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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
for Director
Utilities Division

DATE: January 24, 2008

RE: STAFF REPORT FOR THE VERDE LEE WATER COMPANY, INC.
APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02096A-07-0460)

Attached is the Staff Report for the Verde Lee Water Company, Inc. application for a permanent rate increase. Staff recommends approval of the application, but using Staff's recommended rates and charges as reflected on Schedule EOA-4.

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

EGJ:EOA:red

Originator: Elijah O. Abinah

Attachment: Original and thirteen copies

Arizona Corporation Commission
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Service List for: VERDE LEE WATER COMPANY, INC.
Docket No. W-02096A-07-0460

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

VERDE LEE WATER COMPANY, INC.

DOCKET NO. W-02096A-07-0460

**APPLICATION FOR A
PERMANENT RATE INCREASE**

JANUARY 24, 2008

STAFF ACKNOWLEDGMENT

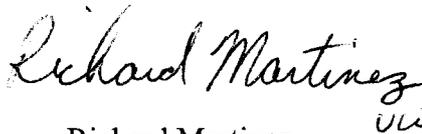
The Staff Report for Verde Lee Water Company, Inc. Docket No. W-02096A-07-0460 is the responsibility of the Staff members listed below: Elijah Abinah was responsible for the review and analysis of the Company's application for a rate increase, as well as Staff's recommended revenue requirements, rate base and rate design. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Richard Martinez 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.



Elijah Abinah
Assistant Director
Acting Chief of Finance and Regulatory Analysis



Marlin Scott, Jr.
Utilities Engineer



Richard Martinez
Consumer Analysis II

EXECUTIVE SUMMARY
VERDE LEE WATER COMPANY, INC.
DOCKET NO. W-02096A-07-0460

Verde Lee Water Company, Inc. ("Company") is engaged in the business of providing water services to customers in the Verde Lee subdivision, approximately 4 ½ miles southeast of Clifton, Arizona in Greenlee County. The Company provides water service to approximately 185 metered customers. The Company's current rates were effective June 9, 2000, per Commission's Decision No. 62623.

The Company proposes an increase in revenue in the amount of \$14,525, or 14.43 percent over test year revenue of \$100,664. The Company's proposed total operating revenue of \$115,189 will produce an operating loss of \$7,738 and no rate of return on the Company's original cost rate base ("OCRB") of \$275,555. The Company's proposed rates will increase the typical residential 5/8-inch meter customer's bill with median usage of 6,625 gallons from \$32.89 to \$37.66, an increase of \$4.77 or 14.5 percent.

Staff recommends an increase in revenue in the amount of \$39,818, or 39.56 percent over test year revenue of \$100,664. Staff's recommended total operating revenue of \$140,482 will produce no operating income or loss for no rate of return on a Staff adjusted OCRB of \$490,644. Staff's recommended rates will increase the typical residential 5/8-inch meter customer's bill with median usage of 6,625 gallons from \$32.89 to \$42.78, an increase of \$9.90 or 30.1 percent.

Staff believes that the Company is, and will continue to be, under funded if the Company's proposed rates are approved in this proceeding. Staff recommends that Staff's rates be approved and that the Company be ordered to immediately re-notice its customers to advise them of Staff's recommended rates so that ratepayers will have the opportunity to respond or make public comment if they so desire. Staff also recommends that the time clock be suspended for the application until such notice is provided.

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Fact Sheet

Type of Ownership: An Arizona "C" Corporation

Location: The Company serves water customers located in the communities of Verde Lee Acres Subdivision approximately 4 ½ miles southeast of Clifton, Arizona in Greenlee County.

Rates: Permanent rate increase application filed: August 2, 2007.
The application became sufficient on October 5, 2007.

Current Rates: Decision No. 62623, dated June 9, 2000.

Current Test Year Ended: December 31, 2006

Metered Rates:

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly minimum charge Based on 5/8 X 3/4 inch meter	\$15.00	\$15.00	\$21.25
Gallons in minimum			
Tier One from 1 gallon to 3,000 gallons	2.70	3.42	2.55
Tier Two from 3,001 gallons to 10,000 gallons	2.70	3.42	3.83
Tier Three all gallons over 10,000	2.70	3.42	4.60
Typical residential bill (based on median usage of 6,625 gallons)	\$32.89	\$37.66	\$42.78

Customers:

5/8-inch meter 185

Notifications: Customer notification was mailed on August 6, 2007.

Introduction

On August 2, 2007, Verde Lee Water Company, Inc. ("Verde Lee" or "Company") filed an application for a rate increase with the Arizona Corporation Commission ("Commission"). Staff deemed the application sufficient on October 5, 2007. The Company is requesting a revenue increase in the amount of \$14,525.

The Company proposed rates, as filed, produce a revenue level of \$115,189 from metered water sales. This would result in an operating loss of \$7,738, for no rate of return on an original cost rate base ("OCRB") of \$275,555. The typical residential bill for a 5/8-inch meter with median usage of 6,625 gallons would increase from \$32.89 to \$37.66, for an increase of \$4.77, or 14.5 percent.

Staff recommends a revenue level of \$140,482, resulting in no operating income or loss for no rate of return on a Staff adjusted OCRB of \$490,644. The typical residential bill for a 5/8-inch meter with median usage of 6,625 gallons would increase from \$32.89 to \$42.78, for an increase of \$9.90, or 30.1 percent. Please refer to attached Schedules EOA-1 and EOA-5.

Company Background

The Company is an Arizona "C" Corporation and obtained its Certificate of Convenience and Necessity ("CC&N") per Commission Decision No. 40507, dated February 16, 1970. Verde Lee is located in Verde Lee Acres Subdivision approximately 4 ½ miles southeast of Clifton, Arizona in Greenlee County. The current rates the Company is utilizing were authorized in Decision No. 62623, dated June 9, 2000. The Company, in the instant application, is seeking an increase in revenues of approximately 14.5 percent.

Figures 1 and 2 on page 7 of the Engineering Report, Attachment A, show the certificated area and location of the water systems within Greenlee County.

Consumer Services

A search of Consumer Services records indicated that there have been no complaints filed against the Company or, inquiries received, for the period of January 1, 2004 through January 3, 2008. Records also reveal that there were no formal complaints filed in Docket against the Company.

