

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

- MIKE GLEASON, Chairman
- WILLIAM A. MUNDELL
- JEFF HATCH-MILLER
- KRISTIN K. MAYES
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AZ CORP COMMISSION  
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF  
ICR WATER USERS ASSOCIATION, INC.  
FOR A PERMANENT RATE INCREASE.

DOCKET NO. W-02824A-07-0388

**NOTICE OF FILING  
DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission hereby files the Direct Testimony of Charles R. Myhlhousen and Jian W. Liu, of the Utilities Division, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 30<sup>th</sup> day of November, 2007.

*Kevin O. Torrey*  
 FOR Kevin O. Torrey  
 Attorney, Legal Division  
 Arizona Corporation Commission  
 1200 West Washington Street  
 Phoenix, Arizona 85007  
 (602) 542-3402

Arizona Corporation Commission  
DOCKETED

NOV 30 2007

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Original and thirteen (13) copies  
of the foregoing were filed this  
30<sup>th</sup> day of November, 2007 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

1 Copy of the foregoing mailed this  
2 30<sup>th</sup> day of November, 2007 to:

3 Robert M. Busch  
4 ICR Water Users Association, Inc.  
5 P.O. Box 5669  
6 Chino Valley, Arizona 86323

7 Robert J. Metli  
8 Marcie A. Shuman  
9 Snell & Wilmer, L.L.P.  
10 One Arizona Center  
11 400 East Van Buren Street  
12 Phoenix, Arizona 85004-2202  
13 Attorney for ICR Water Users Assiation, Inc.

14  A handwritten signature in cursive script, appearing to be 'JBL', is written over a horizontal line.

15  
16  
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27  
28

**DIRECT**

**TESTIMONY**

**OF**

**CHARLES R. MYHLHOUSEN**

**JIAN W. LIU**

**DOCKET NO. W-02824A-07-0388**

**IN THE MATTER OF THE APPLICATION OF  
ICR WATER USERS ASSOCIATION, AN  
ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES FOR UTILITY SERVICE**

**NOVEMBER 30, 2007**

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
KRISTIN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. W-02824A-07-0388  
ICR WATER USERS ASSOCIATION, AN )  
ARIZONA CORPORATION, FOR A )  
DETERMINATION OF THE CURRENT FAIR )  
VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN ITS )  
RATES AND CHARGES FOR UTILITY )  
SERVICE )

DIRECT  
TESTIMONY  
OF  
CHARLES R. MYHLHOUSEN  
PUBLIC UTILITIES ANALYST III  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

NOVEMBER 30, 2007

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**EXECUTIVE SUMMARY**  
**ICR WATER USERS ASSOCIATION**  
**DOCKET NO. W-02824A-07-0388**

ICR Water Users Association (“ICR” or “Company”) is an Arizona non-profit member-owned domestic water provider in Yavapai County. The Company is located approximately 12 miles northwest of Prescott, Arizona and serves a portion of Yavapai County. ICR is an Arizona non-profit corporation, and the members/customers elect a board of directors who manage and operate the Company through its by-laws. The Company served approximately 364 customers during the test year ended December 31, 2006. The Company’s current rates were approved in Decision No. 64008, dated August 30, 2002. This is the first rate application filed by the Company since the approval of the original Certificate of Convenience and Necessity.

The Company proposes rates that would produce operating revenue of \$355,174 resulting in operating income of \$53,276 for a 15.00 percent operating margin. The Company proposal would increase annual operating revenue by \$86,908 or 32.40 percent over test year revenues of \$268,266. Under the Company proposed rates, the typical residential 5/8 inch meter customer consuming the median of 4500 gallons per month, would experience a \$10.38 or 34.82 percent increase in their monthly bill from \$29.80 to \$40.18.

Staff recommends rates that would produce total operating revenue of \$356,646 resulting in operating income of \$53,540 for a 15.01 percent operating margin. Staff’s recommended revenue represents an increase of \$88,547 or 33.03 percent over adjusted test year revenue of \$268,099. Under Staff’s recommended rates, the typical residential 5/8 inch meter customer consuming the median of 4,500 gallons per month, would experience an \$8.94 or 30.00 percent increase in their monthly bill from \$29.80 to \$38.74.

1    **INTRODUCTION**

2    **Q.    Please state your name, occupation, and business address.**

3    A.    My name is Charles R. Myhlhousen. I am a Public Utilities Analyst III employed by the  
4           Arizona Corporation Commission (“ACC” or “Commission”) in the Utilities Division  
5           (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7    **Q.    Briefly describe your responsibilities as a Public Utilities Analyst III.**

8    A.    I am responsible for the examination and verification of financial and statistical  
9           information included in utility rate applications, developing revenue requirements,  
10          designing rates, preparing written reports and/or testimonies and related schedules that  
11          present Staff’s recommendations to the Commission. I am also responsible for testifying  
12          at formal hearings on these matters.

13  
14   **Q.    Please describe your educational background and professional experience.**

15   A.    I received a Bachelor of Sociology with an emphasis in business from Bellevue University  
16          located in Bellevue, Nebraska. In the ensuing years, I have taken various accounting  
17          courses. I have participated in multiple rate cases and other regulatory proceedings. I  
18          attended the National Association of Regulatory Utility Commissioners (“NARUC”)   
19          Utilities Rate School, and have attended seminars and courses in utility regulation and  
20          utility accounting.

21  
22          I began employment with the Commission as a utilities regulatory analyst in October  
23          2000. Prior to joining the Commission, I worked at the Internal Revenue Service as a  
24          Revenue Agent for over twenty years.

1 **Q. What is the scope of your testimony in this case?**

2 A. I am presenting Staff's analysis and recommendations regarding ICR Water Users  
3 Association's ("ICR" or "Company") application for a permanent rate increase in the  
4 areas of rate base, operating income, revenue requirement, and rate design. Staff Witness  
5 Mr. Jian Liu is presenting Staff's engineering analysis and recommendations.

6  
7 **Q. When was the application for a rate increase filed by the Company?**

8 A. The original application was filed on June 27, 2007. Staff found the application sufficient  
9 July 26, 2007.

10

11 **Q. What is the basis of Staff's recommendations?**

12 A. Staff performed a regulatory audit of the Company's application and records. The  
13 regulatory audit consisted of examining and testing financial information, accounting  
14 records, and other supporting documentation. Staff also verified that the accounting  
15 principles applied were in accordance with the Commission adopted NARUC Uniform  
16 System of Accounts ("USoA").

17

18 **Q. What test year was used by the Company in the filing?**

19 A. The Company used the twelve months ending December 31, 2006.

20

21 **Q. Did Staff accept the test year proposed by the Company?**

22 A. Yes. The December 31, 2006, test year selected was the most recent fiscal year available  
23 and should present a fairly accurate representation of the Company's financial operations  
24 for the determination of appropriate rates and charges.

1 **BACKGROUND**

2 **Q. Please briefly describe the Company background.**

3 A. The Company is a domestic water provider located in Yavapai County, Arizona  
4 approximately 12 miles northwest of Prescott, Arizona. The Company served  
5 approximately 364 customers during the test year ended December 31, 2006. The  
6 Company is an Arizona non-profit corporation.

7  
8 On June 27, 2007, the Company filed an application for a permanent rate increase. On July  
9 26, 2007, Staff filed a letter declaring the application sufficient.

10  
11 The Commission's Decision No. 64008, dated August 30, 1995, approved the Company's  
12 current rates and charges.

13  
14 **Q. What are the primary reasons stated by the Company for requesting a permanent rate  
15 increase?**

16 A. The Company's rates for water utility service have not been increased since the original  
17 Certificate of Convenience and Necessity ("CC&N") was issued in Decision No. 59263  
18 dated August 30, 1995. To provide sufficient annual cash flows to pay operating expenses  
19 as well as to fund anticipated capital repairs, maintenance and improvements over the next  
20 several years, and to begin to build up a capital replacement reserve. The Company believes  
21 it has insufficient emergency power generation equipment to handle power outages. It also  
22 expects to clean and repair its main storage tank within five to ten years, purchase and  
23 install a supervisory control & data acquisition system to provide better monitoring of the  
24 Company's well and storage system, and refurbish an old booster station.

1 **CONSUMER SERVICE**

2 **Q. Please provide a brief history of customer complaints, customers responses to the**  
3 **proposed rate increase, the Company's corporate standing with the Corporations**  
4 **Division and government impositions.**

5 A. Staff reviewed the Commission's records for year 2004 through November 14, 2007 and  
6 found no complaints. The Company is in good standing with the Corporations Division.  
7 The Company is current on all property and sales taxes.

8  
9 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

10 **Q. Please summarize the Company's filing.**

11 A. The Company proposes rates that would produce operating revenue of \$355,174 and  
12 operating income of \$53,276 for a 15.00 percent operating margin. The Company's  
13 proposal would increase annual operating revenues by \$86,908 or 32.40 percent over test  
14 year revenues of \$268,266.

15  
16 **Q. Please summarize Staff's recommendations.**

17 A. Staff recommends total annual operating revenue of \$356,646 and operating income of  
18 \$53,540 for a 15.01 percent operating margin. Staff's recommended revenue represents  
19 an increase of \$88,547 or 33.03 percent over test year adjusted revenues of \$268,099. See  
20 Schedule CRM-1.

21  
22 **RATE BASE**

23 **Q. Please review the rate base recommendations addressed in this testimony.**

24 A. The Company as filed proposes a rate base of a negative \$554,252. Staff recommends a  
25 rate base of a negative \$576,986, see Schedule CRM-3. For a detailed account of Staff's  
26 recommended adjustments, see Schedule CRM-4.

1 **Q. Please review the rate base adjustments.**

2 A. My testimony addresses the following rate base issue:

3 Adjustment No. 1, Cash Working Capital – Staff’s adjustment decreases cash working  
4 capital by \$22,734 from \$22,734 to zero. Staff typically only allows cash working capital  
5 allowances calculated by the formula method for small class D and E utilities. The  
6 formula method always produces a positive cash working capital need. Utilities classified  
7 as A, B, or C are much larger and Staff believes that the formula method does not  
8 accurately reflect the related cash working capital needs. Typically Staff finds that proper  
9 lead/lag studies usually produce a negative cash working capital need. Staff recommends  
10 disallowance of any cash working capital allowance in this case. See Schedule CRM-5.

11  
12 **OPERATING INCOME**

13 **Q. What are the results of Staff’s analysis of test year revenues, expenses and operating**  
14 **income/loss?**

15 A. Staff’s analysis reflects adjusted test year revenues of \$268,099, expenses of \$303,106 and  
16 an operating loss of \$35,007 as shown on Schedules CRM-6 and CRM-7. Staff made one  
17 adjustment to operating revenue and 4 adjustments to operating expenses.

18  
19 **Q. Please review the Staff adjustments to operating revenues and expenses.**

20 A. My testimony addresses the following issues:

21 Adjustment No. 1 Annualized Revenue – Staff’s adjustment decreased revenue by \$167  
22 from \$268,266 to \$268,099 to correct the amount of annualized revenue which was  
23 overstated.

24

1           Adjustment No. 2 Repairs and Maintenance – Staff’s adjustment decreased this expense  
2 by \$153 from \$14,542 to \$14,389 to allow for Staff’s increases to repairs of \$2,364 and  
3 Staff’s decreases to repairs of \$ 2,517. See Schedule CRM-9.

4  
5           Adjustment No. 3 Contractual Services – Operations – Staff’s adjustment increased this  
6 expense by \$2,264 from \$83,963 to \$88,277 to allow for Staff’s increase to contractual  
7 services of \$3,531 and Staff’s decrease to contractual services of \$1,267. See Schedule  
8 CRM-10.

9  
10          Adjustment No. 4 Water Testing – Staff’s adjustment decreased this expense by \$917  
11 from \$4,946 to \$4,029 to allow for Staff’s estimated water testing expense. See Staff’s  
12 engineering testimony. See Schedule CRM-11.

13  
14          Adjustment No. 5 Property Tax - Staff’s adjustment increased this expense by \$14 from  
15 \$11,148 to \$11,162 to reflect Staff’s adjusted test year and recommended revenues and  
16 using the calculation for the modified Arizona Department of Revenue property tax  
17 methodology. See Schedule CRM-12.

18  
19       **REVENUE REQUIREMENT**

20       **Q.     Would you please summarize the Company’s proposed revenue requirement?**

21       A.     The Company’s rate filing proposes annual revenues of \$355,174, an increase of \$86,908  
22 or 32.40 percent over test year revenues of \$268,266, as shown on Schedule CRM-1.

23  
24       **Q.     Would you please summarize Staff’s recommended revenue requirement?**

25       A.     Staff recommends annual revenue of \$356,646, an increase of \$88,547 or 33.03 percent  
26 over test year adjusted revenues of \$268,099, as shown on Schedule CRM-6.

1 **Q. Did Staff review the Company's proforma adjustment for annualization of revenues?**

2 A. Yes, Staff made an adjustment to the proforma annualized revenue in the amount of \$167,  
3 which decreased revenue annualization from \$9,957 to \$9,790. The Company adjustment  
4 was incorrectly computed because the Company used the wrong data for the various meter  
5 sizes.

