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MEMORANDUM

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TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

CA for EGJ

2008 JAN 15 P 2:50

AZ CORP COMMISSION
DOCKET CONTROL

DATE: January 15, 2007

RE: STAFF REPORT FOR WINCHESTER WATER COMPANY, L.L.C.'S
APPLICATION FOR A RATE INCREASE. DOCKET NOS. W-04081A-07-0466

Attached is the Staff Report for Winchester Water Company, L.L.C.'s application for a rate increase. Staff recommends approval of its rates and charges as shown in Schedule 4.

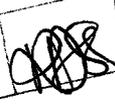
Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before January 24, 2008.

EGJ:BCA:tdp

Originator: Brendan C. Aladi

Arizona Corporation Commission
DOCKETED

JAN 15 2008

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Service List for: Winchester Water Company, L.L.C.
Docket No. W-04081A-07-0466

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**WINCHESTER WATER COMPANY, L.L.C.
DOCKET NO. W-04081A-07-0466**

**APPLICATION
FOR A RATE INCREASE**

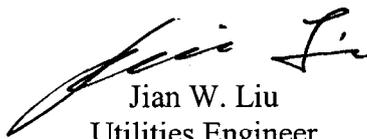
January 15, 2007

STAFF ACKNOWLEDGMENT

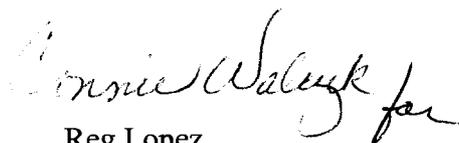
The Staff Report for Winchester Water Company, L.L.C., Docket No. W-04081A-07-0466, was the responsibility of the Staff members listed below. Brendan C. Aladi was responsible for the review and analysis of the Company's applications, recommended revenue requirement, rate base and rate design. Jian Liu was responsible for the engineering and technical analysis. Reg Lopez was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Brendan C. Aladi
Public Utilities Analyst III



Jian W. Liu
Utilities Engineer



Reg Lopez
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
WINCHESTER WATER COMPANY, L.L.C.
APPLICATION FOR A RATE INCREASE
DOCKET NO. W-04081A-07-0466**

Winchester Water Company, L.L.C. serves potable water to an average of 129 residential users in a rural subdivision near Willcox, in Cochise County, Arizona.

Mr. and Mrs. Cardinal purchased the water system on September 30, 1987. The Cardinals initially operated the system as a partnership until July 18, 1995, when Winchester Water Company, L.L.C. was established. The Company received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 65219, dated September 24, 2002, in which its current rates were established.

The Company proposes a 101 percent increase in revenue from \$36,366 to \$73,086. The Company's proposed rates would increase the typical residential bill, with a median usage of 10,532 gallons, by \$23.75, from \$21.55 to \$45.30, for an increase of 110.20 percent (Schedule 5, page 1 of 1).

Staff recommends rates that generate a 32 percent increase in revenue from \$36,361 to \$48,104. This will increase the typical bill by \$2.66 from \$21.55 to \$24.21 for 5/8 x 3/4-inch meter customers with a median use of 10,532 gallons.

The application states that Mr. and Mrs. Cardinal had provided \$161,005 in personal loans to Winchester by January 20, 2006, to fund new facilities and for emergency repairs. The Company has issued a promissory note in exchange for the funds. Commission approval of the transaction was not sought prior to the transfer of funds and issuance of the promissory notes as required by A.R.S. Section 40-301, and the Company has not specifically requested authorization in this proceeding.

Classification of the proceeds from Mr. and Mrs. Cardinal as debt would create a highly leveraged capital structure comprised of approximately 1.5 percent short-term debt, 102.2 percent long-term debt, and negative 3.7 percent equity. Absent recognition of the funds as debt, the capital structure is 100 percent equity.

Staff concludes that authorization of debt for the promissory note is inappropriate due to the excessively leveraged capital structure that would result, and that no debt authorization is necessary for the Company to obtain the funds, and the Company did not obtain prior authorization.

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Fact sheet

Company Statistics:

Transfer of Certificate of Convenience and Necessity ("CC&N"):
Decision No. 65219, dated September 24, 2002
Current Rates: Decision No. 65219, dated September 24, 2002
Type of Ownership: LLC.

Location: Winchester Water Company is located in an unincorporated subdivision ten miles northwest of Willcox in Cochise County.

Rates:

Company Application Docketed: August 7, 2007
Current Test Year Ended: December 31, 2006
Application Found Sufficient: October 30, 2007

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge (Based on a 5/8" X 3/4" meter)	\$11.35	\$14.00	\$12.00
Gallons in Minimum	0	0	0
Commodity Charge:			
Excess of minimum, charge per 1,000 gallons:			
0 to 8,000 Gallons	\$.65	\$1.95	
8,001 to 13,000 Gallons	\$1.00	\$2.55	
Over 13,001 Gallons	\$1.25	\$2.95	
0 to 3,000 Gallons			\$.80
3001 to 10,000 Gallons			\$1.25
Over 10,001 Gallons			\$1.99
Typical residential bill based On median usage of 10,532 gallons	\$21.55	\$45.30	\$24.21

Fact Sheet (Cont.)

Customers:

Number of customers in the prior test year (12/31/2000) 64

Number of customers in the current test year (12/31/2007) 129

Current year customers by meter size:

5/8 X 3/4 - inches 129

Seasonal customers: N/A

Customer notification was mailed: August 6, 2007

Second customer notification mailed: August 24, 2007

Number of customer complaints since rate application filed: 0

Percentage of complaints to customer base: 0

Summary of Filing

The test year results, as adjusted by Staff, for Winchester Water Company, L.L.C. ("Winchester" or "Company") show total operating revenue of \$36,361 and operating expenses of \$29,424 resulting in operating income of \$6,937 on an original cost rate base ("OCRB") of \$156,713 for a rate of return of 4.41 percent (Schedule 1).

The Company proposed rates, as filed, produce total operating revenue of \$73,086 and operating income of \$43,349 for a 29.27 percent rate of return on an OCRB of \$148,113. The Company's proposed rates would increase the typical residential bill, with a median usage of 10,532 gallons, by \$23.75, from \$21.55 to \$45.30, for an increase of 110.20 percent (Schedule 5, page 1 of 1).

Staff is recommending rates that produce total operating revenue of \$48,104 that will provide the Company with operating income of \$18,659 for an 11.50 percent rate of return on an OCRB of \$156,713. The typical residential bill for a 5/8 X 3/4 - Customer, with a median usage of 10,532 gallons, would increase by \$3.54, or 16.4 percent, from \$21.55 to \$25.09.