Since the application was filed, the Commission has received no verbal or written responses opposing the rate increase.

Compliance

The Company is current on its property tax payments to Greenlee County and in its collection and remittance of sales tax.

The Corporations Division of the Commission indicates that the Company is in Good Standing. Utilities Division Compliance Section showed no outstanding compliance issues.

Engineering Analysis

Marlin Scott, Jr., in accompaniment with Mr. Forrest Wilkerson, President of the Company and Mr. Bob Ross, on-site Manager of the Company, inspected the plant facilities on October 19, 2007. All facilities appeared to be well maintained.

Please refer to the attached Engineering Report for further descriptions and information regarding operations.

Rate Base

Staff made adjustments to the Company's rate base increasing it by \$215,089, from \$275,555 to \$490,644. The adjustments are described below. Also see Schedules EOA-2, pages 1 through 3.

Plant in Service

The Company failed to record/recognize the adjustments made to plant in service in the prior rate case, Decision No. 62623. Staff's various adjustments; collectively adjustment A, to correct beginning balances, totaled a reduction of \$3,325, from \$895,552 to \$892,227.

Staff recommends that the Company be ordered to correct its plant in service accounts balances to properly reflect the balances approved in this proceeding, for ratemaking purposes.

Accumulated Depreciation

The Company failed to record/recognize the adjustments made to accumulated depreciation in the prior rate case, Decision No. 62623. Staff's adjustment B, to correct the beginning balance, totaled a reduction of \$207,309, from \$619,997 to \$412,688.

Staff recommends that the Company be ordered to correct its accumulated depreciation balances to properly reflect the balances approved in this proceeding, for ratemaking purposes.

Working Capital

The Company neglected to request a cash working capital component in its rate base calculations. Staff utilized the formula method to calculate the cash working capital component. The calculation includes $1/24^{\text{th}}$ of annual power expenses and $1/8^{\text{th}}$ of annual operation & maintenance expenses. Staff's adjustment C totaled an increase of \$11,105, from zero to \$11,105.

Operating Income

Operating Revenues

Staff concurs with the Company and made no adjustments to the Company's test year total operating revenue.

Operating Expenses

Staff made adjustments to the Company's operating expenses increasing it by \$17,555, from \$122,927 to \$140,482. The adjustments are described below. Also see Schedules EOA-3, pages 1 and 2.

Staff's adjustment A increases repairs and maintenance expense by \$9,310, from \$7,583 to \$16,893. This adjustment adopts Staff's recommendation for annual expenses for maintaining the Company's point-of-use arsenic treatment equipment. (See Engineering Report).

Staff's adjustment B decreases water testing expense by \$3,204, from \$4,516 to \$1,312. This adjustment adopts Staff's recommendation for annual expenses for water testing. (See Engineering Report).

Staff's adjustment C increases depreciation expense by \$11,444, from \$21,562 to \$33,006. This adjustment corrects the Company's miscalculations and adopts Staff's recommendation for depreciation rates on a going-forward basis. (See Engineering Report).

Staff's adjustments noted above increased the Company's test year operating loss by \$17,555, from \$22,263 to \$39,818.

Revenue Requirement

The Company's proposed revenue requirement of \$115,189 would result in an operating loss of \$7,738 for no rate of return.

Staff's recommended revenue requirement of \$140,482 would result in no operating profit or loss for no rate of return on an OCRB of \$490,644.

Staff believes that the breakeven revenue level it recommends in this case is approximately 275 percent greater than the revenue the Company requested, covers all the Company's anticipated new expenses, and increases depreciation expense by more than 53 percent. Additionally, to ameliorate the rate shock to ratepayers in this case, Staff believes a higher rate of increase at this time is inappropriate.

Rate Design

The Company's proposed rates will increase the typical residential 5/8-inch meter customer's bill with a median usage of 6,625 gallons from \$32.89 to \$37.66, an increase of \$4.77 or 14.5 percent. The Company's proposed rates continue to utilize a single tier commodity rate. The Company is proposing an increase in revenues of \$14,525 over test year revenues. The Company's narrative states that it needs this rate increase in order to comply with the mandated water quality standards and additional costs from the Company implementation of a new point-of-use reverse osmosis filtering system to treat arsenic.

Staff, in general, concurs with the Company in its need to increase rates. The Company's proposed rates are inadequate as discussed previously. Staff's recommended rates will increase the typical residential 5/8-inch meter customer's bill with a median usage of 6,625 gallons from \$32.89 to \$42.78, an increase of \$9.90 or 30.1 percent. Staff's recommended rates utilize the conservation related 3-tier inverted block commodity rates that this Commission has supported in the past. Staff is recommending an increase in revenues of \$39,818 over test year revenues.

Staff recommends that all of the Company's service charges remain unchanged from the prior rate case, except for two items. The Company has requested that the NSF Check fee be increased from \$20.00 to \$30.00. Staff Concurs. The Company has also requested that the service line and meter installation charges be increased. Staff recommends the service line and meter installation charges it sponsors, as depicted in the Engineering Report, Table C and Schedule EOA-4.

Staff Recommendations

Staff recommends that the Company be ordered to immediately re-notice its customers to advise them of Staff's recommended rates so that ratepayers will have the opportunity to respond or make public comment if they so desire, prior to a Decision in this proceeding. Staff also recommends that the time clock for this case be suspended until such notice is provided.

Staff further recommends approval of its rates and charges shown on Schedule EOA-4 of this Report.

Staff further recommends that the Company be ordered to alter its books and records to properly reflect the correct plant in service balances and the associated accumulated depreciation balances for ratemaking purposes, as approved in this proceeding.

Staff further recommends that the attached (See Engineering Report) Point-of-Use Treatment Device Tariff in Exhibit POU be approved in this proceeding.