6

7 **BASIS FOR OPERATING INCOME DETERMINATION**

8 **Q. What is the appropriate method to determine the Company's operating income and**  
9 **revenue requirement?**

10 A. Operating income should be calculated by applying the recommended operating margin.  
11 Operating margin equals operating income divided by revenue, expressed as a percentage.  
12 The percentage represents the amount of each dollar of revenue that results in operating  
13 income.

14

15 **Q. What is the appropriate operating margin?**

16 A. The appropriate operating margin is 15.01 percent. This will produce sufficient revenue to  
17 cover operating expenses and an operating income of \$53,540.

18

19 **Q. Who provided the Inscription Canyon golf course water for the golf course and lake**  
20 **in the test year 2006?**

21 A. The golf course is not owned or operated by ICR. The golf course receives water from  
22 two sources. Effluent water is received from the IRC Sanitary District in the amount of  
23 9,920,819 gallons for year 2006. The golf course owns water wells and provides ground  
24 water for themselves in the amount of 125,026,000 gallons in year 2006. The golf course  
25 does not receive or purchase any water from ICR.

1 **RATE DESIGN**

2 **Q Have you prepared a schedule summarizing the present, Company proposed, and**  
3 **Staff recommended rates and service charges?**

4 A. Yes. A summary of the present, Company proposed, and Staff recommended rates and  
5 service charges are provided on Schedule CRM-13.

6

7 **Q. Would you please summarize the current rate design?**

8 A. The present monthly minimum charges by meter sizes are as follows: 5/8 x 3/4 inch  
9 \$20.00; 3/4 inch \$20.00 1 inch \$50.00; 1 1/2 inch \$100.00; 2 inch \$160.00; 3 inch  
10 \$300.00; 4 inch \$500.00; 6 inch \$1,000.00. The monthly minimum charge for each meter  
11 size includes 1,000 gallons. The present commodity rate has one tier. The tier is \$2.80  
12 per 1,000 gallons which also includes construction or bulk gallons.

13

14 **Q. Would you please summarize the Company's proposed rate design?**

15 A. The Company's proposed monthly minimum charges by meter size are as follows:  
16 5/8 x 3/4 inch \$25.50; 3/4 inch \$38.25; 1 inch \$63.75; 1 1/2 inch \$127.50; 2 inch \$204.00;  
17 3 inch \$382.50; 4 inch \$637.50; 6 inch \$1,275.00. No gallons are included in the  
18 minimum charge. The Company proposes an inverted three-tier commodity rate, for the  
19 5/8 x 3/4 inch and 3/4 inch meter sizes with break over points for both meter sizes being  
20 the same, and a two-tier commodity rate, with different break over points for all other  
21 meter sizes. The first, second and third tier rates for the 5/8 x 3/4 inch and 3/4 inch meters  
22 are \$3.19, \$3.83 and \$4.47 per thousand gallons.

23

24 For construction, standpipe and bulk usage the rate is \$3.83 per 1,000 gallons with no  
25 minimum monthly charge.

1 **Q. Would you please summarize Staff's recommended rate design?**

2 A. Staff recommends an inverted tier rate design that consists of three-tiers for the 5/8 x 3/4  
3 inch meter and the 3/4 inch meter and two-tiers for all others. No gallons are included in  
4 the minimum charge. Staff recommends a three-tier commodity rate, with the same break  
5 over points for the 5/8 x 3/4 inch meter, and the 3/4 inch meter and a two-tier commodity  
6 rate, with different break over points for all other meter sizes. The first, second and third  
7 tier rates are \$2.64, \$3.96 and \$4.74 per thousand gallons. Efficiency in water use is  
8 encouraged by producing a higher customer bill with increased consumption or use of a  
9 larger meter. Construction, bulk and standpipe commodity rate has been increased to  
10 \$4.74 per thousand gallons so that they would be charged the second tier commodity  
11 charge which is recommended for large users. See schedule CRM-13. A typical bill  
12 analysis is provided for the average and median use under Company's present, Company  
13 proposed, and Staff recommended rates as presented on Schedule CRM-14.

14  
15 **Q. What is the rate impact on a typical 5/8 x 3/4 inch meter residential customer?**

16 A. The median usage of residential 5/8 x 3/4 inch meter customers is 4,500 gallons per  
17 month. The median residential 5/8 x 3/4 inch-meter customers would experience a \$10.38  
18 or 34.82 percent increase in their monthly bill from \$29.80 to \$40.18, under the  
19 Company's proposed rates and an \$8.94 or 30.00 percent increase in their monthly bill  
20 from \$29.80 to \$38.74, under Staff's recommended rates. See Schedule CRM-14.

21  
22 **Q. Did Staff review the Company's proposed Meter and Service Line Charges and other  
23 service charges?**

24 A. Yes. Staff concurs with the company except for the Company's proposed late fee charge  
25 of \$5.00 minimum or 1.5 percent of unpaid balance whichever is greater. Staff is

1 recommending 1.5 percent of the unpaid balance per month which has been approved by  
2 the Commission in prior rate case decisions. See Schedule CRM-13.

3  
4 **Q. Did the Company propose a service charge for fire sprinklers?**

5 A. No.

6  
7 **Q. Did Staff recommend a service charge for fire sprinklers?**

8 A. Yes. Staff is recommending a service charge for fire sprinklers for all new rate increase  
9 applications. See Schedule CRM-13.

10

11 **RECOMMENDATIONS**

12 **Q. What additional recommendations does Staff have?**

13 A. Staff recommends a provision be included in the Company's tariff to allow for the flow-  
14 through of all appropriate state and local taxes as provided for in A.A.C. Rule 14-2-  
15 409(D)(5).

16

17 Staff further recommends approval of its rates and charges as shown on Schedule  
18 CRM-18.

19

20 **Q. Does this conclude your direct testimony?**

21 A. Yes, it does.

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION                           | (A)<br>Company<br>ORIGINAL<br>COST | (B)<br>Company<br>FAIR<br>VALUE | (C)<br>STAFF<br>ORIGINAL<br>COST | (D)<br>STAFF<br>FAIR<br>VALUE |
|----------|---------------------------------------|------------------------------------|---------------------------------|----------------------------------|-------------------------------|
| 1        | Adjusted Rate Base                    | \$ (554,252)                       | \$ (554,252)                    | \$ (576,986)                     | \$ (576,986)                  |
| 2        | Adjusted Operating Income (Loss)      | \$ (33,632)                        | \$ (33,632)                     | \$ (35,007)                      | \$ (35,007)                   |
| 3        | Current Rate of Return (L2 / L1)      | 6.07%                              | 6.07%                           | 6.07%                            | 6.07%                         |
| 4        | Required Operating Margin             | 15.00%                             | 15.00%                          | 15.01%                           | 15.01%                        |
| 5        | Required Operating Margin             | \$ 53,276                          | \$ 53,276                       | \$ 53,540                        | \$ 53,540                     |
| 6        | Operating Income Deficiency (L5 - L2) | \$ 86,908                          | \$ 86,908                       | \$ 88,547                        | \$ 88,547                     |
| 7        | Gross Revenue Conversion Factor       | 1.0000                             | 1.0000                          | 1.0000                           | 1.0000                        |
| 8        | Required Revenue Increase (L7 * L6)   | \$ 86,908                          | \$ 86,908                       | \$ 88,547                        | \$ 88,547                     |
| 9        | Adjusted Test Year Revenue            | \$ 268,266                         | \$ 268,266                      | \$ 268,099                       | \$ 268,099                    |
| 10       | Proposed Annual Revenue (L8 + L9)     | \$ 355,174                         | \$ 355,174                      | \$ 356,646                       | \$ 356,646                    |
| 11       | Required Increase in Revenue (%)      | 32.40%                             | 32.40%                          | 33.03%                           | 33.03%                        |

References:

Column (A): Company Schedule B-1  
Column (B): Company Schedule B-1  
Column (C): Staff Schedules CRM-3, CRM-6  
Column (D): Staff Schedules CRM-3, CRM-6

ICR WATER USERS ASSOCIATION  
Docket No. W-2824A-07-0388  
Test Year Ending December 31,2006

Schedule CRM-2 Blank

Schedule CRM-2 Blank--Left Blank Purposely

**RATE BASE - ORIGINAL COST**

| LINE NO.     | (A)<br>Company AS FILED | (B)<br>STAFF ADJUSTMENTS | REF | (C)<br>STAFF AS ADJUSTED |
|--------------|-------------------------|--------------------------|-----|--------------------------|
| 1            | \$ 5,331,978            | \$ -                     |     | \$ 5,331,978             |
| 2            | (625,682)               | -                        |     | (625,682)                |
| 3            | <u>\$ 4,706,296</u>     | <u>\$ -</u>              |     | <u>\$ 4,706,296</u>      |
| <u>LESS:</u> |                         |                          |     |                          |
| 4            | (1,330,469)             |                          |     | (1,330,469)              |
| 5            | (3,932,263)             | -                        |     | (3,932,263)              |
| 6            | (20,550)                | -                        |     | (20,550)                 |
| <u>ADD:</u>  |                         |                          |     |                          |
| 7            | -                       | -                        |     | -                        |
| 8            | -                       | -                        |     | -                        |
| 9            | -                       | -                        |     | -                        |
| 10           | -                       | -                        |     | -                        |
| 11           | 22,734                  | (22,734)                 | 1   | -                        |
| 12           | <u>\$ (554,252)</u>     | <u>\$ (22,734)</u>       |     | <u>\$ (576,986)</u>      |

References:

Column (A): Company Schedule B-1  
Column (B): Testimony CRM  
Column (C):Column (A) +Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO.                 | ACCT. NO.                              | DESCRIPTION                             | [A]<br>Company<br>AS FILED | [E]<br>ADJ #1 | [I]<br>STAFF<br>ADJUSTED |
|--------------------------|--|---|----------------------------|---------------|--------------------------|
| <u>PLANT IN SERVICE:</u> |  |   |                            |               |                          |
| 1                        |  |   |                            |               |                          |
| 2                        | 301                                    | Organization                            | \$ -                       | \$ -          | \$ -                     |
| 3                        | 302                                    | Franchise Costs                         | -                          | -             | -                        |
| 4                        | 303                                    | Land and Land Rights                    | -                          | -             | -                        |
| 5                        | 304                                    | Structures and Improvements             | 398,048                    | -             | 398,048                  |
| 6                        | 305                                    | Collecting and Impounding Res.          | -                          | -             | -                        |
| 7                        | 306                                    | Lake, River and Other Intakes           | -                          | -             | -                        |
| 8                        | 307                                    | Wells & Springs                         | 656,998                    | -             | 656,998                  |
| 9                        | 308                                    | Infiltration Galleries and Tunnels      | -                          | -             | -                        |
| 10                       | 309                                    | Supply Mains                            | -                          | -             | -                        |
| 11                       | 310                                    | Power Generation Equipment              | -                          | -             | -                        |
| 12                       | 311                                    | Electric Pumping Equipment              | 1,808                      | -             | 1,808                    |
| 13                       | 320                                    | Water Treatment Equipment               | 106,689                    | -             | 106,689                  |
| 14                       | 330                                    | Distribution Reservoirs & Standpipe     | 4,037,457                  | -             | 4,037,457                |
| 15                       | 331                                    | Transmission & Distribution Mains       | -                          | -             | -                        |
| 16                       | 333                                    | Services                                | 68,233                     | -             | 68,233                   |
| 17                       | 334                                    | Meters                                  | 27,117                     | -             | 27,117                   |
| 18                       | 335                                    | Hydrants                                | -                          | -             | -                        |
| 19                       | 336                                    | Backflow Prevention Devices             | -                          | -             | -                        |
| 20                       | 339                                    | Other Plant and Miscellaneous Equipment | -                          | -             | -                        |
| 21                       | 340                                    | Office Furniture & Fixtures             | 141                        | -             | 141                      |
| 22                       | 341                                    | Transportation Equipment                | -                          | -             | -                        |
| 23                       | 342                                    | Stores Equipment                        | -                          | -             | -                        |
| 24                       | 343                                    | Tools and Work Equipment                | -                          | -             | -                        |
| 25                       | 344                                    | Laboratory Equipment                    | -                          | -             | -                        |
| 26                       | 345                                    | Power Operated Equipment                | -                          | -             | -                        |
| 27                       | 346                                    | Communications Equipment                | 10,533                     | -             | 10,533                   |
| 28                       | 347                                    | Miscellaneous Equipment                 | 1,495                      | -             | 1,495                    |
| 29                       | 348                                    | Other Tangible Plant                    | 23,458                     | -             | 23,458                   |
|                          |  |   | -                          | -             | -                        |
|                          |  |   | -                          | -             | -                        |
|                          |  |   | -                          | -             | -                        |
| 30                       | Total Plant in Service                 |   | \$ 5,331,978               | -             | \$ 5,331,978             |
| 31                       | Less: Accumulated Depreciation         |   | (625,682)                  | -             | (625,682)                |
| 32                       | Net Plant in Service (L59 - L 60)      |   | \$ 4,706,296               | -             | \$ 4,706,296             |
| 33                       | <u>LESS:</u>                           |   |                            |               |                          |
| 34                       | Net CIAC (L25 - L26)                   |   | (1,330,469)                | -             | (1,330,469)              |
| 35                       | Advances in Aid of Construction (AIAC) |   | (3,932,263)                | -             | (3,932,263)              |
| 36                       | Customer Meter Deposits                |   | (20,550)                   | -             | (20,550)                 |
| 37                       | <u>ADD:</u>                            |   |                            |               |                          |
| 38                       | Unamortized Finance Charges            |   | -                          | -             | -                        |
| 39                       | Deferred Tax Assets                    |   | -                          | -             | -                        |
| 40                       | Materials and Supplies Inventories     |   | -                          | -             | -                        |
| 41                       | Prepayments                            |   | -                          | -             | -                        |
| 42                       | Working Capital                        |   | 22,734                     | (22,734)      | -                        |
| 43                       | Intentionally Left Blank               |   | -                          | -             | -                        |
| 44                       | Original Cost Rate Base                |   | \$ (554,252)               | \$ (22,734)   | \$ (576,986)             |