Company Background

Winchester Water Company, L.L.C. is an Arizona Limited Liability Corporation engaged in the business of providing potable water service. An initial CC&N for the water system was

granted in Decision No. 35366, dated August 14, 1964. The next CC&N for the system was granted in Decision No. 46038, dated May 2, 1975. Mr. and Mrs. Charles Cardinal purchased the system on September 30, 1987 and initially operated it as a partnership. The Cardinals began operating the Company as a limited liability company on July 18, 1995. On September 24, 2002, the CC&N was transferred to the Company in Decision No. 65219. The Company's current rates were also established in that Decision. Presently, the Company has no Commission-approved long-term debt.

Winchester filed its application for a permanent rate increase ("Application") on August 7, 2007. Staff deemed the Company's Application insufficient and notified Winchester by letter on September 7, 2007. The Company subsequently provided information satisfying the deficiencies and Staff found the Application sufficient on October 30, 2007. The Company also provided evidence in its Application that customers had been notified of the filing by mail on August 6, 2007. Staff requested that the Company mail a second notice to customers because the initial notice lacked information on certain charges contained in the Company's Application. Winchester complied with Staff's request, and provided a notarized affidavit dated August 24, 2007, stating that the Company had re-noticed its customers.

Consumer Services

A review of the Consumer Service records showed that no formal complaints, no informal complaints, one inquiry, and no opinions were filed regarding Winchester within the past three years. The sole inquiry was from Winchester itself wanting to know if it could file multiple rate increases for future years. No formal complaints, no informal complaints, inquiries or opinions have been filed pertaining to Company's filing for an increase in rates.

A review of the Company's billing format indicates that it is in compliance with the Arizona Administrative Code ("AAC") R14-2-409.B.2. The Company submitted a Cross Connection /Backflow Tariff through Docket Control on November 19, 2007.

Compliance Issues

A search of the Arizona Corporation Commission ("Commission") Utilities Division Database revealed that Winchester is in full compliance with prior Commission decisions.

The Company is current on filing both its corporate and utility annual reports. The Company is current on its property taxes payment.

Engineering Analysis

The Arizona Department of Environmental Quality ("ADEQ") reported that the system has no deficiencies and is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. Details of Staff's review of the system are presented in the Staff Engineering Report – Attachment A.

The Company is in compliance with the new arsenic maximum contaminant level.

The Company is not located in an Active Management Area ("AMA") and is not subject to conservation and monitoring requirements by the Arizona Department of Water Resources ("ADWR").

Rate Base

Staff's adjustments increased the Company's proposed rate base by \$8,600 from \$148,113 to \$156,713 as shown in Schedule 2, page 1. Details of Staff's adjustments are explained below.

Accumulated Depreciation - In adjustment A, Staff decreased Accumulated Depreciation by \$7,078 from \$43,543 to \$36,465 as shown in schedule 2, page 3. Staff calculated an accumulated depreciation balance by adding depreciation expense for the years 2001 through 2006 and subtracting accumulated depreciation for recorded plant retirements to the Commission approved balance for accumulated depreciation in the prior test year ended December 31, 2000.

Working Capital - In adjustment B, Staff has included a cash working capital allowance of \$1,522 based on the formula method as shown in Schedule 2, page 1. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, purchased power expenses plus one twenty-fourth of purchased power expenses.

Operating Revenues

Metered Water Revenue - Staff reduced metered water revenue by \$612 to reflect reclassification of \$607 to other water revenues and \$5 to miscellaneous expenses.

Other Water Revenue - Staff increased this account by \$607 to reflect reclassification from metered water revenue.

Operating Expenses

Staff's adjustments decreased the Company's proposed total operating expenses by \$291, from \$29,737 to \$29,446 as shown on Schedule 3, page 1. Details of Staff's adjustments are discussed below.

Outside Services - Adjustment B decreased this account by \$275 from \$5,142 to \$ 4,867 to remove an out of test year expense.

Water Testing Expense - Adjustment C decreased this account by \$339 from \$1,913 to \$1,574 to reflect an on going normalized level of expenses as shown in the Engineering Report.

Depreciation Expense - Adjustment D increased this account by \$318 from \$10,128 to

\$10,446 to reflect application of Staff's recommended depreciation rates to Staff's recommended depreciable plant amounts. Staff noted multiple mathematical errors in the Company's depreciation calculation.

Capital Structure

Mr. and Mrs. Cardinal infused funds into the Company on multiple occasions beginning on December 31, 2002 and documented the infusions with promissory notes. A promissory note dated January 20, 2006, consolidated the outstanding notes into one in the amount of \$161,005. The Company never applied for authorization to incur debt as required by A.R.S. Section 40-301, and the Company has not specifically requested authorization in this proceeding.

Classification of the proceeds from Mr. and Mrs. Cardinal as debt would create a highly leveraged capital structure. A pro forma capital structure for Winchester that includes \$161,005 of debt is composed of 1.5 percent short-term debt, 102.2 percent long-term debt, and negative 3.7 percent equity. Absent recognition of the funds as debt, the capital structure is 100 percent equity. A table demonstrating the respective capital structures is shown below.

	Debt	Capital Structure	Equity Infusion	Capital Structure
Short-term Debt	\$ 2,280	1.5%	\$ 0	0%
Long-term Debt	\$158,725	102.2%	\$ 0	0%
Equity	\$ -5,688	-3.7%	\$153,317	100%
Total	\$155,317	100%	\$153,317	100%

For a utility with access to the capital markets, Staff typically recommends a capital structure with a minimum of 40 percent equity of total capital (short-term debt plus long-term debt plus common equity) as appropriate to provide a balance of cost and financial health. Absent access to the capital markets, a privately owned for-profit regulated utility should incur debt primarily as a last resort. Winchester does not have access to the capital markets as it is not a publicly traded company. Accordingly, Winchester should minimize its financial risk and debt issuance. Staff concludes that authorization of debt for the promissory note is inappropriate due to the excessively leveraged capital structure that would result, that no debt authorization is necessary for the Company to obtain the funds, and the Company did not receive prior authorization.

Revenue Requirement

Staff recommends total operating revenue of \$48,104, an \$11,743 or 32 percent increase over the Staff adjusted Test Year operating revenue of \$36,361. Staff's recommended revenue provides an operating income of \$18,659, operating margin of 38.79 percent, and an 11.50 percent return on a rate base of \$156,713 as shown in Schedule 1. Staff's recommended revenue is sufficient to cover operating, maintenance and capital costs.

Rate Design

Schedule 4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The present rate design follows an inverted three-tier commodity rate structure with breakover points at 8,000 and 13,000 gallons for all meter sizes and with no gallons included in the minimum monthly charge.