Verde Lee Water Company, Inc.
Docket No. W-02096A-07-0460
Test Year Ended December 31, 2006

Schedule EOA-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$100,664	\$100,664	\$115,189	\$140,482
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$100,664	\$100,664	\$115,189	\$140,482
Operating Expenses:				
Operation and Maintenance	\$92,424	\$98,530	\$92,424	\$98,530
Depreciation	21,562	33,006	21,562	33,006
Property & Other Taxes	8,896	8,896	8,896	8,896
Income Tax	45	50	45	50
Total Operating Expense	\$122,927	\$140,482	\$122,927	\$140,482
Operating Income/(Loss)	(\$22,263)	(\$39,818)	(\$7,738)	\$0
Rate Base O.C.L.D.	\$275,555	\$490,644	\$275,555	\$490,644
Rate of Return - O.C.L.D.	-8.08%	-8.12%	-2.81%	0.00%
Operating Margin	-22.12%	-39.56%	-6.72%	0.00%

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$895,552	(\$3,325)	A	\$892,227
Less:				
Accum. Depreciation	619,997	(207,309)	B	412,688
Net Plant	\$275,555	\$203,984		\$479,539
Less:				
Plant Advances	\$0	\$0		\$0
Customer Meter Deposits	0	0		0
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$0	\$0		\$0
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$0	\$0		\$0
Plus:				
1/24 Power	\$0	\$605	C	\$605
1/8 Operation & Maint.	0	10,500	C	10,500
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$11,105		\$11,105
Rate Base	\$275,555	\$215,089		\$490,644

REFERENCE

- A** See Schedule EOA-2, page 2 of 3.
- B** See Schedule EOA-2, page 3 of 3.
- C** To record the cash working capital portion of the rate base that was not requested by the Company in its application.

PLANT ADJUSTMENT

Account No.	Description	Company Exhibit	Adjustment	Staff Adjusted
301	Organization	\$0	\$0	\$0
302	Franchises	0	0	0
303	Land & Land Rights	163,163	8,949	172,112
304	Structures & Improvements	10,840	109,675	120,515
307	Wells & Springs	44,748	0	44,748
311	Pumping Equipment	115,428	(2,080)	113,348
320	Water Treatment Equipment	0	0	0
330	Distribution Reservoirs & Star	182,711	(7,800)	174,911
331	Transmission & Distribution M	241,072	(17,329)	223,743
333	Services	0	15,598	15,598
334	Meters & Meter Installations	15,590	0	15,590
335	Hydrants	0	0	0
336	Backflow Prevention Devices	0	0	0
339	Other Plant and Misc. Equiprr	116,830	(110,338)	6,492
340	Office Furniture & Equipment	431	0	431
341	Transportation Equipment	2,436	0	2,436
343	Tools Shop & Garage Equiprr	2,303	0	2,303
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	0	0	0
105	C.W.I.P.	0	0	0
TOTALS		\$895,552	(\$3,325) A	\$892,227

Adjustment made to reallocate Plant In Service beginning balances to reflect amount authorized in prior Decision No. 62623, and to correct the Application's math errors.

ACCUMULATED DEPRECIATION ADJUSTMENT
--

	<u>Reference</u>	<u>Amount</u>
Accumulated Depreciation - Per Company		\$619,997
Accumulated Depreciation - Per Staff		<u>412,688</u>
Total Adjustment	B	<u><u>(\$207,309)</u></u>

Adjustment to correct beginning accumulated depreciation amounts for each asset to reflect those authorized in prior Decision No. 62623.

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$100,664	\$0	\$100,664
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$100,664	\$0	\$100,664
Operating Expenses:			
601 Salaries and Wages	\$37,119	\$0	\$37,119
610 Purchased Water	0	0	0
615 Purchased Power	14,531	0	14,531
618 Chemicals	0	0	0
620 Repairs and Maintenance	7,583	9,310 A	16,893
621 Office Supplies & Expense	0	0	0
630 Outside Services	16,158	0	16,158
635 Water Testing	4,516	(3,204) B	1,312
641 Rents	3,626	0	3,626
650 Transportation Expenses	3,040	0	3,040
657 Insurance - General Liability	3,761	0	3,761
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	2,090	0	2,090
403 Depreciation Expense	21,562	11,444 C	33,006
408 Taxes Other Than Income	3,049	0	3,049
408.11 Property Taxes	5,847	0	5,847
409 Income Tax	45	5	50
Total Operating Expenses	\$122,927	\$17,555	\$140,482
OPERATING INCOME/(LOSS)	(\$22,263)	(\$17,555)	(\$39,818)
Other Income/(Expense):			
419 Interest and Dividend Income	\$925	\$0	\$925
421 Non-Utility Income	3	0	3
427 Interest Expense	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	\$928	\$0	\$928
NET INCOME/(LOSS)	(\$21,335)	(\$17,555)	(\$38,890)

STAFF ADJUSTMENTS

A	REPAIRS AND MAINTENANCE - Per Company	\$7,583	
	Per Staff	16,893	\$9,310
	Arsenic Remediation Expense - \$7,885 for media replacement and \$1,425 for increased labor expense per Engineering Report.		
B	WATER TESTING - Per Company	\$4,516	
	Per Staff	1,312	(\$3,204)
	Recommended water annual water testing expense per Engineering Report.		
C	DEPRECIATION - Per Company	\$21,562	
	Per Staff	33,006	\$11,444

Pro Forma Annual Depreciation Expense:

ACCT NO. DESCRIPTION	Engineering Report Recommended Depreciation Rate	Plant Balance	Company Application	Adjustment	Staff Recommended
		\$	\$	\$	\$
301 Intangibles	0.00%	-	-	-	-
303 Land and Land Rights	0.00%	172,112	-	-	-
304 Structures and Improvements	3.33%	120,515	-	4,013	4,013
307 Wells and Srings	3.33%	44,748	853	637	1,490
311 Pumping Equipment	12.50%	113,348	11,795	2,374	14,169
320 Water Treatment Equipment	Varies	-	-	-	-
330 Distribution Reservoirs & Standpipes	5.00%	98,028	3,243	1,658	4,901
330 Storage Tank	2.22%	76,883	-	1,707	1,707
331 Transmission and Distribution Mains	2.00%	223,743	3,346	1,129	4,475
333 Services	3.33%	15,598	-	519	519
334 Meters and Meter Installation	8.33%	15,590	78	1,221	1,299
335 Hydrants	2.00%	-	-	-	-
339 Other Plant and Miscellaneous Equipment	6.67%	6,492	2,079	(1,646)	433
340 Office Furniture and Fixtures	6.67%	431	-	-	-
341 Transportation Equipment	20.00%	2,436	-	-	-
343 Tools and Work Equipment	5.00%	2,303	168	(168)	-
345 Power Operated Equipment	5.00%	-	-	-	-
346 Communications Equipment	10.00%	-	-	-	-
348 Other Tangible Plant	10.00%	-	-	-	-
105 C.W.I.P.	Varies	-	-	-	-
Totals		\$ 892,227	\$ 21,562	\$ 11,444	\$ 33,006