ADJ #  
1 Cash Working Capital

References:  
CRM-5 Testimony CRM

ICR WATER USERS ASSOCIATION  
Docket No. W-2824A-07-0388  
Test Year Ending December 31,2006

Schedule CRM-5

**ORIGINAL COST RATE BASE ADJUSTMENT #1 - CASH WORKING CAPITAL**

| <u>Line</u><br><u>No.</u> | <u>Description</u>   | Company<br>As<br><u>Filed</u> | Staff<br><u>Adjustments</u> | Staff<br>As<br><u>Adjusted</u> |
|---------------------------|----------------------|-------------------------------|-----------------------------|--------------------------------|
| 1                         | Cash Working Capital | \$ 22,734                     | \$ (22,734)                 | \$ -                           |

Reference:

Col. [A] Company Schedule B-1

Col. [B] Testimony CRM

Col. [C] Col. [A] + Col. [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

| LINE NO. | DESCRIPTION                               | [A]<br>COMPANY<br>ADJUSTED<br>TEST YEAR<br>AS FILED | [B]<br>STAFF<br>TEST YEAR<br>ADJUSTMENTS | Adj<br>No. | [C]<br>STAFF<br>TEST YEAR<br>AS<br>ADJUSTED | [D]<br>STAFF<br>RECOMMENDED<br>CHANGES | [E]<br>STAFF<br>RECOMMENDED |
|----------|---|---|--|------------|---|--|-----------------------------|
| 1        | <u>REVENUES:</u>                          |   |  |            |   |  |                             |
| 2        | Metered Water Sales                       | \$ 214,863  | \$ (167)                                 | 1          | \$ 214,696                                  | \$ 88,547                              | \$ 303,243                  |
| 3        | Water Sales - Unmetered                   | -   | -  |            | -   | -                                      | -                           |
| 4        | Other Operating Revenue                   | 53,403  | -  |            | 53,403                                      | -                                      | 53,403                      |
| 5        | <b>Total Operating Revenues</b>           | <b>\$ 268,266</b>                                   | <b>\$ (167)</b>                          |            | <b>\$ 268,099</b>                           | <b>\$ 88,547</b>                       | <b>\$ 356,646</b>           |
| 6        | <u>OPERATING EXPENSES:</u>                |   |  |            |   |  |                             |
| 7        | Salaries and Wages                        | \$ -  | \$ -                                     |            | \$ -  | \$ -                                   | \$ -                        |
| 8        | Employee Pensions and Benefits            | -   | -  |            | -   | -                                      | -                           |
| 9        | Purchased Water                           | 6,388   | -  |            | 6,388                                       | -                                      | 6,388                       |
| 10       | Purchased Power                           | 16,239  | -  |            | 16,239                                      | -                                      | 16,239                      |
| 11       | Chemicals                                 | 2,516   | -  |            | 2,516                                       | -                                      | 2,516                       |
| 12       | Repairs and Maintenance                   | 14,542  | (153)                                    | 2          | 14,389                                      | -                                      | 14,389                      |
| 13       | Office Supplies and Expenses              | 1,720   | -  |            | 1,720                                       | -                                      | 1,720                       |
| 14       | Contractual Services - Engineering        | -   | -  |            | -   | -                                      | -                           |
| 15       | Contractual Services - Accounting         | 32,549  | -  |            | 32,549                                      | -                                      | 32,549                      |
| 16       | Contractual Services - Legal              | 513   | -  |            | 513   | -                                      | 513                         |
| 17       | Contractual Services - Other - Operations | 83,963  | 2,264                                    | 3          | 86,227                                      | -                                      | 86,227                      |
| 18       | Water Testing                             | 4,946   | (917)                                    | 4          | 4,029                                       | -                                      | 4,029                       |
| 19       | Rents                                     | 3,600   | -  |            | 3,600                                       | -                                      | 3,600                       |
| 20       | Transportation Expense                    | -   | -  |            | -   | -                                      | -                           |
| 21       | Insurance - Vehicle                       | -   | -  |            | -   | -                                      | -                           |
| 22       | Insurance - General Liability             | -   | -  |            | -   | -                                      | -                           |
| 23       | Insurance - Workers Comp                  | -   | -  |            | -   | -                                      | -                           |
| 24       | Insurance - Other                         | 8,995   | -  |            | 8,995                                       | -                                      | 8,995                       |
| 25       | Regulatory Commission Expense - Rate Case | 20,000  | -  |            | 20,000                                      | -                                      | 20,000                      |
| 26       | Telephone                                 | 751   | -  |            | 751   | -                                      | 751                         |
| 27       | Water Resource Conservation               | -   | -  |            | -   | -                                      | -                           |
| 28       | Bad Debt Expense                          | -   | -  |            | -   | -                                      | -                           |
| 29       | Miscellaneous Expense                     | 235   | -  |            | 235   | -                                      | 235                         |
| 30       | Depreciation Expense                      | 93,748  | -  |            | 93,748                                      | -                                      | 93,748                      |
| 31       | Taxes Other than Income                   | -   | -  |            | -   | -                                      | -                           |
| 32       | Property Taxes                            | 11,148  | 14                                       | 5          | 11,162                                      | -                                      | 11,162                      |
| 33       | Income Tax                                | 45  | -  |            | 45  | -                                      | 45                          |
| 34       | Intentionally Left Blank                  | -   | -  |            | -   | -                                      | -                           |
| 35       | <b>Total Operating Expenses</b>           | <b>\$ 301,898</b>                                   | <b>\$ 1,208</b>                          |            | <b>\$ 303,106</b>                           | <b>\$ -</b>                            | <b>\$ 303,106</b>           |
| 36       | <b>Operating Income (Loss)</b>            | <b>\$ (33,632)</b>                                  | <b>\$ (1,375)</b>                        |            | <b>\$ (35,007)</b>                          | <b>\$ 88,547</b>                       | <b>\$ 53,540</b>            |

References:

- Column (A): Company Schedule C-1
- Column (B): Testimony CRM
- Column (C): Column (A) + Column (B)
- Column (D): Schedules CRM-1 and CRM-2
- Column (E): Column (C) + Column (D)

DR WATER USERS ASSOCIATION  
 Docket No. W-2824A-07-0388  
 Test Year Ending December 31, 2006

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

| LINE NO. | DESCRIPTION                               | [A]<br>COMPANY<br>AS FILED | [B]<br>Annualize Revenue<br>ADJ #1 | [C]<br>Repairs<br>ADJ #2 | [D]<br>Contr Svcs Oper.<br>ADJ #3 | [E]<br>Water Testing<br>ADJ #4 | [F]<br>Property Tax<br>ADJ #5 | [G]<br>STAFF<br>ADJUSTED |
|----------|---|----------------------------|------------------------------------|--------------------------|-----------------------------------|--------------------------------|-------------------------------|--------------------------|
| 1        | <b>REVENUES:</b>                          |                            |                                    |                          |                                   |                                |                               |                          |
| 2        | Metered Water Sales                       | \$ 214,863                 | (167)                              | \$ -                     | \$ -                              | \$ -                           | \$ -                          | \$ 214,696               |
| 3        | Water Sales - Unmetered                   | -                          | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 4        | Other Operating Revenue                   | 53,403                     | -                                  | -                        | -                                 | -                              | -                             | 53,403                   |
| 5        | <b>Total Operating Revenues</b>           | <b>\$ 268,266</b>          | <b>(167)</b>                       | <b>\$ -</b>              | <b>\$ -</b>                       | <b>\$ -</b>                    | <b>\$ -</b>                   | <b>\$ 268,099</b>        |
| 6        | <b>OPERATING EXPENSES:</b>                |                            |                                    |                          |                                   |                                |                               |                          |
| 7        | Salaries and Wages                        | \$ -                       | \$ -                               | \$ -                     | \$ -                              | \$ -                           | \$ -                          | \$ -                     |
| 8        | Employee Pensions and Benefits            | -                          | -                                  | -                        | -                                 | -                              | -                             | 6,388                    |
| 9        | Purchased Water                           | 6,388                      | -                                  | -                        | -                                 | -                              | -                             | 16,239                   |
| 10       | Purchased Power                           | 16,239                     | -                                  | -                        | -                                 | -                              | -                             | 2,516                    |
| 11       | Chemicals                                 | 2,516                      | -                                  | -                        | -                                 | -                              | -                             | 14,389                   |
| 12       | Repairs and Maintenance                   | 14,542                     | -                                  | (153)                    | -                                 | -                              | -                             | 1,720                    |
| 13       | Office Supplies and Expenses              | 1,720                      | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 14       | Contractual Services - Engineering        | -                          | -                                  | -                        | -                                 | -                              | -                             | 32,549                   |
| 15       | Contractual Services - Accounting         | 32,549                     | -                                  | -                        | -                                 | -                              | -                             | 513                      |
| 16       | Contractual Services - Legal              | 513                        | -                                  | -                        | -                                 | -                              | -                             | 86,227                   |
| 17       | Contractual Services - Other - Operations | 83,963                     | -                                  | -                        | 2,264                             | -                              | -                             | 4,029                    |
| 18       | Water Testing                             | 4,946                      | -                                  | -                        | -                                 | (917)                          | -                             | 3,600                    |
| 19       | Rents                                     | 3,600                      | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 20       | Transportation Expense                    | -                          | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 21       | Insurance - Vehicle                       | -                          | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 22       | Insurance - General Liability             | -                          | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 23       | Insurance - Workers Comp                  | -                          | -                                  | -                        | -                                 | -                              | -                             | 8,995                    |
| 24       | Insurance - Other                         | 8,995                      | -                                  | -                        | -                                 | -                              | -                             | 20,000                   |
| 25       | Regulatory Commission Expense - Rate Case | 20,000                     | -                                  | -                        | -                                 | -                              | -                             | 751                      |
| 26       | Telephone                                 | 751                        | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 27       | Water Resource Conservation               | -                          | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 28       | Bad Debt Expense                          | -                          | -                                  | -                        | -                                 | -                              | -                             | 235                      |
| 29       | Miscellaneous Expense                     | 235                        | -                                  | -                        | -                                 | -                              | -                             | 93,748                   |
| 30       | Depreciation Expense                      | 93,748                     | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 31       | Taxes Other than Income                   | -                          | -                                  | -                        | -                                 | -                              | -                             | 11,162                   |
| 32       | Property Taxes                            | 11,148                     | -                                  | -                        | -                                 | -                              | 14                            | 45                       |
| 33       | Income Tax                                | 45                         | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 34       | Intentionally Left Blank                  | -                          | -                                  | -                        | -                                 | -                              | -                             | -                        |
| 35       | <b>Total Operating Expenses</b>           | <b>\$ 301,898</b>          | <b>\$ -</b>                        | <b>\$ (153)</b>          | <b>\$ 2,264</b>                   | <b>\$ (917)</b>                | <b>\$ 14</b>                  | <b>\$ 303,106</b>        |
| 36       | <b>Operating Income (Loss)</b>            | <b>\$ (33,632)</b>         | <b>\$ -</b>                        | <b>\$ (153)</b>          | <b>\$ 2,264</b>                   | <b>\$ (917)</b>                | <b>\$ (14)</b>                | <b>\$ (35,007)</b>       |

|              |                                   |                    |
|--------------|-----------------------------------|--------------------|
| <b>ADJ #</b> |                                   | <b>References:</b> |
| 1            | Annualized Revenue                | CRM-8              |
| 2            | Repairs and Maintenance           | CRM-9              |
| 3            | Contractual Services - Operations | CRM-10             |
| 4            | Water Testing Expense             | CRM-11             |
| 5            | Property Taxes                    | CRM-12             |

**OPERATING INCOME ADJUSTMENT # 1 - Annualized Revenue**

| Line No. | Description        | [A]<br>Company<br>As<br>Filed | [B]<br>Staff<br>Adjustments | [C]<br>Staff<br>As<br>Adjusted |
|----------|--------------------|-------------------------------|-----------------------------|--------------------------------|
| 1        | Annualized Revenue | \$ 214,863                    | \$ (167.00)                 | \$ 214,696                     |

