the roads, which would make the installation charges uniform (no short installation versus long installation). Based on the submitted documents and Staff's review, the Association has justified its requested charge. Therefore, Staff will adopt the Association's requested charge of \$2,000 for a 5/8 x 3/4-inch meter. Staff further recommends graduating the installation charges for larger meter sizes based on \$2,000 for the 5/8 x 3/4-inch meter.

Since the Association may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of its charges as shown in Table C below, with separate installation charges for the service line and meter installations.

Table C. Service Line and Meter Installation Charges

Meter Size	Association's Current Charges	Recommended Service Line Charges	Recommended Meter Charges	Recommended Total Charges
5/8 x 3/4-inch	\$450	\$1,700	\$300	\$2,000
3/4-inch	\$515	\$1,700	\$380	\$2,080
1-inch	\$590	\$1,750	\$420	\$2,170
1-1/2-inch	\$820	\$1,785	\$630	\$2,415
2-inch	\$1,380	\$1,945	\$1,130	\$3,075
3-inch	\$1,935	\$2,120	\$1,635	\$3,755
4-inch	\$3,030	\$2,485	\$2,515	\$5,000
6-inch	\$5,535	\$3,045	\$4,710	\$7,755

1b. Impact Fee/Off-Site Facilities Hook-Up Fee

In its initial rate filing, the Association requested a \$7,500 impact fee for new service connections for only a 5/8 x 3/4-inch meter installation. According to the Association, the amount of this impact fee was "taken out of the air". Staff has reviewed this impact fee request and considers it similar to an Off-Site Facilities Hook-Up Fee ("HUF"). In this case, due to minimal growth (2 new service connections per year) and limited total, potential growth (43 unoccupied lots remaining), it is Staff's opinion that this Association is not a good candidate for a HUF.

2. Curtailment Tariff

The Association has an approved curtailment tariff that became effective on May 25, 2005.

3. Backflow Prevention Tariff

The Association does not have an approved backflow prevention tariff. Staff recommends that the Association file a backflow prevention tariff in the form found on the Commission's website at www.azcc.gov/divisions/utilities/forms/Cross_c.pdf. This tariff shall be docketed as a compliance item in this docket within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

MEMORANDUM

DATE: June 11, 2008

TO: Brendan Aladi
Public Utilities Analyst III
Utilities Division

FROM: Marlin Scott, Jr. *MS*
Utilities Engineer *600*
Utilities Division

RE: **REVISED** - Groom Creek Water Users Association
Docket No. W-01865A-07-0384 (Financing)

Introduction

On June 25, 2007, Groom Creek Water Users Association ("Association") submitted a financing application to obtain a line of credit in the amount of \$500,000 for a water main replacement project. The Association operates a water system five miles south of Prescott in Yavapai County.

On May 15, 2008, a hearing was held in conjunction with the Association's pending rate case, Docket No. W-01865A-07-0385. At the hearing, the Association requested that the financing amount be increased. This revised financing report evaluates the request in the amount of \$1,574,509 to fund projects for water main replacement, an additional storage tank, and booster system replacement.

Existing Water System

The existing system consists of two wells (totaling 70 gallons per minute), three storage tanks (totaling 93,000 gallons), and a distribution system serving approximately 225 customers. The entire distribution system consists of a total of 18,850 feet of transite (asbestos-cement) pipes, ranging from 3-inch to 6-inch diameters.

According to the Association, the transite pipes are over 50 years old and are failing, causing numerous leaks. In addition, the Yavapai County Road Department will be initiating a pavement project of all County roads within the Association's subdivision. Based on these factors, the Association is seeking to upgrade its water distribution mains before the Yavapai County grading and pavement projects are implemented.

Financing Application

The Association is requesting financing approval in the amount of \$1,574,509. With the assistance of Damon S. Williams Associates, LLC (“DSWA”), the Association submitted cost estimates for the following improvements projects:

- I. Water Main Replacement Project:
 - a. Replacement of all transite pipes with PVC - C900 pipes, approximately 20,300 feet.
 - b. Installation of 38 gate valves.
 - c. Replacement of 271 existing service lines.
 - d. Replacement of 125 water meters.

- II. Storage Tank Project:
 - a. Install new 60,000 gallon storage tank.

- III. Booster System Replacement Project:
 - a. Install three new booster pumps.
 - b. Refurbish existing pressure tank.
 - c. Replace existing pump house.
 - d. Replace electrical controls.

- IV. Total cost: \$1,574,509

Staff has reviewed the above projects and finds the total cost estimate of \$1,574,509 to be reasonable for purposes of this financing request. (DSWA’s spreadsheet is attached.)

Arizona Department of Environmental Quality (“ADEQ”) Compliance

Compliance

According to an ADEQ Compliance Status Report, dated June 12, 2007, ADEQ reported no deficiencies and has determined that the Association’s system, PWS #13-040, is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Conclusion

The Association submitted a revised financing request for \$1,574,509 for water main replacement, storage tank and booster system replacement projects. Staff has reviewed these projects and finds the total cost estimate of \$1,574,509 to be appropriate and reasonable for purposes of this financing request. However, no “used and useful” determination of the proposed project items was made, and no particular treatment should be inferred for future rate making or rate base purposes.