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8 x 3/4" Meter	\$ 15.00	\$ 15.00	\$ 21.25
3/4" Meter	20.00	20.00	31.80
1" Meter	30.00	30.00	53.15
1½" Meter	60.00	60.00	106.25
2" Meter	100.00	100.00	170.00
3" Meter	172.80	172.80	340.00
4" Meter	270.00	270.00	531.25
6" Meter	540.00	540.00	1,062.50
Gallons included in Minimum	0	0	0
Commodity Rates			
All meter sizes			
Per 1,000 gallons in excess of gallons in monthly minimum	\$ 2.70	\$ 3.42	n/a
5/8 x3/4 Inch Meter			
Tier 1 zero gallon to 3,000 gallons	n/a	\$ 3.42	\$ 2.55
Tier 2 3,001 gallons to 10,000 gallons	n/a	\$ 3.42	\$ 3.83
Tier 3 All gallons over 10,000 gallons	n/a	\$ 3.42	\$ 4.60
3/4 Inch Meter			
Tier 1 zero gallon to 3,000 gallons	n/a	\$ 3.42	\$ 2.55
Tier 2 3,001 gallons to 10,000 gallons	n/a	\$ 3.42	\$ 3.83
Tier 3 All gallons over 10,000 gallons	n/a	\$ 3.42	\$ 4.60
1 Inch Meter			
Tier 1 Up to 35,000 gallons	n/a	\$ 3.42	\$ 3.83
Tier 2 Over 35,000 gallons	n/a	\$ 3.42	\$ 4.60
1.5 Inch Meter			
Tier 1 Up to 100,000 gallons	n/a	\$ 3.42	\$ 3.83
Tier 2 Over 100,000 gallons	n/a	\$ 3.42	\$ 4.60
2 Inch Meter			
Tier 1 Up to 180,000 gallons	n/a	\$ 3.42	\$ 3.83
Tier 2 Over 180,000 gallons	n/a	\$ 3.42	\$ 4.60
3 Inch Meter			
Tier 1 Up to 400,000 gallons	n/a	\$ 3.42	\$ 3.83
Tier 2 Over 400,000 gallons	n/a	\$ 3.42	\$ 4.60
4 Inch Meter			
Tier 1 Up to 645,000 gallons	n/a	\$ 3.42	\$ 3.83
Tier 2 Over 645,000 gallons	n/a	\$ 3.42	\$ 4.60
6 Inch Meter			
Tier 1 Up to 1,330,000 gallons	n/a	\$ 3.42	\$ 3.83
Tier 2 Over 1.330,000 gallons	n/a	\$ 3.42	\$ 4.60
Construction/Bulk, per 1,000 gallons - all gallons.	n/a	n/a	n/a

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	\$ 375.00	\$ 385.00	\$ 135.00	\$ 520.00	\$ 305.00	\$ 70.00	\$ 375.00
3/4" Meter	\$ 435.00	\$ 385.00	\$ 215.00	\$ 600.00	\$ 305.00	\$ 130.00	\$ 435.00
1" Meter	\$ 510.00	\$ 435.00	\$ 255.00	\$ 690.00	\$ 355.00	\$ 155.00	\$ 510.00
1 1/2" Meter	\$ 740.00	\$ 470.00	\$ 465.00	\$ 935.00	\$ 380.00	\$ 360.00	\$ 740.00
2" Turbine Meter	\$ 1,300.00	\$ 630.00	\$ 965.00	\$ 1,595.00	\$ 470.00	\$ 830.00	\$ 1,300.00
2" Compound Meter	\$ 1,930.00	\$ 630.00	\$ 1,690.00	\$ 2,320.00	\$ 595.00	\$ 1,260.00	\$ 1,930.00
3" Turbine Meter	\$ 1,855.00	\$ 805.00	\$ 1,470.00	\$ 2,275.00	\$ 595.00	\$ 1,975.00	\$ 1,855.00
3" Compound Meter	\$ 2,570.00	\$ 845.00	\$ 2,265.00	\$ 3,110.00	\$ 880.00	\$ 1,990.00	\$ 2,570.00
4" Turbine Meter	\$ 2,870.00	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00	\$ 880.00	\$ 2,795.00	\$ 2,870.00
4" Compound Meter	\$ 3,675.00	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00	\$ 880.00	\$ 4,045.00	\$ 3,675.00
6" Turbine Meter	\$ 5,375.00	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00	\$ 1,330.00	\$ 5,640.00	\$ 5,375.00
6" Compound Meter	\$ 6,970.00	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00	\$ 1,330.00	\$ 5,640.00	\$ 6,970.00
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
Reconnection (Delinquent)	50.00	50.00	50.00
Reconnection (After Hours)	30.00	30.00	30.00
Meter Test (If Correct)	35.00	35.00	35.00
Deposit Requirement	30.00	30.00	30.00
Deposit Interest	*	*	*
Re-Establishment	**	**	**
NSF Check	20.00	30.00	30.00
Deferred Payment Per Month	n/a	n/a	n/a
Meter Re-Read (If Correct)	15.00	15.00	15.00
Late Charge per Month	\$ -	\$ -	\$ -

Monthly Service Charge for Fire Sprinkler

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 and 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

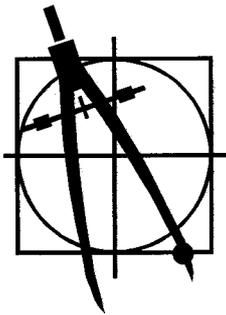
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 185

<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	9,492	\$40.63	\$47.46	\$6.83	16.8%
Median Usage	6,625	\$32.89	\$37.66	\$4.77	14.5%
<u>Staff Proposed</u>					
Average Usage	9,492	\$40.63	\$53.76	\$13.14	32.3%
Median Usage	6,625	\$32.89	\$42.78	\$9.90	30.1%