References

|                               |                 |
|-------------------------------|-----------------|
| Col. [A] Company Schedule H-1 | \$ 9,957        |
| Column (B): Testimony CRM     | 9,790           |
| Col. [C]: Col. [A] + Col. [B] | <u>\$ (167)</u> |

Adjustments by Meter Size

| Meter Size | Company         | Staff           | Difference      |
|------------|-----------------|-----------------|-----------------|
| 5/8 inch   | \$ 1,547        | \$ 1,551        | \$ 4            |
| 1 inch     | 1,563           | 1,344           | (219)           |
| 2 inch     | 6,847           | 6,895           | 48              |
| Total      | <u>\$ 9,957</u> | <u>\$ 9,790</u> | <u>\$ (167)</u> |

**OPERATING INCOME ADJUSTMENT #2 - REPAIRS AND MAINTENANCE**

| Line No. | Description             | [A]<br>Company<br>As<br>Filed | [B]<br>Staff<br>Adjustments | [C]<br>Staff<br>As<br>Adjusted |
|----------|-------------------------|-------------------------------|-----------------------------|--------------------------------|
| 1        | Repairs and Maintenance | \$ 14,542                     | \$ (153)                    | \$ 14,389                      |

References

Col. [A] Company Schedule C-1  
Column [B]: Testimony CRM  
Col. [C]: Col. [A] + Col. [B]

**Additional Repairs and Maintenance Adjustments**

|  |  |              |                     |
|--|--|--------------|---------------------|
| <b>Acct. No.</b>                                 |  | <b>ADD:</b>  |                     |
| 62000 IC   | G/L Adjustment to remove credit posted in account    |              | 514                 |
| 62000 TR   | G/L Adjustment to remove credit posted in account    |              | 1,563               |
| 62000 IC   | G/L Adjustment to remove credit posted in account    |              | 287                 |
|  | <b>Total</b>   |              | <u>2364</u>         |
|  |  | <b>LESS:</b> |                     |
| Normalize Storage tanks expense from C.W. Divers |  |              |                     |
| 62000 IC   | C W Divers Inv. 06-505 dated 11/02/06                | 1520         |                     |
| 62000 TR   | C W Divers Inv. 06-504 dated 11/02/06                | 1626         |                     |
|  | <b>Total</b>   | <u>3146</u>  |                     |
|  | Normalize expense over 5 years                       | <u>629</u>   |                     |
|  | Amount not allowed in current test year:             |              | <u>(2,517)</u>      |
|  | <b>Net decrease in Repairs from test year amount</b> |              | <u><u>(153)</u></u> |

**OPERATING INCOME ADJUSTMENT #3 - CONTRACTUAL SERVICES**

| Line No. | Description          | [A]<br>Company<br>As<br>Filed | [B]<br>Staff<br>Adjustments | [C]<br>Staff<br>As<br>Adjusted |
|----------|----------------------|-------------------------------|-----------------------------|--------------------------------|
| 1        | Contractual Services | \$ 83,963                     | \$ 2,264                    | \$ 86,227                      |

References

Col. [A] Company Schedule C-1  
Column [B]: Testimony CRM  
Col. [C]: Col. [A] + Col. [B]

**Computations**

|  |                  |
|--|------------------|
| Amount claimed in rate application                       | \$ 83,963        |
| Increase/(decrease) to Contractual Services - Operations | 2,264            |
| Amount recommended by Staff                              | <u>\$ 86,227</u> |

**Additional Contractual Services -Operations Adjustments**

**ADD: General Ledger Account Numbers**

|         |                 |
|---------|-----------------|
| 63000   | \$ 30           |
| 63000IC | \$ 1,870        |
| 63000TR | \$ 595          |
| 63010IC | \$ 290          |
| 63010TR | \$ 650          |
| 63010   | \$ 96           |
| Total   | <u>\$ 3,531</u> |

**Less:**

|  |                |
|--|----------------|
| Erickson Landscaping invoices Company will no longer have a landscaping expense. Developer maintained. | <u>(1,267)</u> |
| Net increase (decrease) from test year amount  | <u>2,264</u>   |

ICR WATER USERS ASSOCIATION  
Docket No. W-2824A-07-0388  
Test Year Ending December 31,2006

Schedule CRM-11

**OPERATING INCOME ADJUSTMENT # 4 - WATER TESTING EXPENSE**

| Line       |                       | [A]<br>Company     | [B]                         | [C]<br>Staff          |
|------------|-----------------------|--------------------|-----------------------------|-----------------------|
| <u>No.</u> | <u>Description</u>    | As<br><u>Filed</u> | Staff<br><u>Adjustments</u> | As<br><u>Adjusted</u> |
| 1          | Water Testing Expense | \$ 4,946           | \$ (917.00)                 | \$ 4,029              |

References

Col. [A] Company Schedule H-1  
Column [B]: Testimony Engineering  
Col. [C]: Col. [A] + Col. [B]

**OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES**

| LINE NO. | Property Tax Calculation                                       | [A]            | (B)               |
|----------|--|----------------|-------------------|
|          |  | CO-OP AS FILED | STAFF AS ADJUSTED |
| 1        | Staff Adjusted Test Year Revenues                              | \$ 268,266     | \$ 268,099        |
| 2        | Weight Factor  |                | <u>2</u>          |
| 3        | Subtotal (Line 1 * Line 2)                                     |                | 536,198           |
| 4        | Staff Recommended Revenue, Per Schedule CRM-1                  |                | 356,646           |
| 5        | Subtotal (Line 4 + Line 5)                                     |                | 892,844           |
| 6        | Number of Years  |                | 3                 |
| 7        | Three Year Average (Line 5 / Line 6)                           |                | 297,615           |
| 8        | Department of Revenue Multiplier                               |                | 2                 |
| 9        | Revenue Base Value (Line 7 * Line 8)                           |                | 595,229           |
| 10       | Plus: 10% of CWIP<br>Tax on Parcels                            |                | -<br>261          |
| 11       | Less: Net Book Value of Licensed Vehicles                      |                | -                 |
| 12       | Full Cash Value (Line 9 + Line 10 - Line 11)                   |                | 595,229           |
| 13       | Assessment Ratio - Average of 2006 and 2007 Rate               |                | 0.2350            |
| 14       | Assessment Value (Line 12 * Line 13)                           |                | 139,879           |
| 15       | Composite Property Tax Rate (Per Company Schedule C-2, Page 3) |                | 7.9800000%        |
| 16       | Staff Proposed Property Tax Expense (Line 14 * Line 15)        |                | \$ 11,162         |
| 17       | Company Proposed Property Tax                                  |                | <u>11,148</u>     |
| 18       | Increase/(Decrease) to Property Tax Expense                    |                | <u>\$ 14</u>      |

**RATE DESIGN**

| <b>Monthly Usage Charge</b>                               | <b>Present Rates</b> | <b>Company Proposed Rates</b> | <b>Staff Recommended Rates</b> |
|---|----------------------|-------------------------------|--------------------------------|
| 5/8 x 3/4" Meter  | \$ 20.00             | \$ 25.50                      | \$ 28.75                       |
| 3/4" Meter  | 20.00                | 38.25                         | 43.13                          |
| 1" Meter  | 50.00                | 63.75                         | 71.88                          |
| 1½" Meter   | 100.00               | 127.50                        | 143.75                         |
| 2" Meter  | 160.00               | 204.00                        | 230.00                         |
| 3" Meter  | 300.00               | 382.50                        | 460.00                         |
| 4" Meter  | 500.00               | 637.50                        | 718.75                         |
| 6" Meter  | 1,000.00             | 1,275.00                      | 1,437.50                       |
| Gallons included in Minimum                               | 1,000                | 0                             | 0                              |
| <b>Commodity Rates</b>                                    |                      |                               |                                |
| <b>All meter sizes</b>                                    |                      |                               |                                |
| Per 1,000 gallons in excess of gallons in monthly minimum | \$ 2.80              | n/a                           | n/a                            |
| <b>5/8 x3/4 Inch Meter</b>                                |                      |                               |                                |
| Tier 1 zero gallon to 4,000 gallons                       | n/a                  | 3.19                          | n/a                            |
| Tier 2 4,001 gallons to 10,000 gallons                    | n/a                  | 3.83                          | n/a                            |
| Tier 3 All gallons over 10,000 gallons                    | n/a                  | 4.47                          | n/a                            |
| Tier 1 zero gallon to 4,000 gallons                       | n/a                  | n/a                           | 2.64                           |
| Tier 2 4,001 gallons to 9,000 gallons                     | n/a                  | n/a                           | 3.96                           |
| Tier 3 All gallons over 9,000 gallons                     | n/a                  | n/a                           | 4.74                           |
| <b>3/4 Inch Meter</b>                                     |                      |                               |                                |
| Tier 1 zero gallon to 4,000 gallons                       | n/a                  | \$ 3.19                       | n/a                            |
| Tier 2 4,001 gallons to 10,000 gallons                    | n/a                  | \$ 3.83                       | n/a                            |
| Tier 3 All gallons over 10,000 gallons                    | n/a                  | \$ 4.47                       | n/a                            |
| Tier 1 zero gallon to 4,000 gallons                       | n/a                  | n/a                           | 2.64                           |
| Tier 2 4,001 gallons to 9,000 gallons                     | n/a                  | n/a                           | 3.96                           |
| Tier 3 All gallons over 9,000 gallons                     | n/a                  | n/a                           | 4.74                           |
| <b>1 Inch Meter</b>                                       |                      |                               |                                |
| Tier 1 Up to 25,000 gallons                               | n/a                  | \$ 3.83                       | n/a                            |
| Tier 2 Over 25,000 gallons                                | n/a                  | 4.47                          | n/a                            |
| Tier 1 Up to 15,000 gallons                               | n/a                  | n/a                           | 3.96                           |
| Tier 2 Over 15,000 gallons                                | n/a                  | n/a                           | 4.74                           |
| <b>1.5 Inch Meter</b>                                     |                      |                               |                                |
| Tier 1 Up to 50,000 gallons                               | n/a                  | \$ 3.83                       | n/a                            |
| Tier 2 Over 50,000 gallons                                | n/a                  | \$ 4.47                       | n/a                            |
| Tier 1 Up to 50,000 gallons                               | n/a                  | n/a                           | 3.96                           |
| Tier 2 Over 50,000 gallons                                | n/a                  | n/a                           | 4.74                           |
| <b>2 Inch Meter</b>                                       |                      |                               |                                |
| Tier 1 Up to 80,000 gallons                               | n/a                  | \$ 3.83                       | n/a                            |
| Tier 2 Over 80,000 gallons                                | n/a                  | \$ 4.47                       | n/a                            |
| Tier 1 Up to 80,000 gallons                               | n/a                  | n/a                           | 3.96                           |
| Tier 2 Over 80,000 gallons                                | n/a                  | n/a                           | 4.74                           |
| <b>3 Inch Meter</b>                                       |                      |                               |                                |
| Tier 1 Up to 160,000 gallons                              | n/a                  | \$ 3.83                       | n/a                            |
| Tier 2 Over 160,000 gallons                               | n/a                  |                               | n/a                            |
| Tier 1 Up to 150,000 gallons                              | n/a                  | n/a                           | 3.96                           |
| Tier 2 Over 150,000 gallons                               | n/a                  | n/a                           | 4.74                           |

|  |     |         |      |
|--|-----|---------|------|
| <b>4 Inch Meter</b>  |     |         |      |
| Tier 1 Up to 250,000 gallons                               | n/a | \$ 3.83 | n/a  |
| Tier 2 Over 250,000 gallons                                | n/a |         | n/a  |
| Tier 1 Up to 250,000 gallons                               | n/a | n/a     | 3.96 |
| Tier 2 Over 250,000 gallons                                | n/a | n/a     | 4.74 |
| <b>6 Inch Meter</b>  |     |         |      |
| Tier 1 Up to 500,000 gallons                               | n/a | \$ 3.83 | n/a  |
| Tier 2 Over 500,000 gallons                                | n/a |         | n/a  |
| Tier 1 Up to 500,000 gallons                               | n/a | n/a     | 3.96 |
| Tier 2 Over 500,000 gallons                                | n/a | n/a     | 4.74 |
| <b>Construction/Bulk, per 1,000 gallons - all gallons.</b> | n/a | 3.83    | 4.74 |