The Company proposes to continue the existing basic rate structure, however, the proposed percentage increases to the monthly minimum charges and commodity rates by tier are not uniform. The proposed commodity rate increases are as follows: tier one, \$1.30 (200 percent) from \$0.65 to \$1.90; tier two, \$1.55 (155 percent) from \$1.00 to \$2.55; and tier three, \$1.70 (136 percent) from \$1.25 to \$2.95. The proposed increase in monthly customer charges varies by meter size as follows: 5/8 x 3/4-inch, \$5.60 (49 percent); 3/4-inch, \$5.00 (33 percent); 1-inch, \$5.00 (25 percent); 1.5-inch, \$2.00 (6 percent); 2-inch, \$6.00 (8.9 percent); 3-inch, \$9.00 (9 percent); 4-inch, \$9.00 (6 percent); and 6-inch, \$7.00 (2 percent). The proposed minimum monthly charges vary from \$11.35 for 5/8 x 3/4-inch to \$308.00 for a 6-inch meter. The Company's proposed rates would increase the median usage 5/8 x 3/4-inch meter residential customer's bill by \$23.75.

Staff also recommends an inverted tier rate structure. For 5/8 x 3/4-inch and 3/4-inch meters Staff's recommended rate structure includes three tiers with break-over points at 3,000 and 10,000 gallons. The first, second and third tier commodity rates for 5/8 x 3/4-inch and 3/4-inch meters are \$0.80, \$1.25 and \$1.99, respectively. For larger meters, Staff recommends two tiers with break-over points that increase with meter size. The first and second tier commodity rates for larger meters are \$1.25 and \$1.99, respectively. Staff recommends minimum charges (with no gallons included) that vary from \$12.00 for 5/8 x 3/4-inch to \$600.00 for a 6-inch meter based on volumetric capacity. The proposed increase in monthly customer charges by meter size as follows: 5/8 x 3/4-inch, \$0.65 (6 percent); 3/4-inch, \$3.00 (20 percent); 1-inch, \$10.00 (50 percent); 1.5-inch, \$27.00 (90 percent); 2-inch, \$29.00 (43 percent); 3-inch, \$91.00 (90 percent); 4-inch, \$139.00 (86 percent); and 6-inch, \$292.00 (95 percent). Staff's recommended rates would increase the median usage 5/8 x 3/4-inch meter residential customer's bill by \$2.66.

The Company proposes to change its service line and installation 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. Staff recommends that the Company separate service line charges and meter charges. The separate service line charges and meter charges recommended by Staff and listed in Table C of the Engineering Report equal the Company's total proposed charge.

The Company proposes to increase the service charges for Reconnection (delinquent) from \$25 to \$30. Staff finds \$30 as a reasonable and normal charge and recommends it.

The Company proposes to increase the NSF charge from \$10 to \$20. Staff finds \$20 as a reasonable and normal charge and recommends it.

The Company proposes to increase Meter Re-read (if correct) from \$10 to \$20. Staff finds \$20 as a reasonable and normal charge and recommends it.

Staff Recommendations

Staff recommends:

- Approval of Staff's rates and charges as shown on Schedule 4, in addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D.5).
- That the Company file with Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- Authorization of the depreciation rates shown in Table B of the Engineering report.
- That no debt authorization be granted for the funds infused by Mr. and Mrs. Cardinal and treated by the Company as promissory notes without first obtaining Commission authorization to incur long-term debt.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$36,366	\$35,754	\$73,086	\$47,468
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	607	0	637
Total Operating Revenue	\$36,366	\$36,361	\$73,086	\$48,104
Operating Expenses:				
Operation and Maintenance	\$18,102	\$17,493	\$18,102	\$17,493
Depreciation	10,128	10,446	10,128	10,446
Property & Other Taxes	1,507	1,507	1,507	1,507
Income Tax	0	0	0	0
Total Operating Expense	\$29,737	\$29,446	\$29,737	\$29,446
Operating Income/(Loss)	\$6,629	\$6,915	\$43,349	\$18,659
Rate Base O.C.L.D.	\$148,113	\$156,713	\$148,113	\$156,713
Rate of Return - O.C.L.D.	4.48%	4.41%	29.27%	11.50%
Times Interest Earned Ratio (Pre-Tax)	0.59	N/M	3.86	N/M
Debt Service Coverage Ratio (Pre-Tax)	1.49	N/M	4.76	N/M
Operating Margin	18.23%	19.02%	59.31%	38.79%

NOTES: 1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.

2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$212,450	\$0		\$212,450
Less:				
Accum. Depreciation	43,543	(7,078) A		36,465
Net Plant	\$168,907	\$7,078		\$175,985
Less:				
Plant Advances	\$20,794	\$0		\$20,794
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$20,794	\$0		\$20,794
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$20,794	\$0		\$20,794
Plus:				
1/24 Power	\$0	\$345 B		\$345
1/8 Operation & Maint.	0	1,178 B		1,178
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$1,522		\$1,522
Rate Base	\$148,113	\$8,600		\$156,713

Explanation of Adjustment:

A - Refer to Schedule 2, Page 3.

B - To provide cash working capital allowance based on the formula method.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	5,591	0	5,591
304 Structures & Improvements	8,321	0	8,321
307 Wells & Springs	83,835	0	83,835
311 Pumping Equipment	42,420	0	42,420
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Standpipes	40,049	0	40,049
331 Transmission & Distribution Mains	10,300	0	10,300
333 Services	14,200	0	14,200
334 Meters & Meter Installations	5,042	0	5,042
309 Flowhead Meters	577	0	577
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	2,115	0	2,115
105 C.W.I.P.	0	0	0
TOTALS	\$212,450	\$0	\$212,450

Explanation of Adjustment:

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$43,543
Accumulated Depreciation - Per Staff	36,465 A
Total Adjustment	<u>(\$7,078)</u>

Explanation of Adjustment:

- A - Staff calculated accumulated depreciation using the balances authorized in the prior rate case(Decision No. 65219) as the beginning balances and made adjustments for depreciation expense and retirements through the end of the test year, using the authorized component depreciation rates.

ACCT NO. DESCRIPTION	Staff Calculated	Company Application	Staff Adjustment
354 Structures and Improvements	\$ 1,007	\$ 1,004	\$ 3
307 Wells and Srings	9,310	9,310	0
311 Electric Pumping Equipment	8,079	15,168	(7,089)
320 Water Treatment Equipment	-	-	-
330 Distribution Reservoirs & Standpipes	-	-	-
330.1 Storage Tanks	2,916	2,695	221
330.2 Pressure Tanks	849	377	472
331 Transmission and Distribution Mains	6,265	6,265	-
333 Services	4,061	4,062	(1)
334 Meters and Meter Installation	2,503	2,505	(2)
309 Flowhead Meters	(640)	42	(682)
348 Other Tangible Plant	2,115	2,115	-
Total Adjustment	<u>\$ 36,465</u>	<u>\$ 43,543</u>	<u>\$ (7,078)</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	\$36,366	(\$612) A		\$35,754
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	0	607 A		607
Total Operating Revenue	\$36,366	(\$5) A		\$36,361
Operating Expenses:				
601 Salaries and Wages	\$0	\$0		\$0
610 Purchased Water	0	0		0
615 Purchased Power	8,271	0		8,271
618 Chemicals	0	0		0
620 Repairs and Maintenance	1,471	(0)		1,471
621 Office Supplies & Expense	691	(0)		691
630 Outside Services	5,142	(275) B		4,867
635 Water Testing	1,913	(339) C		1,574
641 Rents	200	0		200
650 Transportation Expenses	188	0		188
657 Insurance - General Liability	0	0		0
659 Insurance - Health and Life	0	0		0
666 Regulatory Commission Expense - Rate Case	0	0		0
675 Miscellaneous Expense	226	5 A		231
403 Depreciation Expense	10,128	318 D		10,446
408 Taxes Other Than Income	0	0		0
408.11 Property Taxes	1,507	0		1,507
409 Income Tax	0	0		0
Total Operating Expenses	\$29,737	(\$291)		\$29,446
OPERATING INCOME/(LOSS)				
	\$6,629	\$286		\$6,915
Other Income/(Expense):				
419 Interest and Dividend Income	\$0	\$0		\$0
421 Non-Utility Income	400	0		400
427 Interest Expense	11,244	(11,244) E		0
4XX Reserve/Replacement Fund Deposit	0	0		0
426 Miscellaneous Non-Utility Expense	733	(733) F		0
Total Other Income/(Expense)	(\$11,577)	\$11,977		\$400
NET INCOME/(LOSS)				
	(\$4,948)	\$12,263		\$7,315