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	\$15.00	\$15.00	0.0%	\$21.25	41.7%
1,000	17.70	18.42	4.1%	23.80	34.5%
2,000	20.40	21.84	7.1%	26.35	29.2%
3,000	23.10	25.26	9.4%	28.90	25.1%
4,000	25.80	28.68	11.2%	32.73	26.9%
5,000	28.50	32.10	12.6%	36.56	28.3%
6,000	31.20	35.52	13.8%	40.39	29.5%
7,000	33.90	38.94	14.9%	44.22	30.4%
8,000	36.60	42.36	15.7%	48.05	31.3%
9,000	39.30	45.78	16.5%	51.88	32.0%
10,000	42.00	49.20	17.1%	55.71	32.6%
12,000	47.40	56.04	18.2%	64.91	36.9%
14,000	52.80	62.88	19.1%	74.11	40.4%
16,000	58.20	69.72	19.8%	83.31	43.1%
18,000	63.60	76.56	20.4%	92.51	45.5%
20,000	69.00	83.40	20.9%	101.71	47.4%
25,000	82.50	100.50	21.8%	124.71	51.2%



Engineering Report for Verde Lee Water Company, Inc.

Docket No. W-02096A-07-0460 (Rates)

By: Marlin Scott, Jr. *MSJ*
Utilities Engineer

January 17, 2008

CONCLUSIONS

- A. Verde Lee Water Company, Inc.'s ("Company") water system has a water loss of 3%. This 3% is below Staff's recommended level of 10%.
- B. The Arizona Department of Environmental Quality has determined that the Company's system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- C. The Company is not located in an Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements.
- D. The Company has no delinquent Commission compliance issues.
- E. On January 15, 2008, the Company submitted a curtailment tariff under Docket No. W-02096A-08-0033. This tariff was reviewed and certificated by Staff on January 17, 2008 and will become effective on February 14, 2008
- F. The Company has an approved backflow prevention tariff that became effective on June 9, 2000.

RECOMMENDATIONS

- 1. The Company reported its arsenic levels ranging from 14 parts per billion ("ppb") to 27 ppb. Based on these arsenic levels, the Company has implemented a point-of-use ("POU") treatment device program to meet the new arsenic standard. In order to maintain this program, Staff recommends an annual maintenance replacement item cost of \$7,885 and an annual labor cost of \$1,425.
- 2. The Company's three well capacity totaling 336 GPM and 500,000 gallons of storage tank capacity is appropriate for this system. Staff recommends that Well #4 not be included in rate base because it is not needed at this time. The new Well #5 (at 5 GPM), currently not reported and included in this rate proceeding, is still under construction.

Staff notes that this well production is not needed and the production of this well at 5 GPM may not be prudent when compared to the other wells producing 150 and 180 GPM.

3. Staff recommends its annual water testing expense of \$1,312 be used for purposes of this application.
4. Staff recommends that the Company use Staff's depreciation rates delineated in Table B.
5. Staff recommends approval of Staff's Service Line and Meter Installation Charges as delineated in Table C.
6. Since the Company has implemented a POU treatment program, a POU Tariff should be required for this water system. Therefore, Staff recommends that the attached Point-of-Use Treatment Device Tariff in Exhibit POU be approved in this proceeding.

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A. LOCATION OF COMPANY

Verde Lee Water Company, Inc. (“Company”) serves the Verde Lee Acres Subdivision which is located southeast of Clifton. Figure 1 shows the location of the Company within Greenlee County and Figure 2 shows the certificated area covering approximately 3/4-square-mile.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on October 19, 2007, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Forrest Wilkerson, Company President, and Bob Ross, Company On-Site Manager. The system consists of five wells (one not-in-service), four storage tanks, two booster systems, and a distribution system serving approximately 190 customers.

The system has two separate pressure zones, which are interconnected but have different hydraulic characteristics. The four operating wells pump to the East Tank Site having two 125,000 gallon storage tanks. Two 5-Horsepower (“Hp”) booster pumps take suction from these lower storage tanks and distribute water to the east (or lower) system through a 2,000 gallon pressure tank. Two other 5-Hp booster pumps take suction from the lower storage tanks and pump to the West Tank Site (or upper), also having two 125,000 gallon storage tanks. From the upper storage tanks, two 5-Hp booster pumps distribute water through a 2,000 gallon pressure tank into the upper zone.

The customers are about evenly divided between the two pressure zones, with about 95 customers in each zone. The entire customer base is currently using point-of-use (“POU”) reverse osmosis (“RO”) filtration units to meet the new arsenic standard.

A system schematic is shown as Figure 3 and a detailed plant facility listing is as follows:

Table 1. Well Sites

Plant Items	Well #1 (ID #55-623671)	Well #2 (ID #55-623670)	Well #3 (ID #55-623672)	Well #4 (ID #55-588765)
Casing Size	8-inch	8-inch	8-inch	8-inch
Casing Depth	500 ft.	500 ft.	500 ft.	500 ft.
Submersible Pump	25-Hp	25-Hp	3-Hp	25-Hp
Pumping Rate	150 GPM	180 GPM	6 GPM	150 GPM
Meter Size	3-inch	3-inch	5/8 x 3/4-inch	3-inch
Chain Link Fencing	30 ft. x 40 ft.	50 ft. x 60 ft.		30 ft. x 30 ft.

Well #5 (ID #55-623674) is located at the West Tank Site and was recently drilled. This well was not included in this rate application and was not-in-service during Staff's inspection.

Table 2. Storage and Booster Sites

Location	Storage Tanks	Booster Systems
East Tank Site	Two 125,000 gallons	Two 5-Hp boosters with 2,000 gallon pressure tank
East Tank Site	-	Two 5-Hp boosters that pump to West Tank/Booster Site
West Tank Site	Two 125,000 gallons	Two 5-Hp boosters with 2,000 gallon pressure tank

Table 3. Water Mains

Diameter	Material	Length
4-inch	PVC	8,000 ft.
6-inch	PVC	30,716 ft.
8-inch	PVC	2,100 ft.
	Total:	40,816 ft.

Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	-
3/4-inch	190
1- inch	-
1-1/2-inch	* (1)
2-inch	-
Total:	190

* Note: This customer was an old trailer park that is no longer a customer.

Table 5. Structures

Structures
East Tank Site: 30 ft. x 62 ft. building, 600 lineal feet of chain link fencing, rock wall.
West Tank Site: 20 ft. x 30 ft. building and 400 lineal feet of chain link fencing.