| Service Line and Meter Installation Charges | Present     | COMPANY PROPOSED    |                    |                | STAFF RECOMMENDED   |                    |                   |
|---|-------------|---------------------|--------------------|----------------|---------------------|--------------------|-------------------|
|   |             | Service Line Charge | Meter Installation | Total Proposed | Service Line Charge | Meter Installation | Total Recommended |
| 5/8" x 3/4" Meter                           | \$ 250.00   | \$ 385.00           | \$ 135.00          | \$ 520.00      | \$ 385.00           | \$ 135.00          | \$ 520.00         |
| 3/4" Meter                                  | \$ 250.00   | \$ 385.00           | \$ 215.00          | \$ 600.00      | \$ 385.00           | \$ 215.00          | \$ 600.00         |
| 1" Meter                                    | \$ 300.00   | \$ 435.00           | \$ 255.00          | \$ 690.00      | \$ 435.00           | \$ 255.00          | \$ 690.00         |
| 1½" Meter                                   | \$ 450.00   | \$ 470.00           | \$ 465.00          | \$ 935.00      | \$ 470.00           | \$ 465.00          | \$ 935.00         |
| 2" Turbine Meter                            | \$ 625.00   | \$ 630.00           | \$ 965.00          | \$ 1,595.00    | \$ 630.00           | \$ 965.00          | \$ 1,595.00       |
| 2" Compound Meter                           | \$ 625.00   | \$ 630.00           | \$ 1,690.00        | \$ 2,320.00    | \$ 630.00           | \$ 1,690.00        | \$ 2,320.00       |
| 3" Turbine Meter                            | \$ 825.00   | \$ 805.00           | \$ 1,470.00        | \$ 2,275.00    | \$ 805.00           | \$ 1,470.00        | \$ 2,275.00       |
| 3" Compound Meter                           | \$ 825.00   | \$ 845.00           | \$ 2,265.00        | \$ 3,110.00    | \$ 845.00           | \$ 2,265.00        | \$ 3,110.00       |
| 4" Turbine Meter                            | \$ 1,450.00 | \$ 1,170.00         | \$ 2,350.00        | \$ 3,520.00    | \$ 1,170.00         | \$ 2,350.00        | \$ 3,520.00       |
| 4" Compound Meter                           | \$ 1,450.00 | \$ 1,230.00         | \$ 3,245.00        | \$ 4,475.00    | \$ 1,230.00         | \$ 3,245.00        | \$ 4,475.00       |
| 6" Turbine Meter                            | \$ 3,100.00 | \$ 1,730.00         | \$ 4,545.00        | \$ 6,275.00    | \$ 1,730.00         | \$ 4,545.00        | \$ 6,275.00       |
| 6" Compound Meter                           | \$ 3,100.00 | \$ 1,770.00         | \$ 6,280.00        | \$ 8,050.00    | \$ 1,770.00         | \$ 6,280.00        | \$ 8,050.00       |
| 8 Inch                                      | n/a         | At Cost             | At Cost            | At Cost        | At Cost             | At Cost            | At Cost           |
| 10 Inch                                     | n/a         | At cost             | At cost            | At cost        | At cost             | At cost            | At cost           |
| 12 Inch                                     | n/a         | At Cost             | At Cost            | At Cost        | At Cost             | At Cost            | At Cost           |

| Service Charges                                   | Present  | Company Proposed | Staff Recommended |
|---|----------|------------------|-------------------|
| Establishment                                     | \$ 25.00 | \$ 25.00         | \$ 25.00          |
| Establishment (After Hours)                       | 50.00    | 50.00            | 50.00             |
| Reconnection (Delinquent)                         | 20.00    | 20.00            | 20.00             |
| Reconnection (After Hours)                        | n/a      | 40.00            | 40.00             |
| Meter Test (Calibration or leak deception)        | 20.00    | 20.00            | 20.00             |
| Deposit Requirement( Residential/ Commercial) (1) | per rule | per rule         | *                 |
| Deposit Interest (2)                              | per rule | per rule         | 6.00%             |
| Re-Establishment (Within 12 Months) (3)           | per rule | per rule         | **                |
| NSF Check   | 15.00    | 15.00            | 15.00             |
| Deferred Payment Per Month 1.5 %                  | 1.50%    | 1.50%            | 1.50%             |
| Meter Re-Read (If Correct)                        | 10.00    | 10.00            | 10.00             |
| Late Charge per Month                             | (a)      | (a)              | ***               |

| Monthly Service Charge for Fire Sprinkler | Present | Company Proposed | Staff Recommended |
|---|---------|------------------|-------------------|
| 4 inch or Smaller                         | n/a     | n/a              | ****              |
| 6 inch                                    | n/a     | n/a              | ****              |
| 8 inch                                    | n/a     | n/a              | ****              |
| 10 inch                                   | n/a     | n/a              | ****              |
| Larger than 10 inch                       | n/a     | n/a              | ****              |

**Company Proposed**

- 1 Per Rule Deposit (R-14-2-403.B)
- 2 Per Rule Deposit Interest (R-14-2-403.B.3)
- 3 Per Rule Reestablishment (14-2-403.D.1)

(a) \$5.00 minimum or 1.5% of unpaid balance whichever is greater.

**Staff Recommended**

- \* Per rule R14-2-403.B
- \*\* Months off system time the minimum (R-14-2-403.D)
- \*\*\* 1.5 percent of the unpaid balance per month.
- \*\*\*\* 100 percent 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

| Company Proposed         | Gallons  | Present Rates | Proposed Rates | Dollar Increase | Percent Increase |
|--------------------------|----------|---------------|----------------|-----------------|------------------|
| Average Usage            | 7,085    | \$ 37.04      | \$ 50.08       | \$ 13.04        | 35.20%           |
| Median Usage             | 4,500    | \$ 29.80      | \$ 40.18       | \$ 10.38        | 34.82%           |
| <b>Staff Recommended</b> |          |               |                |                 |                  |
| Average Usage            | 7,085    | \$ 37.04      | \$ 48.98       | \$ 11.94        | 32.23%           |
| Median Usage             | 4,500    | \$ 29.80      | \$ 38.74       | \$ 8.94         | 30.00%           |
| Consumption              | Rates    | Rates         | Increase       | Rates           | Increase         |
| -                        | \$ 20.00 | \$ 25.50      | 27.50%         | \$ 26.20        | 31.00%           |
| 1,000                    | 22.80    | 29.33         | 28.63%         | 28.85           | 26.51%           |
| 2,000                    | 25.60    | 33.16         | 29.52%         | 31.49           | 23.01%           |
| 3,000                    | 28.40    | 36.99         | 30.24%         | 34.14           | 20.19%           |
| 4,000                    | 31.20    | 40.82         | 30.83%         | 36.78           | 17.88%           |
| 5,000                    | 34.00    | 44.65         | 31.32%         | 40.74           | 19.82%           |
| 6,000                    | 36.80    | 48.48         | 31.73%         | 44.70           | 21.47%           |
| 7,000                    | 39.60    | 52.31         | 32.09%         | 48.66           | 22.88%           |
| 8,000                    | 42.40    | 56.14         | 32.40%         | 52.62           | 24.10%           |
| 9,000                    | 45.20    | 59.97         | 32.67%         | 56.58           | 25.18%           |
| 7,085                    | 39.84    | 52.63         | 32.12%         | 49.00           | 22.99%           |
| 10,000                   | 48.00    | 63.80         | 32.91%         | 61.32           | 27.75%           |
| 11,000                   | 50.80    | 67.63         | 33.12%         | 66.06           | 30.04%           |
| 12,000                   | 53.60    | 71.46         | 33.32%         | 70.80           | 32.10%           |
| 13,000                   | 56.40    | 75.29         | 33.49%         | 75.54           | 33.94%           |
| 14,000                   | 59.20    | 79.12         | 33.64%         | 80.29           | 35.62%           |
| 15,000                   | 62.00    | 82.95         | 33.79%         | 85.03           | 37.14%           |
| 16,000                   | 64.80    | 86.78         | 33.92%         | 89.77           | 38.53%           |
| 17,000                   | 67.60    | 90.61         | 34.03%         | 94.51           | 39.80%           |
| 18,000                   | 70.40    | 94.44         | 34.14%         | 99.25           | 40.98%           |
| 19,000                   | 73.20    | 98.27         | 34.25%         | 103.99          | 42.06%           |
| 20,000                   | 76.00    | 102.10        | 34.34%         | 108.73          | 43.07%           |
| 25,000                   | 90.00    | 121.25        | 34.72%         | 132.44          | 47.15%           |
| 30,000                   | 104.00   | 140.40        | 35.00%         | 156.14          | 50.14%           |
| 35,000                   | 118.00   | 159.55        | 35.21%         | 179.85          | 52.41%           |
| 40,000                   | 132.00   | 178.70        | 35.38%         | 203.55          | 54.21%           |
| 45,000                   | 146.00   | 197.85        | 35.51%         | 227.26          | 55.65%           |
| 50,000                   | 160.00   | 217.00        | 35.62%         | 250.96          | 56.85%           |
| 75,000                   | 230.00   | 312.75        | 35.98%         | 369.49          | 60.65%           |
| 100,000                  | 300.00   | 408.50        | 36.17%         | 488.01          | 62.67%           |

**BEFORE THE ARIZONA CORPORATION COMMISSION**

MIKE GLEASON

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

KRISTIN K. MAYES

Commissioner

GARY PIERCE

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
ICR WATER USERS ASSOCIATION, AN )  
ARIZONA CORPORATION, FOR A )  
DETERMINATION OF THE CURRENT FAIR )  
VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN ITS )  
RATES AND CHARGES FOR UTILITY )  
SERVICE )

DOCKET NO. W-02824A-07-0388

DIRECT

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

NOVEMBER 30, 2007

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**EXECUTIVE SUMMARY**  
**ICR WATER USERS ASSOCIATION, INC.**  
**DOCKET NO. W-02824A-07-0388**

**CONCLUSIONS**

- A. The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The ICR reported its arsenic concentration for its wells at 2.3 ppb. Based on this arsenic concentration, the Company is in compliance with the new arsenic standard of 10 ppb.
- B. The Company is not within any Active Management Area, and consequently is not subject to Arizona Department of Water Resources ("ADWR") reporting and conservation rules.
- C. ICR has no outstanding Arizona Corporation Commission compliance issues.
- D. ICR has a curtailment plan filed with the ACC.
- E. The existing water systems have adequate well production and storage capacity to serve the existing connections.

**RECOMMENDATIONS**

- 1. Staff recommends that any increase in rates and charges approved in this proceeding shall not become effective until Staff receives notice that the ICR water systems are in total compliance with ADEQ regulations.
- 2. Staff recommends its average annual cost of \$4,029 be adopted for the water testing expense in this proceeding.
- 3. Staff recommends that the ICR use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category on a going forward bases.
- 4. Staff recommends the acceptance of the Company's proposed installation charges along with adopting an installation charge of "At Cost" for meter sizes of 8-inch and larger as shown in Table F-1.
- 5. Staff recommends that ICR be required to separate out the Water Use Data (to include customer count information, Construction water use data, and Golf Course water use data) and Plant Summary information for each of its water systems in future Annual Reports.

1    **INTRODUCTION**

2    **Q.    Please state your name, place of employment and job title.**

3    A.    My name is Jian W. Liu. My place of employment is the Arizona Corporation  
4           Commission (“Commission”), Utilities Division, 1200 West Washington Street, Phoenix,  
5           Arizona 85007. My job title is Water/Wastewater Engineer.

6  
7    **Q.    How long have you been employed by the Commission?**

8    A.    I have been employed by the Commission since October 2005.

9  
10   **Q.    Please list your duties and responsibilities.**

11   A.    As a Water/Wastewater Engineer, my responsibilities include: the inspection,  
12           investigation, and evaluation of water and wastewater systems; preparing reconstruction  
13           cost new and/or original cost studies, cost of service studies and investigative reports;  
14           providing technical recommendations and suggesting corrective action for water and  
15           wastewater systems; and providing written and oral testimony on rate applications and  
16           other cases before the Commission.

17  
18   **Q.    How many companies have you analyzed for the Utilities Division?**

19   A.    I have analyzed approximately 30 companies covering various responsibilities for the  
20           Utilities Division.

21  
22   **Q.    Have you previously testified before this Commission?**

23   A.    Yes, I have testified before this Commission.

1 **Q. What is your educational background?**

2 A. I am a Ph.D. Candidate in Geotechnical Engineering from Arizona State University  
3 (“ASU”). I have a Master of Science Degree in Natural Science from ASU and a Master  
4 of Science Degree in Civil Engineering from Institute of Rock & Soil Mechanics  
5 (“IRSM”), Academy of Sciences, China.

6

7 **Q. Briefly describe your pertinent work experience.**

8 A. From 1982 to 2000, I was employed by IRSM, SCS Engineers, and URS as a Civil and  
9 Environmental Engineer. In 2000, I joined the Arizona Department of Environmental  
10 Quality (“ADEQ”). My responsibilities with ADEQ included review and approval of  
11 water distribution systems, sewer distribution systems, and on-site wastewater treatment  
12 facilities. I remained with ADEQ until transferring to the Commission in October 2005.

13

14 **Q. Please state your professional membership, registrations, and licenses.**

15 A. I am a licensed professional civil engineer in the State of Arizona.

16

17 **PURPOSE OF TESTIMONY**

18 **Q. Were you assigned to provide Staff’s engineering analysis and recommendation for**  
19 **the ICR Water Users Association, Inc. (“ICR” or “Company”) in this proceeding?**

20 A. Yes. I reviewed ICR’s application and responses to data requests, and I inspected the  
21 water system on September 27, 2007. This testimony and its attachment present Staff’s  
22 engineering evaluation.