STAFF ADJUSTMENTS

A -	METERED WATER REVENUE - Per Company	\$36,366	
	Per Staff	35,754	(\$612)
	To remove other water revenue and miscellaneous expense.		
A -	OTHER WATER REVENUES - Per Company	\$0	
	Per Staff	607	\$607
	To reclassify Metered Water Revenue to Other Water Revenue.		
A -	MISCELLANEOUS EXPENSE - Per Company	\$226	
	Per Staff	231	\$5
	To reclassify Metered Water Revenue to Miscellaneous expense (\$5 bank charge).		
B -	OUTSIDE SERVICES - Per Company	\$5,142	
	Per Staff	4,867	(\$275)
	To remove an out of test year amount. The Company recorded 13 month charges for the certified operator for the water system.		
C -	WATER TESTING - Per Company	\$1,913	
	Per Staff	1,574	(\$339)
	To recognize an average on-going normalized level of water testing expense.		
E -	INTEREST EXPENSE - Per Company	\$11,244	
	Per Staff	0	(\$11,244)
	To remove \$11,244 of interest expense claimed on unauthorized debt.		
F -	MISCELLANEOUS NON-UTILITY EXPENSE - Per Company	\$733	
	Per Staff	0	(\$733)
	To remove \$733 of loss on plant asset retired in 2006 due to breakage.		

STAFF ADJUSTMENTS (Cont.)

D -	DEPRECIATION - Per Company	\$10,128	
	Per Staff	10,446	\$318

To reflect application of Staff's recommended depreciation rates to Staff's recommended plant, by account. Company applied component rate of 2.22 percent versus 5.00 percent by Staff on pressure tanks.

Pro Forma Annual Depreciation Expense:

Plant in Service	\$212,450
Less: Non Depreciable Plant	5,591
Fully Depreciated Plant	2,115
Depreciable Plant	\$204,744
Times: Staff Recommended Depreciation Rate	
Derived from component rates	5.16%
Credit to Accumulated Depreciation	\$0
Less: Amort. of CIAC* @ 0.00%	0
Pro Forma Annual Depreciation Expense	\$10,446

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$0
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	\$0
Times: Staff Recommended Amortization Rate	5.16%
Amortization of CIAC	\$0

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
<u>5/8" x 3/4" Meter</u>	\$11.35	\$16.95	\$ 12.00
3/4" Meter	15.00	20.00	18.00
1" Meter	20.00	25.00	30.00
1½" Meter	33.00	35.00	60.00
2" Meter	67.00	73.00	96.00
3" Meter	101.00	110.00	192.00
4" Meter	161.00	170.00	300.00
6" Meter	308.00	315.00	600.00
<u>Company Proposed 5/8 X 3/4-inch Meters</u>			
First Tier - 1 -8,000 gallons	0.65	1.95	
Second Tier - 8001 - 13,000 gallons	1.00	2.55	
Third Tier - Over 13,000	1.25	2.95	
<u>Staff Recommended - 5/8 x 3/4-inch Meters</u>			
Tier One Rate - 0 - 3,000 gallons			0.80
Tier Two Rate - 3,001 - 10,000 gallons			1.25
Tier Three Rate - Over 10,000 gallons			1.99
<u>Company Proposed 3/4-inch Meters</u>			
First Tier - 1 -8,000 gallons	0.65	1.95	
Second Tier - 8001 - 13,000 gallons	1.00	2.55	
Third Tier - Over 13,000	1.25	2.95	
<u>Staff Recommended - 3/4 inch Meters</u>			
Tier One Rate - 0 - 3,000 gallons			0.80
Tier Two Rate -3,001 - 10,000 gallons			1.25
Tier Two Rate - Over 10,000 gallons			1.99
<u>Company Proposed 1-inch Meters</u>			
First Tier - 1 -8,000 gallons	0.65	1.95	
Second Tier - 8001 - 13,000 gallons	1.00	2.55	
Third Tier - Over 13,000	1.25	2.95	
<u>Staff Recommended - 1 inch</u>			
Tier One Rate - 0 - 20,000 gallons			1.25
Tier Two Rate - over 20,000 gallons			1.99
<u>Company Proposed 1.5-inch Meters</u>			
First Tier - 1 -8,000 gallons	0.65	1.95	
Second Tier - 8001 - 13,000 gallons	1.00	2.55	
Third Tier - Over 13,000	1.25	2.95	
<u>Staff Recommended - 1.5 inch</u>			
Tier One Rate - 0 - 55,000 gallons			1.25
Tier Two Rate - over 55,000 gallons			1.99

Company Proposed 2-inch Meters

First Tier - 1 -8,000 gallons	0.65	1.95
Second Tier - 8001 - 13,000 gallons	1.00	2.55
Third Tier - Over 13,000	1.25	2.95

Staff Recommended - 2 inch

Tier One Rate - 0 - 100,000 gallons			1.25
Tier Two Rate - over 100,000 gallons			1.99

Company Proposed 3-inch Meters

First Tier - 1 -8,000 gallons	0.65	1.95
Second Tier - 8001 - 13,000 gallons	1.00	2.55
Third Tier - Over 13,000	1.25	2.95

Staff Recommended - 3 inch

Tier One Rate - 0 - 220,000 gallons			1.25
Tier Two Rate - over 220,000 gallons			1.99

Company Proposed 4-inch Meters

First Tier - 1 -8,000 gallons	0.65	1.95
Second Tier - 8001 - 13,000 gallons	1.00	2.55
Third Tier - Over 13,000	1.25	2.95

Staff Recommended - 4 inch

Tier One Rate - 0 - 350,000 gallons			1.25
Tier Two Rate - over 350,000 gallons			1.99