Table 6. Treatment

Treatment
Point-of-Use Reverse Osmosis Filtration Units, 190 each

Point-of-Use Treatment

The Company implemented a new POU treatment program by installing Watts Premier RO units for all of its customers. As part of this rate filing, the Company has requested annual maintenance cost for replacement of the filters and membranes at \$35 and \$48 each, respectively. Staff has reviewed this request and recommends the following costs:

Replacement Item	Cost	No. of Units	Duration	Annual Cost
1. Filters	\$35	190 each	Every 2 years	\$3,325
2. Membranes	\$48	190 each	Every 2 years	\$4,560
Total annual replacement item cost:				\$7,885

3. Annual labor cost to replace filters and membranes = (190 units x 1 hour x \$15.00 per hour) divided by 2 years = **\$1,425**

In addition, Staff will provide the additional arsenic sampling cost per the ADEQ Point-of-Use Compliance Program Guidance and a depreciation rate for the POU treatment device per Watts Premier's recommendation. These two additional items are included in the Water Testing Expense and Depreciation Rates sections of this report.

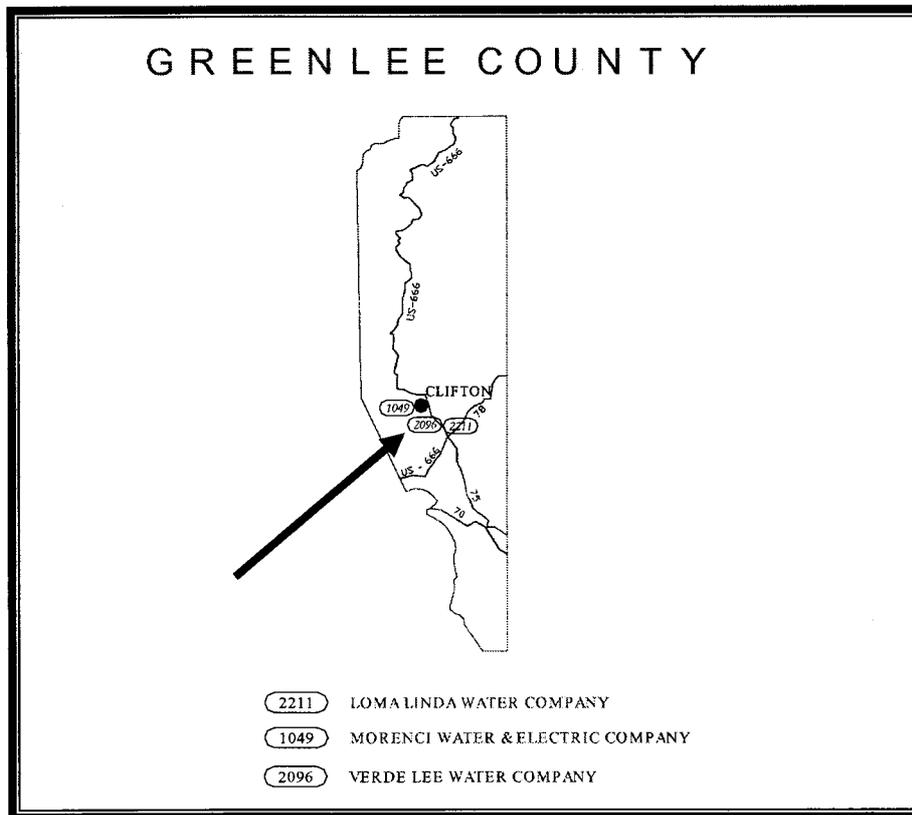


Figure 1. Greenlee County Map

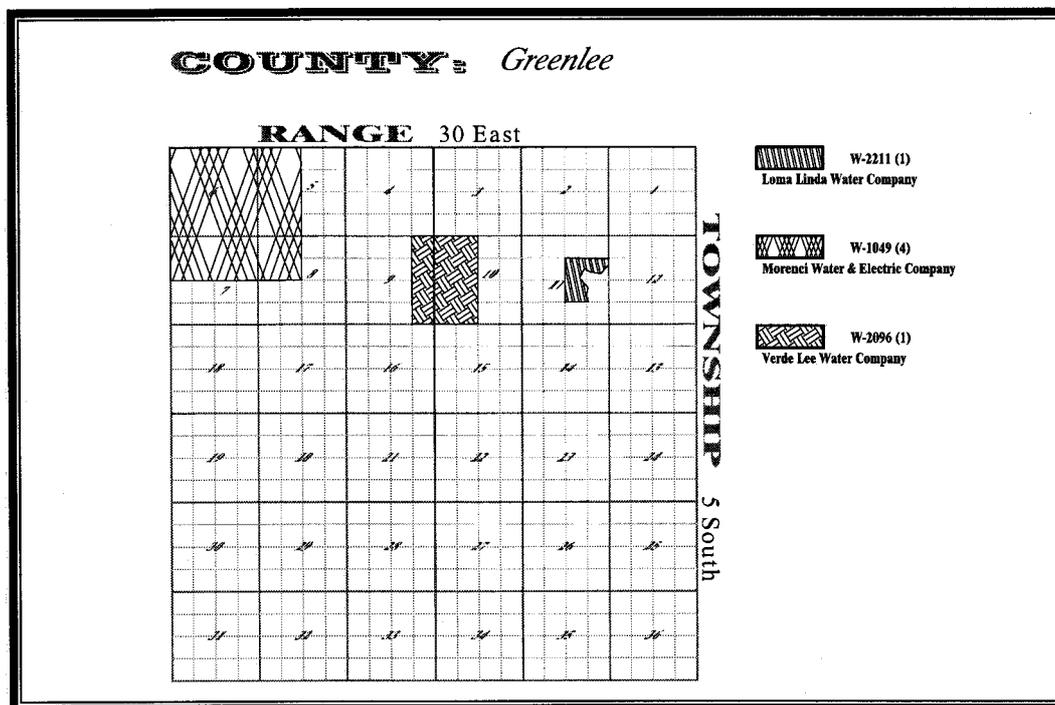
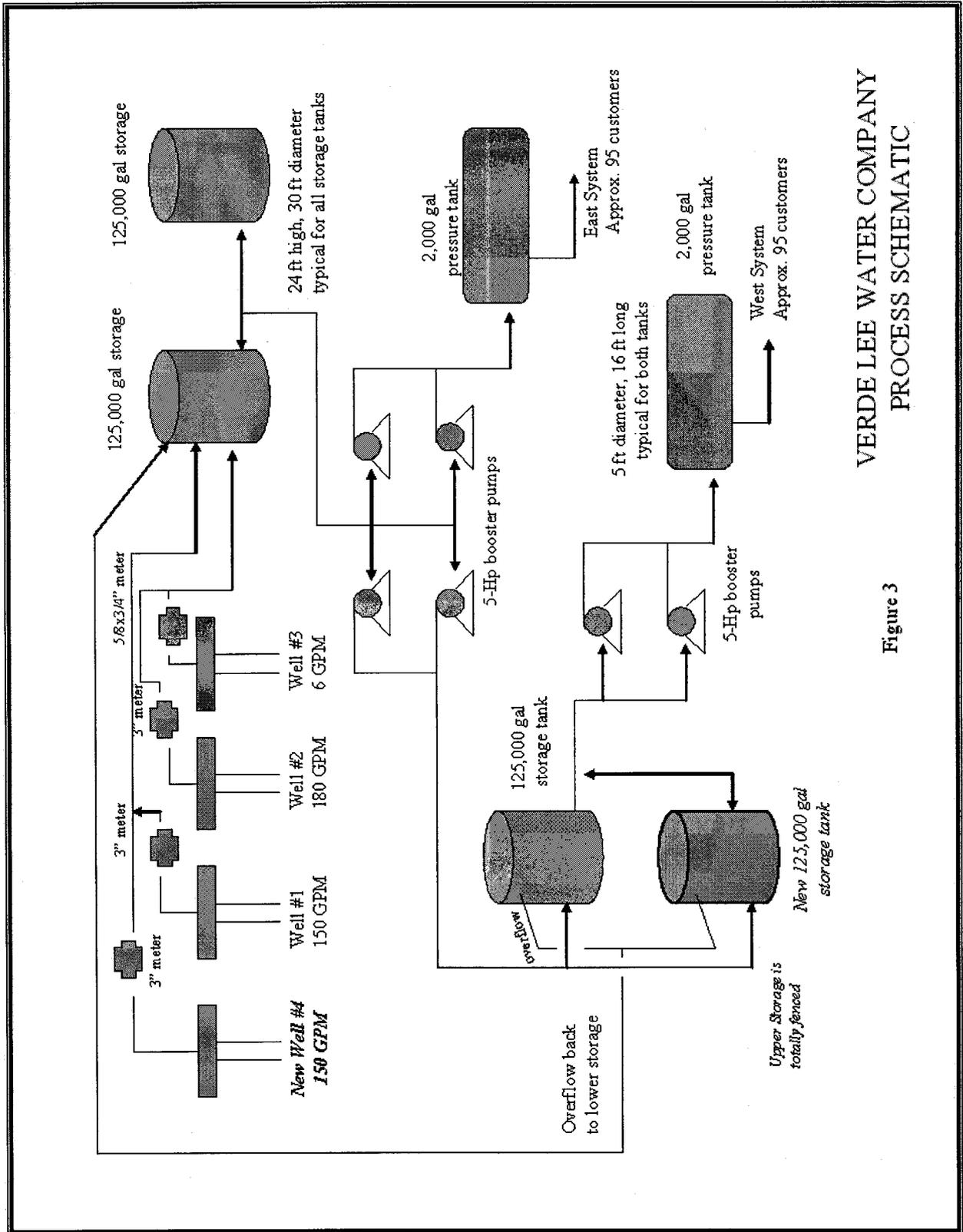


Figure 2. Certificated Area



VERDE LEE WATER COMPANY
 PROCESS SCHEMATIC

Figure 3

Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 represents the water consumption data provided by the Company in its water use data sheet. Customer consumption experienced a high monthly water use of 440 gallons per day (“GPD”) per connection in June and a low monthly water use of 198 GPD per connection in December for an average monthly use of 300 GPD per connection.

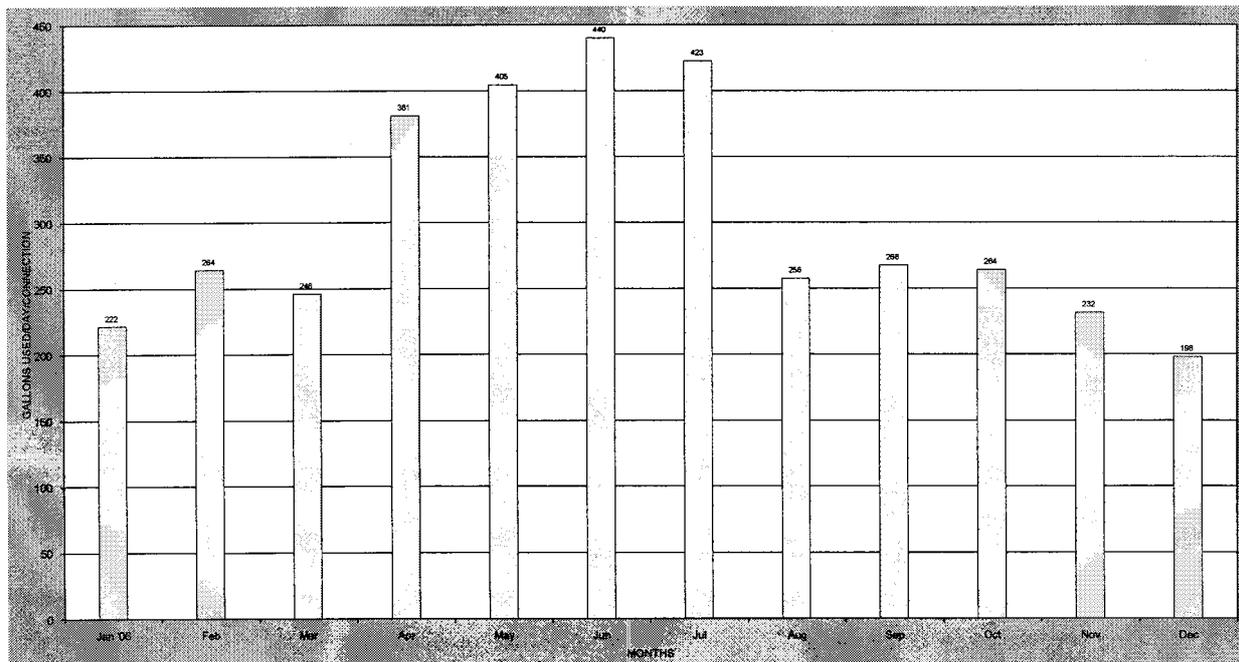


Figure 4. Water Use

Non-Account Water

Non-account water should be 10% or less. The Company reported 20,213,940 gallons of water sold and 20,820,270 gallons pumped, resulting in a water loss percent 3%. This 3% is below Staff's recommended level of 10%.