1     **ENGINEERING REPORT**

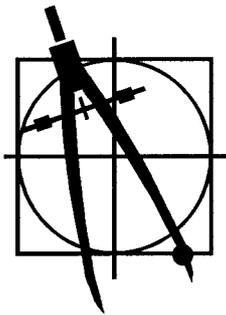
2     **Q.     Please describe the attached Engineering Report, Exhibit JWL.**

3     A.     Exhibit JWL presents the details and analyses of Staff's findings, and is attached to this  
4           direct testimony. Exhibit JWL contains the following major topics: (1) a description of  
5           the water system and the processes, (2) water use, (3) growth, (4) compliance with the  
6           rules of the ADEQ, Arizona Department of Water Resources ("ADWR"), and the  
7           Commission, (5) depreciation rates, (6) curtailment plan tariff, and (7) Service Line and  
8           Meter Installation Charges.

9  
10          The conclusions and recommendations from the Engineering Report are contained in the  
11          **"EXECUTIVE SUMMARY"**, above.

12  
13     **Q.     Does this conclude your direct testimony?**

14     A.     Yes, it does.



**Engineering Report  
For  
ICR Water Users Association, Inc.  
Docket No. W-02824A-07-0388 (Rates)**

November 16, 2007

**A. LOCATION OF ICR WATER USERS ASSOCIATION, INC. (“ICR” OR “COMPANY”)**

ICR is located approximately 12 miles northwest of Prescott and serves portions of Yavapai County. ICR is an Arizona non-profit corporation, and the member-customers elect a board of directors who manage and operate the Company according to its by-laws. The ICR’s principal business office is located at 246 N Highway 89, Suite A, Chino Valley, Arizona 86323. Figure A-1 shows the location of ICR within Yavapai County and Figure A-2 shows the certificated area.

**B. DESCRIPTION OF WATER SYSTEM**

The water systems were field inspected on September 27, 2007, by Jian W Liu, Staff Utilities Engineer, in the accompaniment of Robert M. Busch, representing ICR.

ICR operates two water systems, Public Water System (“PWS”) numbers are 13-303 and 13-263. In addition to serving its member-customers, the Company also furnishes water to be used for construction and a golf course pursuant to a well agreement.

The Inscription Canyon Ranch water system (PWS13-303) consists of two wells, two storage tanks, two booster stations and a distribution system, serving approximately 256 customers during the test year of 2006. A system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table 1 Well Data for PWS13-303

| Well Name<br>Or # | ADWR ID<br>No. | Pump HP | Pump GPM | Casing Size<br>& Depth | Meter Size |
|-------------------|----------------|---------|----------|------------------------|------------|
| #1                | 55-542062      | 75      | 400      | 10” and 260’           | 6”         |
| #2                | 55-575291      | 75      | 400      | 8” and 320’            | 6”         |

Note: GPM = gallons per minute.

Table 2 Storage Tanks for PWS13-303

| Capacity Gallons | Quantity (Each) | Location          |
|------------------|-----------------|-------------------|
| 210,000          | 1               | Magner Drive      |
| 300,000          | 1               | Whispering Canyon |
| Totals: 510,000  |                 |                   |

Talking Rock Ranch water system (PWS13-263) consists of three wells, one storage tank, two booster stations and a distribution system, serving approximately 108 customers during the test year of 2006. A system schematic is shown in Figure B-2 with detailed plant facility descriptions as follows:

Table 3 Well Data for PWS13-263

| Well Name Or # | ADWR ID No. | Pump HP | Pump GPM | Casing Size & Depth | Meter Size |
|----------------|-------------|---------|----------|---------------------|------------|
| #1             | 55-589659   | 60      | 425      | 8" and 275'         | 6"         |
| #2             | 55-589660   | 60      | 375      | 8" and 250'         | 6"         |
| #3             | 55-584177   | 30      | 250      | 8" and 300'         | 6"         |

Note: GPM = gallons per minute.

Table 4 Storage Tanks for PWS13-263

| Capacity Gallons | Quantity (Each) | Location     |
|------------------|-----------------|--------------|
| 300,000          | 1               | Talking Rock |
| Totals: 300,000  |                 |              |

Table 5 Water Mains for PWS13-303 and PWS13-263

| Diameter | Material | Length (ft) |
|----------|----------|-------------|
| 2-inch   | PVC      |             |
| 3-inch   | PVC      |             |
| 4-inch   | PVC      | 180         |
| 6-inch   | PVC      | 24,937      |
| 8-inch   | PVC      | 95,507      |
| 10-inch  | PVC      | 10,731      |
| 12-inch  | PVC      | 11,832      |
| 16-inch  | PVC      |             |
|          |          |             |

Table 6. Customer Meters for PWS13-303 and PWS13-263

| Size           | Quantity |
|----------------|----------|
| 5/8 x 3/4-inch | 337      |
| 3/4-inch       |          |
| 1- inch        | 21       |
| 1-1/2-inch     |          |
| 2-inch         | 6        |
| Turbo 3        |          |
| Turbo 4        |          |
| Turbo 6        |          |
|                |          |

Table 7. Fire Hydrants

| Size     | Quantity |
|----------|----------|
| Standard | 125      |
|          |          |

The existing water systems have adequate well production and storage capacity to serve the existing connections.

## C. WATER USE

### Water Sold

Based on the information provided by ICR, water use for the year 2006 is presented in Figure C-1 for PWS13-303. Customer consumption experienced a high monthly average water use of 537 gallons per day ("GPD") per connection and a low monthly average water use of 162 GPD per connection for an average annual use of 306 GPD per connection.

For PWS13-263, water use for the year 2006 is presented in Figure C-2. Customer consumption experienced a high monthly average water use of 468 gallons per day ("GPD") per connection and a low monthly average water use of 109 GPD per connection for an average annual use of 246 GPD per connection.

### Non-Account Water

Non-account water should be 10% or less. The ICR reported water pumped for all 5 wells in 2006 was 181.97 million gallons ("MG"). Residential and Commercial used 37.87 MG, Construction used 15.47 MG, and Golf Course used 125.02 MG. Therefore, the Company's water loss is approximately 2.0%.

Staff recommends that ICR be required to separate out the Water Use Data (to include customer count information, Construction water use data, and Golf Course water use data) and Plant Summary information for each of its water systems in future Annual Reports.

## D. GROWTH

Figure D-1 depicts the customer growth using linear regression analysis. During the test year 2006, ICR had 364 customers and it is projected that the ICR could have approximately 575 customers by December 2010.

## E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE

### Compliance

For the Inscription Canyon Ranch water system (PWS13-303), the Arizona Department of Environmental Quality ("ADEQ") data base does not show that the required initial two consecutive six month lead and copper monitoring has been completed. This system is required to provide 20 lead and copper analyses per monitoring period but has only been providing 5 per monitoring period. ADEQ data base does not show that the required monthly Maximum Residual Disinfection Levels ("MRDLs") have been completed for this water system.

The Talking Rock Ranch water system (PWS13-263) has provided lead and copper monitoring for samples taken on September 2005 and July 2006 but ADEQ data base does not show that the required initial two consecutive six month lead and copper monitoring has been completed. The

ADEQ data base does not show that the required monthly MRDLs have been done for this water system. This system has only provided one MRDL analysis in 2006.

Because of the deficiencies, ADEQ cannot determine if these systems are currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that any increase in rates and charges approved in this proceeding shall not become effective until Staff receives notice that the ICR water systems are in total compliance with ADEQ regulations.

#### Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an additional fee of \$2.07 per service connection (\$2.57 per service connection minus \$0.50 refund 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 has 225 service connections for Calendar year 2006 for Public Water System ("PWS") 13-303, so the MAP fee for this system is \$715.75. For PWS 13-263, the Company has 70 service connections for Calendar year 2006, so the MAP fee for this system is \$394.9.

The Company reported its water testing expense at \$4,946 during the test year. Staff has reviewed the Company's testing expense and has recalculated the testing costs based on the Company's new laboratory costs and additional monitoring requirements by ADEQ for Disinfection/Disinfection By-Product ("D/DBP"). D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process and is required to monitor annually. Tables WTE1 and WTE2 show Staff's annual monitoring expense estimate total of \$4,029 with participation in the MAP.

**Table WTE1 Water Testing Expense**

| Monitoring PWS#13-303<br>for 2 wells<br>(Tests per 3 years, unless<br>noted.) | Cost<br>per<br>test | No. of<br>tests per<br>3 years | Total 3<br>year cost | Annual Cost |
|---|---------------------|--------------------------------|----------------------|-------------|
| Total Coliform – monthly  | \$ 20               | 72                             | 1440                 | 480         |
| Inorganics (& secondary)  | MAP                 | MAP                            | MAP                  | MAP         |
| Radiochemical – (1/ 4 yrs)  | MAP                 |                                |                      | MAP         |
| IOC's, SOC's, VOC's   |                     |                                |                      | MAP         |
| Nitrites  | MAP                 |                                |                      | MAP         |

|                        |       |    |     |                |
|------------------------|-------|----|-----|----------------|
| Nitrates - annual      | \$ 18 | 6  | 108 | 36             |
| Asbestos – per 9 years | MAP   |    |     | MAP            |
| Lead & Copper - annual | \$ 25 | 10 | 250 | 83             |
| HAA5                   | 235   |    |     | 470            |
| Total TTHMs            | 195   |    |     | 390            |
| MAP fees (annual)      |       |    |     | \$716          |
| Total                  |       |    |     | <b>\$2,175</b> |

**Table WTE2 Water Testing Expense**

| Monitoring PWS#13-263<br>for 3 wells<br>(Tests per 3 years, unless<br>noted.) | Cost<br>per<br>test | No. of<br>tests per<br>3 years | Total 3<br>year cost | Annual Cost    |
|---|---------------------|--------------------------------|----------------------|----------------|
| Total Coliform – monthly  | \$ 20               | 72                             | 1440                 | 480            |
| Inorganics (& secondary)  | MAP                 | MAP                            | MAP                  | MAP            |
| Radiochemical – (1/ 4 yrs)  | MAP                 |                                |                      | MAP            |
| IOC's, SOC's, VOC's   |                     |                                |                      | MAP            |
| Nitrites  | MAP                 |                                |                      | MAP            |
| Nitrates - annual   | \$ 18               | 6                              | 108                  | 36             |
| Asbestos – per 9 years  | MAP                 |                                |                      | MAP            |
| Lead & Copper - annual  | \$ 25               | 10                             | 250                  | 83             |
| HAA5  | 235                 |                                |                      | 470            |
| Total TTHMs   | 195                 |                                |                      | 390            |
| MAP fees (annual)   |                     |                                |                      | \$395          |
| Total   |                     |                                |                      | <b>\$1,854</b> |

Staff recommends its annual water testing expense of \$4,029 be used for purposes of this application.

#### Arsenic

The U.S. Environmental Protection Agency (“EPA”) has reduced the arsenic maximum contaminant level (“MCL”) in drinking water from 50 parts per billion (“ppb”) to 10 ppb. The ICR reported its arsenic concentration for its wells at 2.3 ppb. Based on this arsenic concentration, the Company is in compliance with the new arsenic standard of 10 ppb.

**F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE**

The Company is not within any Active Management Area, and consequently is not subject to ADWR reporting and conservation rules.

**G. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE**

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

**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 2.50% 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 E-1 and it is recommended that the ICR use these depreciation rates by individual NARUC category on a going forward basis.

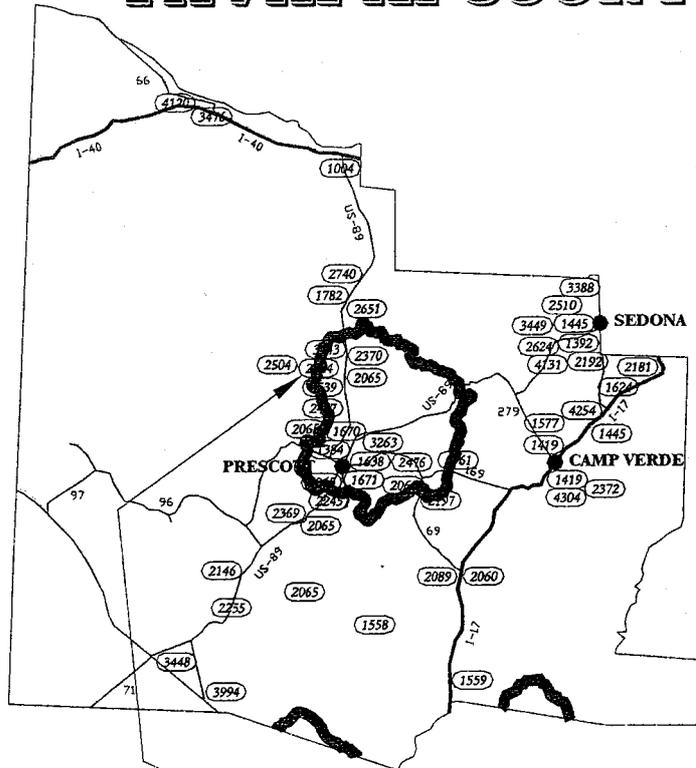
**I. CURTAILMENT PLAN TARIFF**

ICR has a curtailment plan filed with the ACC.