Company Proposed 6-inch Meters

First Tier - 1 -8,000 gallons	0.65	1.95
Second Tier - 8001 - 13,000 gallons	1.00	2.55
Third Tier - Over 13,000	1.25	2.95

Staff Recommended - 6 inch

Tier One Rate - 0 - 730,000 gallons			1.25
Tier Two Rate - over 730,000 gallons			1.99

Service Line and Meter Installation Charges

5/8" x 3/4" Meter	\$400.00	\$450.00	\$450.00
3/4" Meter	470.00	500.00	500.00
1" Meter	550.00	565.00	565.00
1½" Meter	785.00	800.00	800.00
2" Meter	1,375.00	1,390.00	1,390.00
3" Meter	1,975.00	1,990.00	1,990.00
4" Meter	3,040.00	3,055.00	3,055.00
6" Meter	5,635.00	5,650.00	5,650.00

Service Charges

Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	40.00	40.00	40.00
Reconnection (Delinquent)	25.00	30.00	30.00
Meter Test (If Correct)	25.00	25.00	25.00
Deposit	0.00	*	*
Deposit Interest	6.00%	*	*
Re-Establishment (Within 12 Months)	0.00	**	**
NSF Check	10.00	20.00	20.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	20.00	20.00
Late Payment Charge-Per Month	1.50%	1.50%	1.50%

Monthly Service Charge for Fire Sprinkler

4" or Smaller	\$0.00	\$0.00	***
6"	0.00	0.00	***
8"	0.00	0.00	***
10"	0.00	0.00	***
Larger than 10"	0.00	0.00	***

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

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

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

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

Average Number of Customers: 125

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	13,510	\$22.19	\$46.80	\$24.61	110.9%
Median Usage	10,532	\$21.55	\$45.30	\$23.75	110.2%
<u>Staff Recommend</u>					
Average Usage	13,510	\$22.19	\$30.13	\$7.94	35.8%
Median Usage	10,532	\$21.55	\$24.21	\$2.66	12.3%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$11.35	\$16.95	49.3%	\$12.00	5.7%
1,000	12.00	18.90	57.5%	12.80	6.7%
2,000	12.65	20.85	64.8%	13.60	7.5%
3,000	13.30	22.80	71.4%	14.40	8.3%
4,000	13.95	24.75	77.4%	15.65	12.2%
5,000	14.60	26.70	82.9%	16.90	15.8%
6,000	15.25	28.65	87.9%	18.15	19.0%
7,000	15.90	30.60	92.5%	19.40	22.0%
8,000	16.55	32.55	96.7%	20.65	24.8%
9,000	17.55	35.10	100.0%	21.90	24.8%
10,000	18.55	37.65	103.0%	23.15	24.8%
15,000	24.05	51.20	112.9%	33.10	37.6%
20,000	30.30	65.95	117.7%	43.05	42.1%
25,000	36.55	80.70	120.8%	53.00	45.0%
50,000	67.80	154.45	127.8%	102.75	51.5%
75,000	99.05	228.20	130.4%	152.50	54.0%
100,000	130.30	301.95	131.7%	202.25	55.2%
125,000	161.55	375.70	132.6%	252.00	56.0%
150,000	192.80	449.45	133.1%	301.75	56.5%
175,000	224.05	523.20	133.5%	351.50	56.9%
200,000	255.30	596.95	133.8%	401.25	57.2%

FINANCIAL ANALYSIS

Selected Financial Data Including Immediates Effects of Unauthorized Debt

	[A] <u>Staff Adjusted</u> <u>12/31/2006</u>		[B] <u>Pro Forma</u>		[C] <u>Staff Recommended</u> <u>Revenue Requirement</u>		
1	Operating Income	\$ 6,915	\$ 6,915		\$ 18,659		
2	Depreciation & Amort.	10,446	10,446		10,446		
3	Income Tax Expense	0	0		0		
4							
5	Interest Expense	0	11,998		11,998		
6	Repayment of Principal	0	2,280		2,280		
7							
8							
9	TIER						
10	[1+3] ÷ [5]	0	0.58		1.56		
11	DSC						
12	[1+2+3] ÷ [5+6]	0	1.22		2.04		
13							
14							
15							
16							
17							
18	Short-term Debt	\$0	0%	\$2,280	1.5%	\$2,280	1.5%
19							
20	Long-term Debt	\$0	0%	\$158,725	102.2%	\$158,725	102.2%
21							
22	Common Equity	\$155,317	100%	(\$5,688)	-3.7%	(\$5,688)	-3.7%
23							
24	Total Capital	\$155,317	100%	\$155,317	100.0%	\$155,317	100.0%
25							

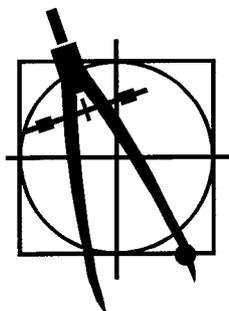
26 Column A reflects \$161,005 capital contributed by owners as Common Equity.

27 Column A depicts Staff adjusted consolidated financial information as of December 31, 2006.

28 Column B reflects \$161,005 capital contributed by owners as long-term debt at 7.5 percent per annum.

28 Column C reflects \$161,005 capital contributed by owners as long-term debt for Staff's recommended revenue requirement.

29



**Engineering Report for:
Winchester Water Company for a Rate
Increase
Docket No. W-04081A-07-0466**

By: Jian W Liu
Utilities Engineer

January 7, 2008

EXECUTIVE SUMMARY

CONCLUSIONS:

1. Based on data submitted by the water system, the Arizona Department of Environmental Quality ("ADEQ") has determined that this system has no deficiencies and is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4 (see Section D of this report for further discussion).
2. Based on the Company's arsenic concentration, the Company is in compliance with the new arsenic level.
3. The Company is not located in any Active Management Area ("AMA") and is not subject to any of its AMA monitoring and reporting requirements.
4. Staff concludes that the Winchester Water system has adequate production capacity and storage capacity based on water use data for the year 2006 (see Section B of this report for further discussion).

RECOMMENDATIONS

1. Staff recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category on a going forward bases.
2. Water testing expenses are based upon participation in the ADEQ Monitoring Assistance Program. Annual testing expenses should be adjusted to \$1574 as described in Table 1 (see Section G of this report for further discussion).
3. Staff recommends that the separate service line and meter installation charges listed in Table C be approved (see Section L of this report for further discussion).

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FIGURES

County Map.....	FIGURE 1
Certificated Area.....	FIGURE 2
Process Schematic.....	FIGURE 3

A. LOCATION OF COMPANY

The Company's water system is located approximately 10 miles northwest of Willcox in Cochise County with a certificated area covering approximately 1/4 square mile. Figure 1 shows the location of Winchester Water Company within Cochise County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on December 5, 2007 by Jian Liu, Staff Utilities Engineer, in the accompaniment of Charles Cardinal, Manager of the water system.