**J. SERVICE LINE AND METER INSTALLATION CHARGES**

The Company has requested to change its service line and meter installation charges. These charges are refundable advances and the Company’s proposed charges are within Staff’s recommended range for these charges. Since the Company 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, separate service line and meter charges have been developed. Staff recommends the acceptance of the Company’s proposed installation charges along with adopting an installation charge of “At Cost” for meter sizes of 8-inch and larger as shown in Table F-1.

# YAVAPAI COUNTY

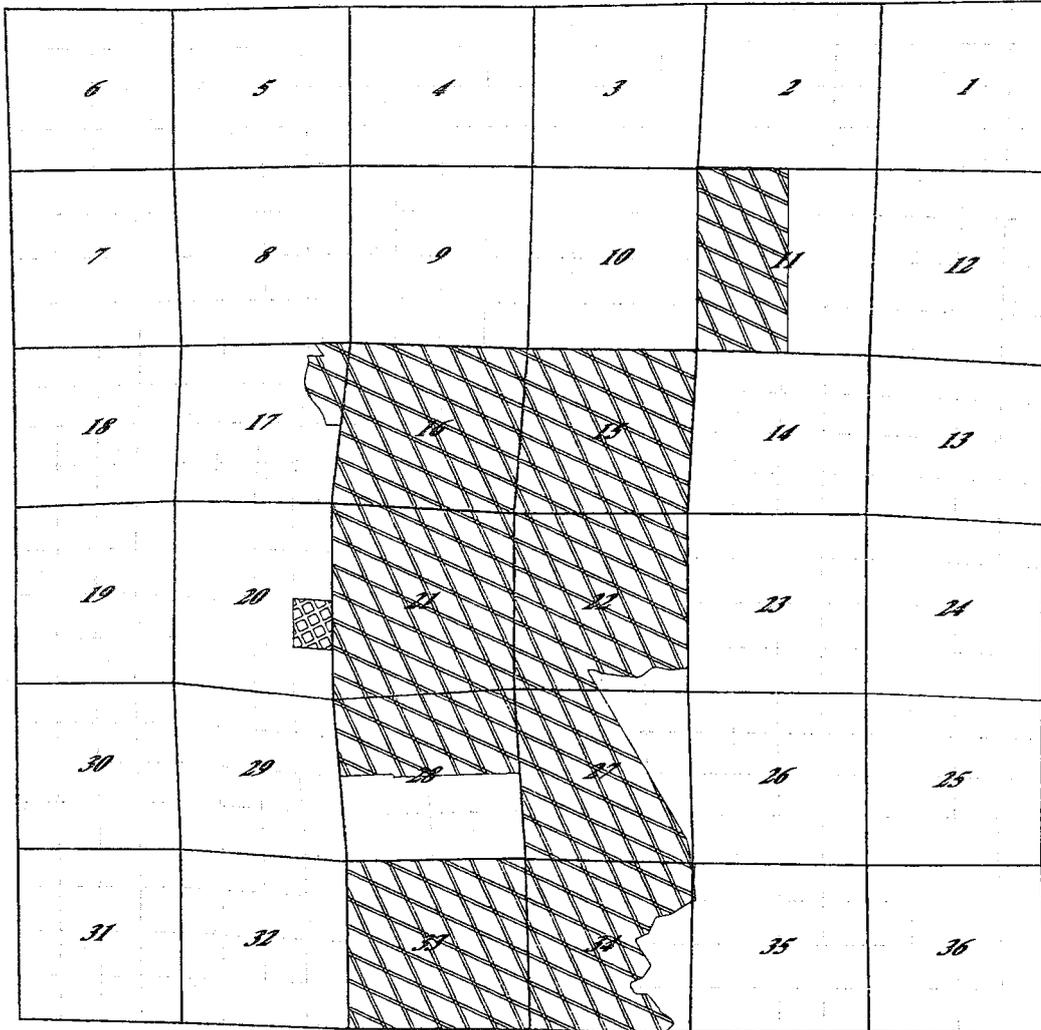


- |      |  |      |  |
|------|--|------|--|
| 1782 | ABRA WATER COMPANY, INC.                     | 1638 | HOLIDAY HILLS WATER COMPANY                    |
| 2740 | ANTELOPE LAKES WATER COMPANY                 | 2197 | HUMBOLDT WATER SYSTEM, INC.                    |
| 3443 | APPALOOSA WATER COMPANY                      | 2824 | ICR WATER USERS ASSOCIATION                    |
| 1445 | ARIZONA WATER COMPANY                        | 2624 | MICHAELS RANCH WATER USERS' ASSOCIATION        |
| 1004 | ASHFORK DEVELOPMENT ASSOCIATION, INC.        | 2651 | JUNIPER WELLS WATER COMPANY                    |
| 3476 | BN LEASING CORPORATION                       | 1557 | LAKE VERDE WATER COMPANY                       |
| 1624 | BIG PARK WATER COMPANY                       | 2192 | LITTLE PARK WATER COMPANY, INC.                |
| 2510 | BOYNTON CANYON ENCHANTMENT HOMEOWNERS ASSOC. | 2245 | LOMA ESTATES WATER COMPANY, LLC                |
| 2089 | BRADSHAW MOUNTAIN VIEW WATER COMPANY         | 2504 | MEADOW WATER COMPANY                           |
| 2476 | BRADSHAW WATER COMPANY, INC.                 | 4254 | MONTEZUMA RIMROCK WATER COMPANY, LLC           |
| 1419 | CAMP VERDE WATER SYSTEM                      | 4304 | OAK CREEK PUBLIC SERVICE, LLC                  |
| 3994 | CDC WICKENBURG WATER, LLC                    | 1392 | OAK CREEK WATER COMPANY NO. 1                  |
| 2370 | CHINO MEADOWS II WATER COMPANY, INC.         | 2146 | PEEPLER VALLEY WATER COMPANY                   |
| 1559 | COLDWATER CANYON WATER COMPANY               | 2181 | PINE VALLEY WATER COMPANY                      |
| 2060 | CORDES LAKES WATER COMPANY                   | 3448 | RAINBOW PARKS, INC.                            |
| 4131 | CROSS CREEK RANCH WATER COMPANY              | 3449 | SEDONA VENTURE (MHC OPERATING LTD PARTNERSHIP) |
| 1558 | CROWN KING WATER COMPANY, INC.               | 3388 | SEVEN CANYONS WATER COMPANY                    |
| 1384 | DELL'S WATER COMPANY, INC.                   | 1671 | SHERMAN PINES WATER COMPANY                    |
| 3263 | DIAMOND VALLEY WATER USERS ASSOCIATION       | 2372 | VERDE LAKES WATER CORPORATION                  |
| 4120 | GRAND CANYON CAVERNS AND INN, LLC            | 2369 | WALDEN MEADOWS COMMUNITY COOPERATIVE           |
| 1670 | GRANITE DELLS WATER COMPANY                  | 4161 | WHITE HORSE RANCH OWNERS ASSOCIATION, INC.     |
| 2467 | GRANITE MOUNTAIN WATER COMPANY, INC.         | 2065 | WILHOIT WATER COMPANY, INC.                    |
| 2539 | GRANITE OAKS WATER USERS ASSOCIATION         | 2255 | YARNELL WATER IMPROVEMENT ASSOCIATION          |
| 1865 | GROOM CREEK WATER USERS ASSOCIATION          |      |  |

Figure A1: Yavapai County Map

**COUNTY:** *Yavapai*

**RANGE 3 West**



**TOWNSHIP 16 North**

-  W-2504 (1)  
Meadow Water Company
-  W-2824 (1)  
ICR Water Users Association

**Figure A2: Certificated Area**

# Inscription Canyon Ranch Water System

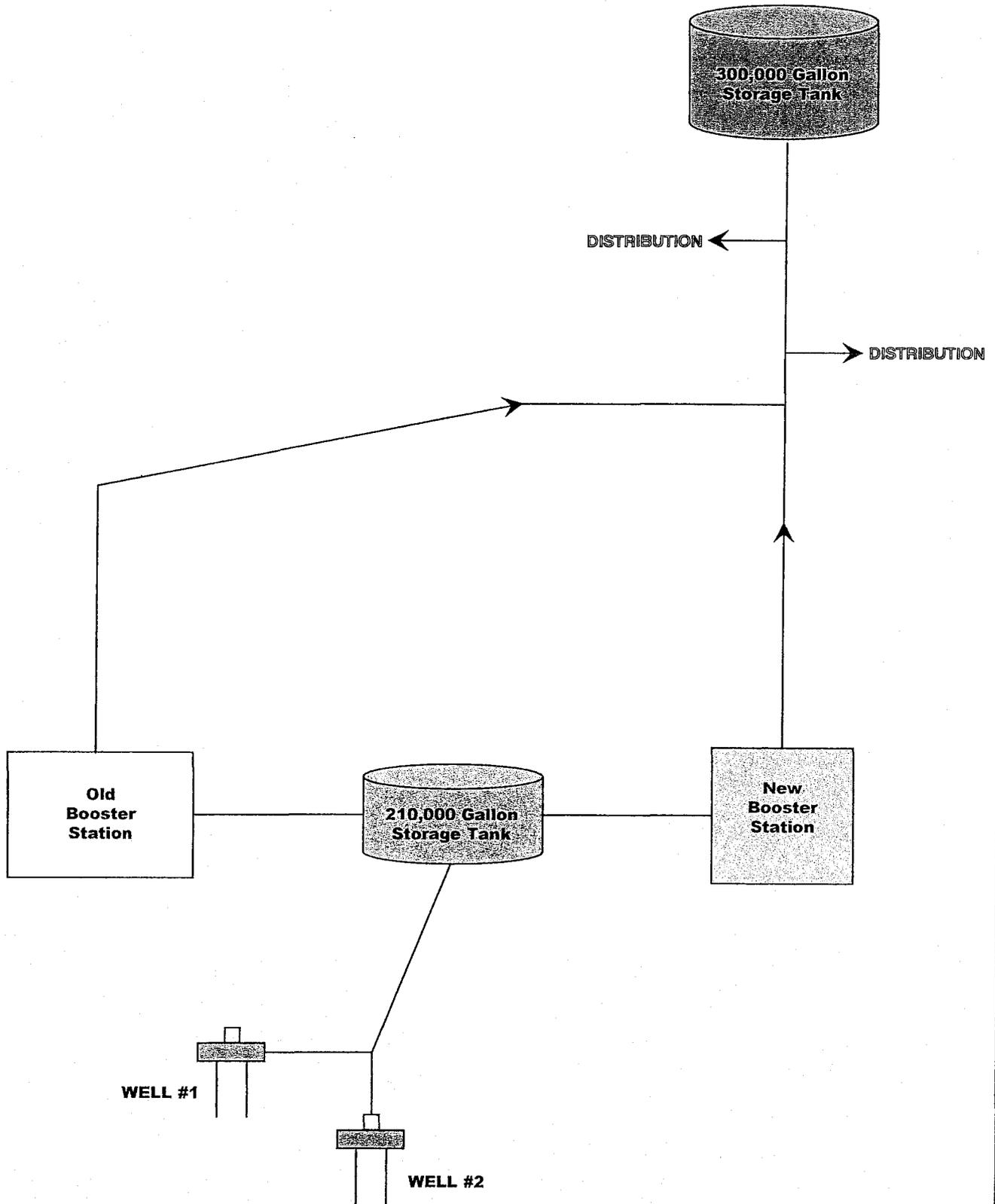
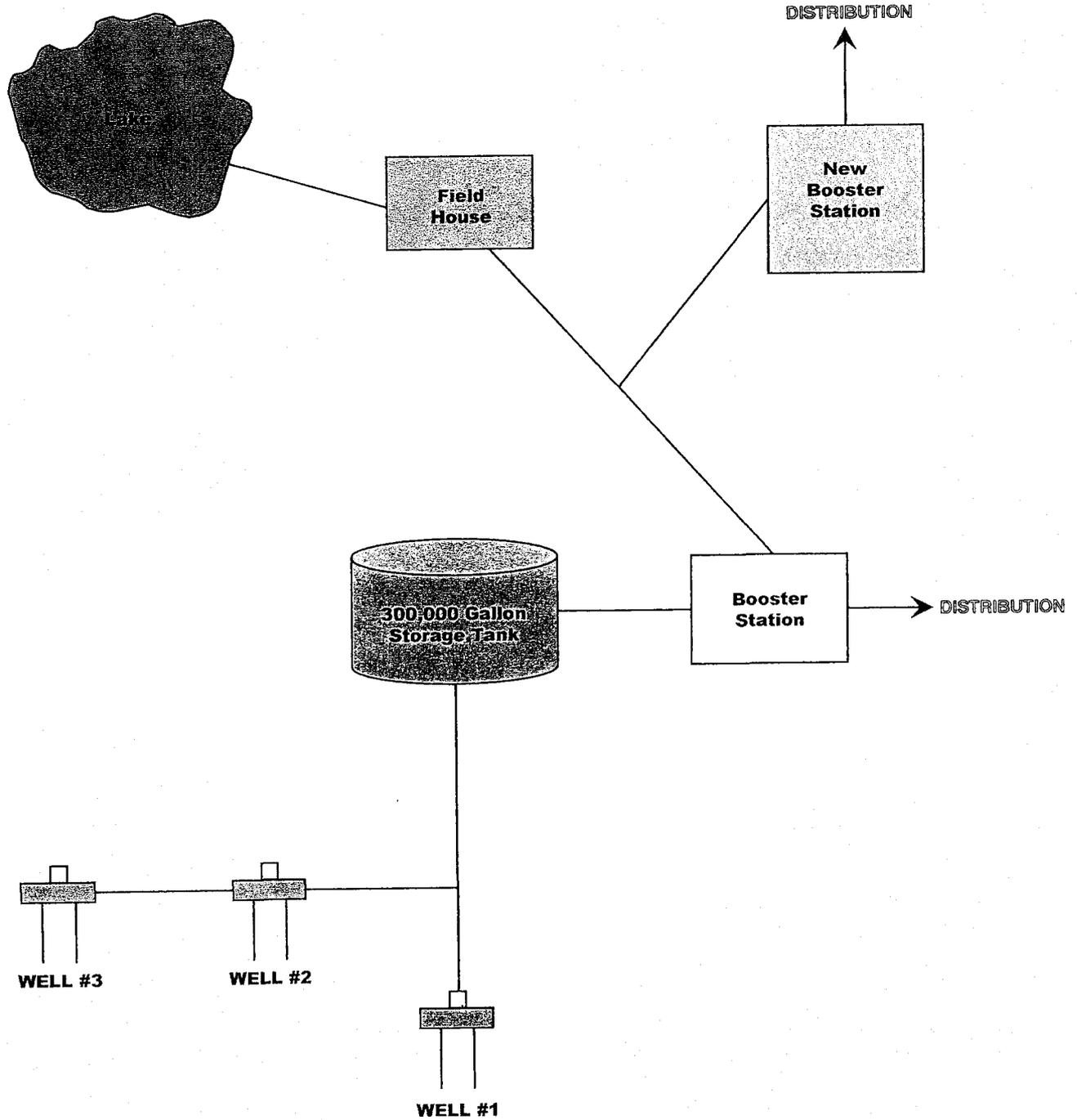