The facility follows a typical configuration found in small water systems. It consists of two wells, two 2,000 gallon pressure tanks, three storage tanks and a distribution system. Figure 3 provides a process schematic for the water system. Staff concludes that the Winchester Water system has adequate production capacity and storage capacity based on water use data for the year 2006.

(Tabular Description of Water System)

Well Data		
	Well No 1	Well No 2
ADWR ID No.	55-540012	55-202781
Casing Size	8 inch	8 inch
Casing Depth	300 ft	650 ft
Pump Size	10 Hp	20 Hp
Pump Yield	135 gal/min	191 gal/min

Storage, Pumping		
Structure or equipment	Location	Capacity
booster pumps	Lot 14 and Lot 245	Two 5 HP
pressure tank	Well #1 and Well #2	Two 2,000 gal
Storage tank	Lot 14 and Lot 245	5,000, 11,400 and 20,000 gallons

Distribution Mains		
Diameter (inch)	Material	Length(ft)
2	PVC	2,900
3	PVC	1800
4	PVC	8700
6	PVC	775

Meters	
Size (inch)	Quantity
5/8 x 3/4	129

C. ARSENIC

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The Company reported its arsenic concentrations for its Well No 1 and Well No 2 are 1.5 and 2.0 ppb, respectively. Based on this arsenic concentration, the Company is in compliance with the new arsenic standard of 10 ppb.

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

Based on data submitted by the water system, ADEQ has determined that this system has no deficiencies and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (ADEQ Compliance Status Report dated 06/22/07).

E. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division compliance Section showed no outstanding compliance issues. (ACC Compliance Section Email dated 12/27/07)

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. WATER TESTING EXPENSES

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an additional fee of \$2.07 per service connection regardless of meter size for participation in MAP (\$2.57 per service connection minus \$0.50 refund per service connection). Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$1913.06 during the 2006 test year. Staff has reviewed the Company's testing expense and has recalculated the testing costs. Table 1 shows

Staff's annual monitoring expense estimate of \$1,574 with participation in the MAP. The Company's reported water testing expense during the 2006 test year was higher than staff's calculated amount because the company's expense included MAP fees for both 2006 and 2007. The MAP fee listed in Table 1 is based on the fee amount billed to the Company for the test year 2006 only.

Table 1 Water Testing Cost

Monitoring – 2 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Bacteriological – monthly	\$30	36	1080	360
Inorganics – Priority Pollutants	\$480	1	480	160
Gross Alpha	\$110	4	440	110
Nitrate - annual	\$50	3	150	50
Nitrite – once per period	\$30	1	30	10
Asbestos – per 9 years	\$360	1	120	40
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP	511
Lead & Copper - annual	\$50	20	1000	333
Total				\$1,574

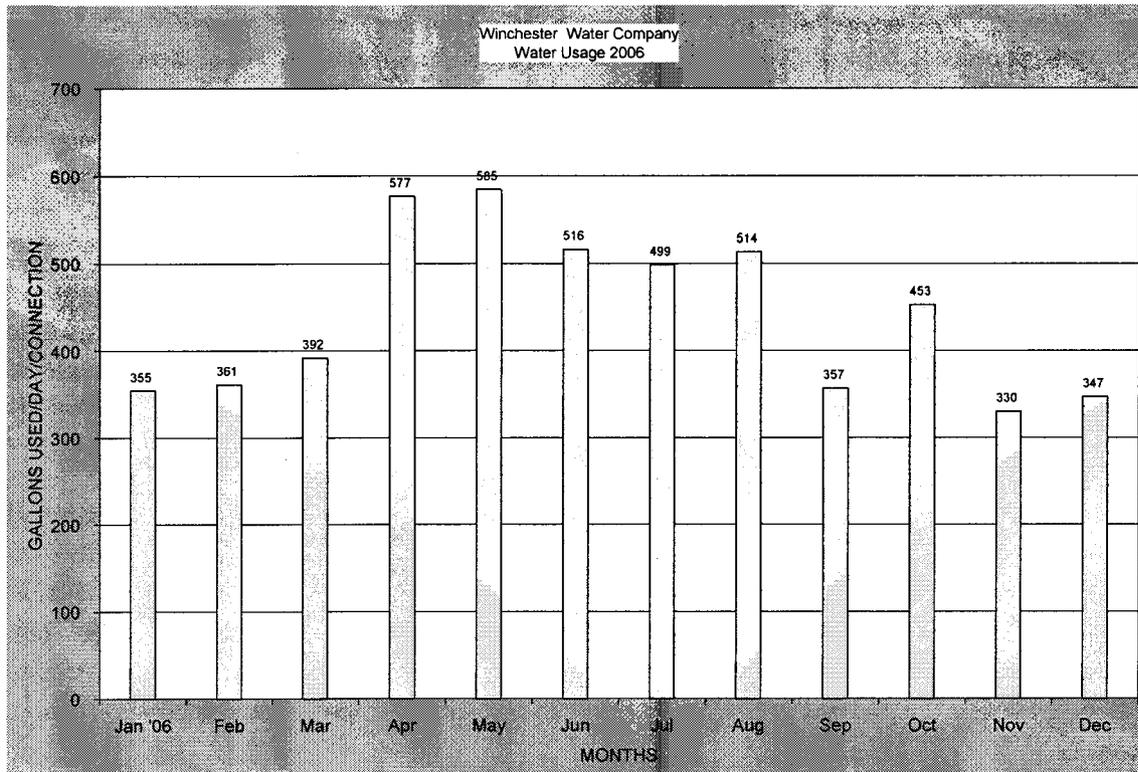
Note: ADEQ's MAP invoice for the 2006 calendar year was \$573.82

Staff recommends its annual water testing expense of \$1,574 be used for purposes of this application.

H. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2006 is presented below. The high monthly domestic water use was 585 gal/day per service connection in May and the low monthly domestic water use was 330 gal/day per service connection in November. The average annual use was 440 gal/day per service connection.