Figure B1: System Schematic

# Talking Rock Ranch Water System



**Figure B2: System Schematic**

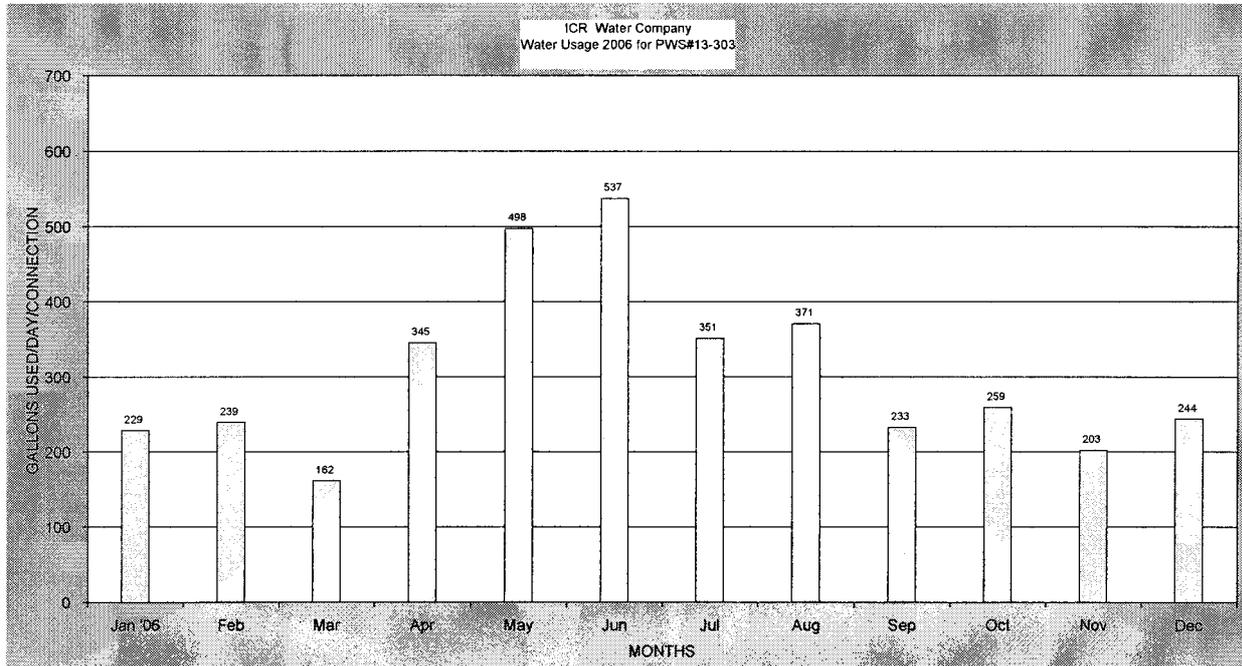


Figure C-1. Water Use

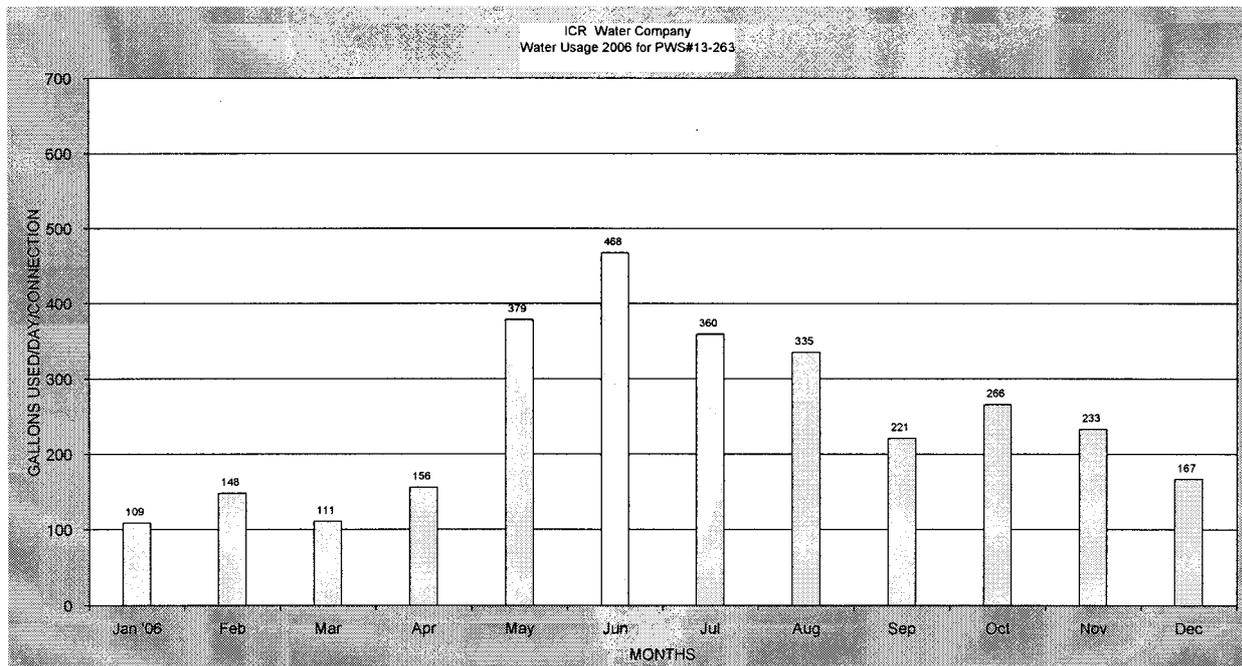


Figure C-2. Water Use

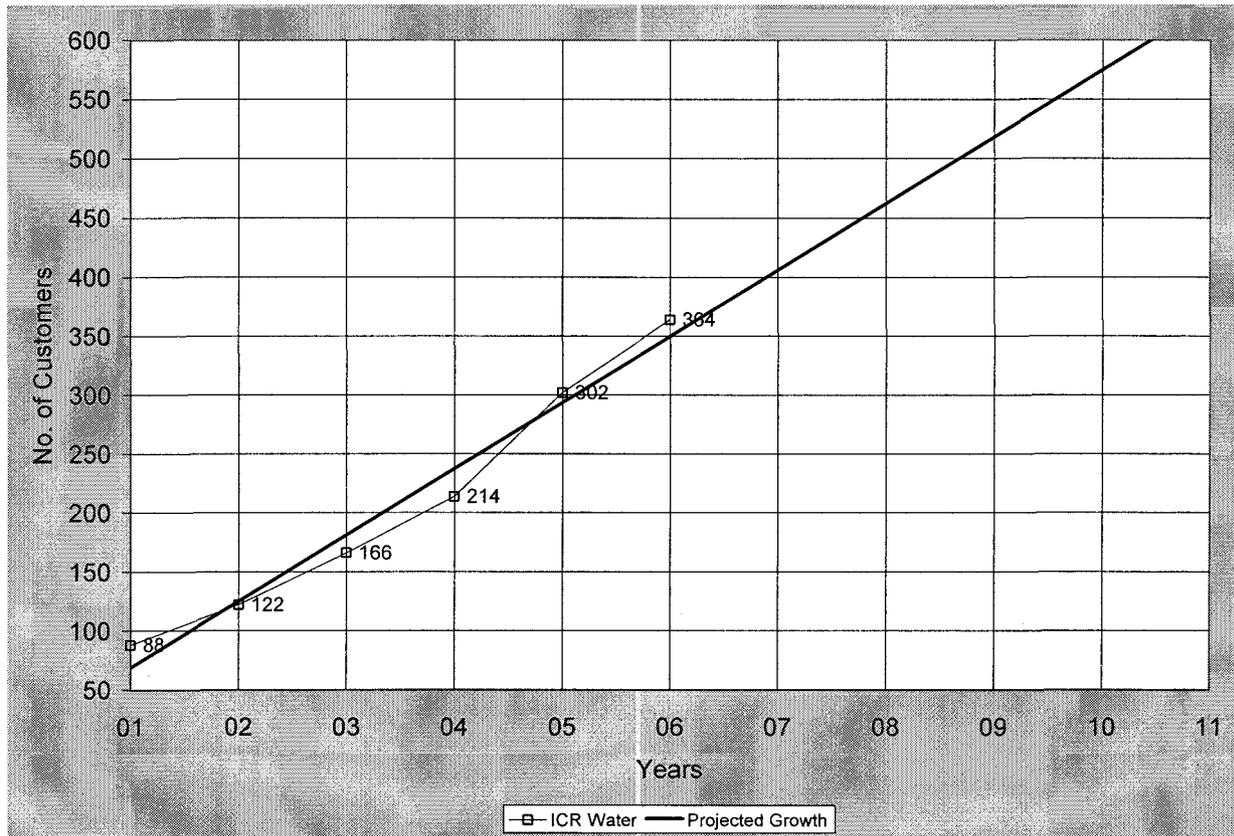


Figure D-1. Growth

Table E-1. Depreciation Rates

| NARUC<br>Acct. No. | Depreciable Plant                    | Average<br>Service Life<br>(Years) | Annual<br>Accrual<br>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                 | 10                                 | 10.00                         |

Table F-1. Service Line and Meter Installation Charges

| Meter Size      | Total Current Charges | Proposed Service Line Charges | Proposed Meter Charges | Total Proposed Charges |
|-----------------|-----------------------|-------------------------------|------------------------|------------------------|
| 5/8 x3/4-inch   | 250                   | \$385                         | \$135                  | \$520                  |
| 3/4-inch        | 250                   | \$385                         | \$215                  | \$600                  |
| 1-inch          | 300                   | \$435                         | \$255                  | \$690                  |
| 1-1/2-inch      | 450                   | \$470                         | \$465                  | \$935                  |
| 2-inch Turbine  | 625                   | \$630                         | \$965                  | \$1,595                |
| 2-inch Compound | 625                   | \$630                         | \$1,690                | \$2,320                |
| 3-inch Turbine  | 825                   | \$805                         | \$1,470                | \$2,275                |
| 3-inch Compound | 825                   | \$845                         | \$2,265                | \$3,110                |
| 4-inch Turbine  | 1,450                 | \$1,170                       | \$2,350                | \$3,520                |
| 4-inch Compound | 1,450                 | \$1,230                       | \$3,245                | \$4,475                |
| 6-inch Turbine  | 3,100                 | \$1,730                       | \$4,545                | \$6,275                |
| 6-inch Compound | 3,100                 | \$1,770                       | \$6,280                | \$8,050                |
| 8-inch & Larger | NT                    | At Cost                       | At Cost                | At Cost                |

Note: NT = No Tariff.