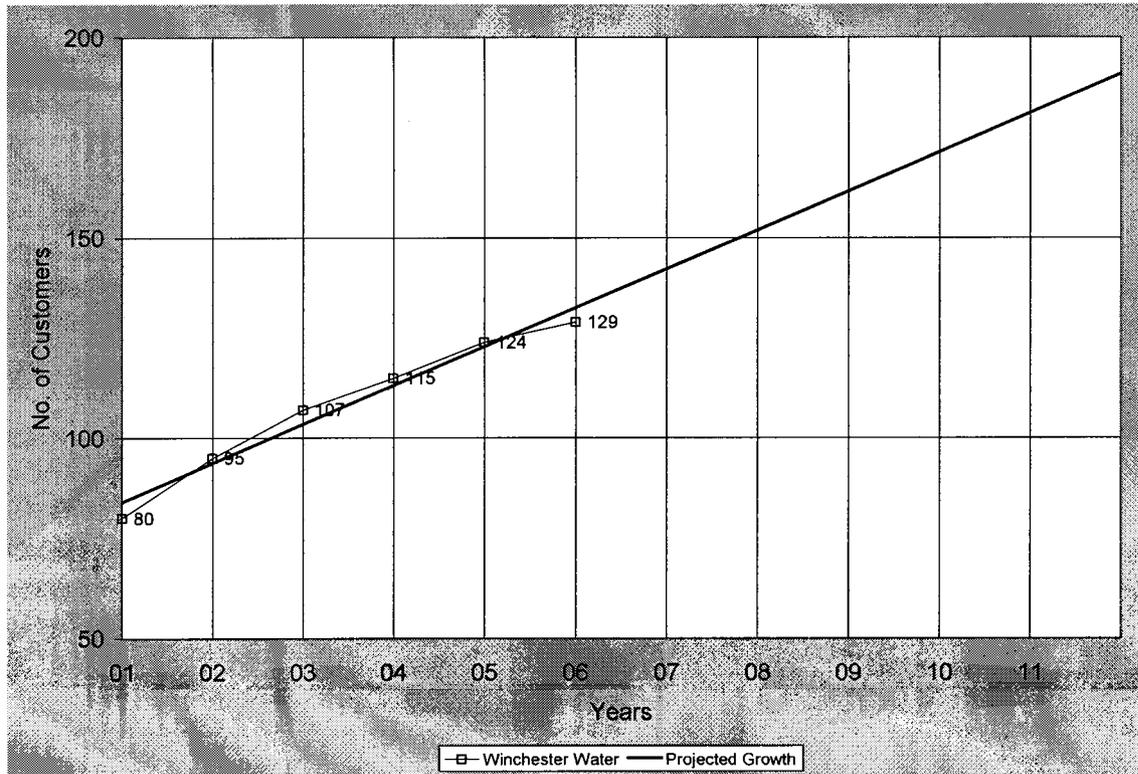
Non-account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 20,345,000 gallons pumped and 20,066,000 gallons sold, resulting in a water loss of 1.37% for 2006. Non-account water is within acceptable limits.

I. GROWTH

Figure 4 details the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year 2006, the Company had 129 customers and it is projected that the Company could have approximately 180 customers by 2011.

Figure 4 Projected Growth



J. DEPRECIATION RATES

Staff recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category on a going forward bases. Individual depreciation rates by NARUC category are presented in Table B.

Table B. Depreciation Rates

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

NOTES:

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

K. CURTAILMENT PLAN TARIFF

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

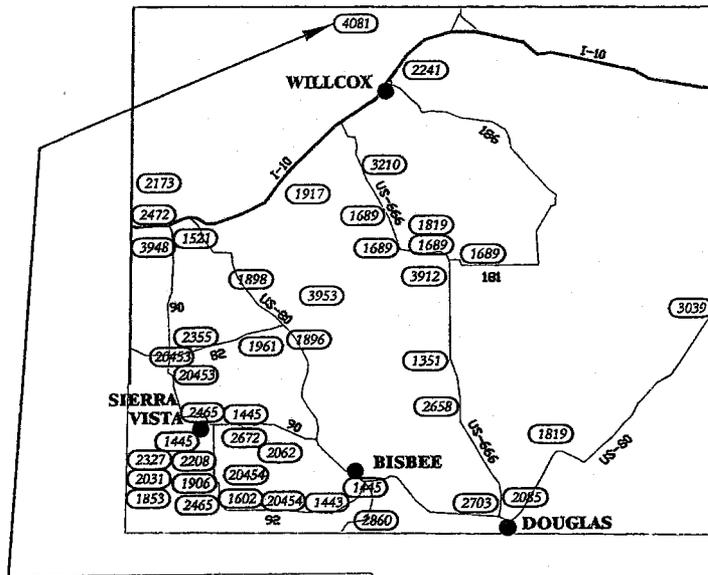
L. METER AND SERVICE LINE INSTALLATION CHARGES

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 or below 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 by Staff. Staff recommends that the Company separate service line charges and meter charges. The separate service line charges and meter charges recommended by Staff and listed in Table C equal the Company's total proposed charge.

Table C. Service Line and Meter Installation Charges

Meter Size	Current Charges	Company Proposed Charges	Staff recommended service line charges	Staff recommended meter charges	Staff recommended Total Charges
5/8 x3/4-inch	\$400	\$450	360	90	\$450
3/4-inch	\$470	\$500	360	140	\$500
1-inch	\$550	\$565	380	185	\$565
1-1/2-inch	\$785	\$800	415	385	\$800
2-inch	\$1,375	\$1,390	560	830	\$1,390
3-inch	\$1,975	\$1,990	720	1270	\$1,990
4-inch	\$3,040	\$3,055	1040	2015	\$3,055
6-inch	\$5,635	\$5,650	1590	4060	\$5,650

COCHISE COUNTY

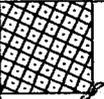


- | | | | |
|------|--|-------|--|
| 2327 | ANTELOPE RUN WATER COMPANY | 1961 | LUCKY HILLS WATER COMPANY |
| 1445 | ARIZONA WATER COMPANY | 2472 | MESCAL LAKES WATER SYSTEMS, INC. |
| 3953 | BACHMANN SPRINGS UTILITY COMPANY | 2703 | MONTE VISTA WATER COMPANY, L.L.C. |
| 2465 | BELLA VISTA WATER COMPANY | 2658 | MWC, INC. |
| 3039 | BROOKE WATER L.L.C. | 2860 | NACO WATER COMPANY, L.L.C. |
| 3210 | C-D OASIS WATER COMPANY | 1602 | NICKSVILLE WATER COMPANY, INC. |
| 1689 | CLEAR SPRINGS UTILITY COMPANY | 20453 | NORTHERN SUNRISE WATER COMPANY, INC. |
| 2672 | CLOUD NINE WATER COMPANY, INC. | 1443 | PALOMINAS DEVELOPMENT COMPANY |
| 2085 | CORONADO WATER COMPANY | 1853 | PARKER SPRINGS WATER COMPANY |
| 2316 | CRYSTAL WATER COMPANY | 2208 | PUEBLO DEL SOL WATER COMPANY |
| 1917 | DRAGOON WATER COMPANY, INC. | 20454 | SOUTHERN SUNRISE WATER COMPANY, INC. |
| 1906 | EAST SLOPE WATER COMPANY | 2062 | SOUTHLAND UTILITIES COMPANY, INC. |
| 1351 | ELFRIDA DOMESTIC WATER USERS ASSOCIATION | 1819 | SOUTHWESTERN FARM AND CATTLE COMPANY |
| 3948 | EMPIRITA WATER COMPANY, LLC | 1521 | SUE JUAN WATER COMPANY |
| 1898 | F & F WATER COMPANY | 2355 | SULGER WATER COMPANY #2 |
| 2241 | HIDDEN VALLEY WATER COMPANY | 3912 | SUNIZONA WATER COMPANY |
| 1896 | HOLIDAY WATER COMPANY | 2173 | WILLOW LAKES PROPERTY OWNERS ASSOCIATION |
| 2031 | INDIADA WATER COMPANY, INC. | 4081 | WINCHESTER WATER COMPANY, LLC |

Figure 1. Cochise County

COUNTY: *Cochise*

RANGE 24 East

6	5	4	3	2	1
7		9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

TOWNSHIP 12 South



W-4081 (1)

Winchester Water Company, LLC

Figure 2. Certificated Area

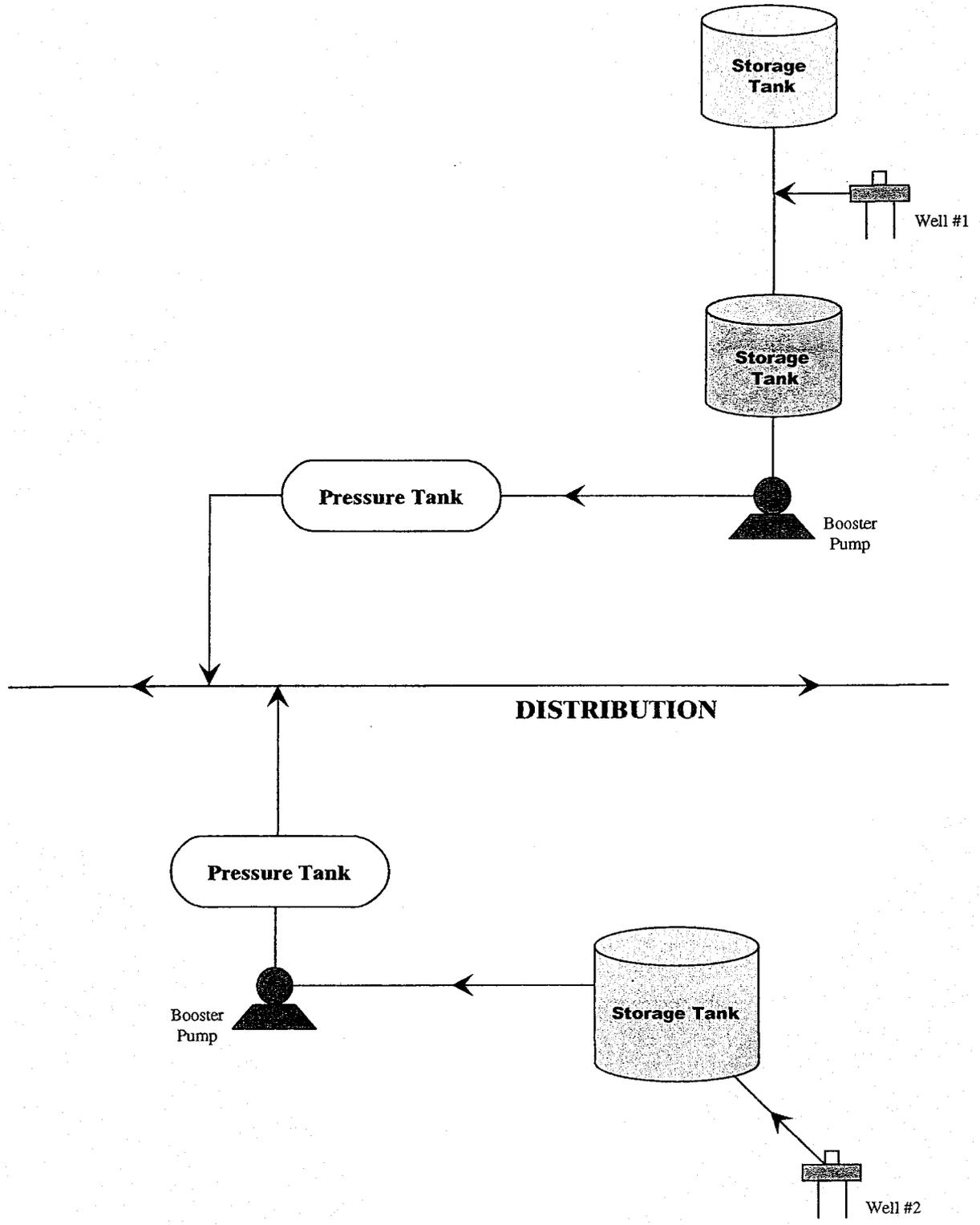


Figure 3. Process Schematic

MEMORANDUM

TO: Brendan Aladi
Public Utilities Analyst III
Finance and Rate Analysis
Utilities Division

FROM: Reg Lopez *CW for*
Public Utilities Consumer Analyst II
Consumer Services
Utilities Division- Tucson Office

THRU: Connie Walczak *CW*
Consumer Services Manager
Utilities Division

DATE: November 7, 2007

RE: **In the matter of the application of Winchester Water Company, LLC for approval of a rate application for water companies with annual gross operating revenues of less than \$250,000 per Arizona Administrative Code R14-2-103. Docket No. W-04081A-07-0466.**

COMPANY HISTORY

Winchester Water Company, LLC ("Company") is an Arizona public service corporation that currently provides water to approximately 129 metered customers in an unincorporated subdivision called Winchester Heights, located ten miles northwest of Willcox, Arizona, in Cochise County. The Company's last rate increase was on September 24, 2002, in Decision No. 65219

COMPLAINT HISTORY

For the period of January 1, 2004 through November 6, 2007, Consumer Services records reflect the following breakdown of customer complaints, inquiries and opinions, filed against the Company:

2004-2006 Zero complaints, inquiries and opinions.

2007- Zero complaints, one inquiry, and no opinions.

The lone inquiry was from the Company itself inquiring if they could file multiple rate increases for future years. The inquiry was resolved and closed.

OPINION HISTORY (FOR OR AGAINST RATE INCREASE)

Zero opinions have been filed against the Company in this rate case.

SUFFICIENCY STATUS

The Company met sufficiency status on October 30, 2007.

AFFIDAVIT OF MAILING

The Company's Affidavit of Mailing of the Customer Notification was notarized and dated August 2, 2007.

BILL FORMAT COMPLIANCE

A review of the Company's bill format indicates that it is in compliance with the Arizona Administrative Code R14-2-409.B.2.

CORPORATIONS DIVISION STATUS

Per the Corporations Division of the Commission, the Company is in good standing.

CROSS-CONNECTION/BACK-FLOW TARIFF

Currently, the Company does not have a Cross Connection/Backflow Tariff, but will be submitting the tariff through Docket Control by November 21, 2007.

PUBLIC COMMENT MEETING

A Public Comment Meeting has not been requested by customers nor scheduled by Staff due to the lack of opinions filed in opposition of this application.

Page 3
Winchester Water Comp. LLC

HEARING DATE

No hearing dates have been set on this matter as of this date.

INTERVENORS

There have been no requests filed to intervene at this time.

Cc: Engineering
File