System Analysis

The system's current operation of the four source well capacity totaling 486 GPM and 500,000 gallons of storage tank capacity could serve up to approximately 1,150 service connections. The system currently has 182 connections.

In the prior year 2000 rates and financing cases, the Company operated three wells, Wells #1, #2 and #3, without meters with estimated flow rates of 200 GPM, 200 GPM, and 30 GPM, respectively. In the financing case, the Company was authorized a loan approval to construct a

new 125,000 gallon storage tank and installation of three well meters, among other improvements. One of the Company's financing requests, that was not authorized, was to refit the 30 GPM well (Well #3) with a higher horsepower pump, which Staff stated was "not prudent" and not necessary at that time since the two 200 GPM wells (Wells #1 and #2) were sufficient. In fact, Staff stated that "any storage or production beyond the proposed 125,000 gallon tank, would not be necessary at the present customer base and water demand."

In 2002, the Company constructed a new Well #4 (at 150 GPM) and is currently completing another new Well #5 (at 5 GPM), which was not reported and included in this rate case. In addition, the Company installed the three well meters indicating Well #1 was pumping at 150 GPM, Well #2 at 180 GPM and Well #3 at 6 GPM. Based in these three wells totaling to 336 GPM, along with the 500,000 gallon storage tank capacity, this water system could adequately serve up to approximately 450 service connections. Therefore, any new wells, i.e., Well #4 and Well #5, are not needed at this time.

Since the water system is hydraulically separated into two different pressure zones and service areas, and due to the Company's remote location as to where a well repair can take up to 6 days, the three well capacity totaling 336 GPM and 500,000 gallons of storage tank capacity is appropriate for this system.

Staff recommends that the addition of Well #4 should not be included in rate base because the production of this well at 150 GPM is not necessary at this time. The new Well #5 (at 5 GPM), currently not reported and included in this rate proceeding, is still under construction. Staff notes that this well production is not needed and the production of this well at 5 GPM may not be prudent when compared to the other wells producing 150 and 180 GPM.

D. GROWTH

Based on data from the Company's Annual Reports, this water system can be expected to have little to no growth in the foreseeable future.

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

Compliance

According to an ADEQ Compliance Status Report, dated January 25, 2007, that was submitted with the rate application; ADEQ reported no deficiencies and has determined that the Company's system, PWS #06-004 is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

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 \$2.57 per service connection, regardless of meter size for participation in MAP. Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$4,516 during the test year. Staff has reviewed these expenses and has recalculated the annual expense by the disallowance of the cost related to the new Well #4 and adding the omitted monitoring requirements for lead & copper, Disinfection/Disinfection By-Product ("D/DBP"), and arsenic sampling for the POU program. Annual D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process. The Company manually chlorinates its sources and therefore, is required to monitor for D/DBP. Table A shows Staff's adjusted annual monitoring expense estimate of \$1,312 with participation in the MAP.

Table A. Water Testing Cost

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests	Annual Cost
Total coliform – monthly	\$30	12	\$360
Inorganics – Priority Pollutants	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP
Phase II and V:			
Nitrate – annual	MAP	MAP	MAP
Nitrite – once per period	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP
MAP – IOCs, SOCs, & VOCs	MAP	MAP	\$718
Lead & Copper – per 3 years	\$45	5	\$75
D/DBP:			
TTHM/HH5 – per 3 years	\$326	1	\$109
Arsenic – POU Program	\$25	2	\$50
Total			\$1,312

Note: ADEQ - MAP invoice for the 2007 Calendar Year is \$717.74

Staff recommends its annual water testing expense of \$1,312 be used for purposes of this application.

Arsenic

The Company reported its arsenic levels from its Well #1, #2, #3, and #4 at 24 parts per billion (“ppb”), 20 ppb, 14 ppb and 27 ppb, respectively. Based on these arsenic levels and as indicated in the Point-of-Use Treatment Section of this report, the Company has implemented a point-of-use treatment device program to meet the new arsenic standard of 10 ppb.

F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

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

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

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

H. DEPRECIATION RATES

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

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B and it is recommended that the Company use depreciation rates by individual NARUC category on a going-forward basis.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33

308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
320.3	Point-of-Use Treatment Devices	10	10.00
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

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

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company did not request changes to its total service line and meter installation charges. However, 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, Staff recommends approval of the charges as shown in Table C below, with separate installation charges for the service line and meter installations.

Table C. Service Line and Meter Installation Charges

Meter Size	Service Line Charges	Meter Installation Charges	Total Charges (Equal to current charges)
5/8 x 3/4-inch	\$305	\$70	\$375
3/4-inch	\$305	\$130	\$435
1-inch	\$355	\$155	\$510
1-1/2-inch	\$380	\$360	\$740
2-inch – Turbine	\$470	\$830	\$1,300
2-inch – Compound	\$470	\$1,460	\$1,930
3-inch – Turbine	\$595	\$1,260	\$1,855
3-inch – Compound	\$595	\$1,975	\$2,570
4-inch – Turbine	\$880	\$1,990	\$2,870
4-inch – Compound	\$880	\$2,795	\$3,675
6-inch – Turbine	\$1,330	\$4,045	\$5,375
6-inch – Compound	\$1,330	\$5,640	\$6,970

2. Curtailement Tariff

In the course of this rate proceeding, it was discovered that the Company did not have an approved curtailment tariff. However, on January 15, 2008, the Company submitted a curtailment tariff under Docket No. W-02096A-08-0033. This tariff was reviewed and certificated by Staff on January 17, 2008 and will become effective on February 14, 2008.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff that became effective on June 9, 2000.

4. Point-of-Use Treatment Device Tariff

The Commission has recently approved the implementation of a new POU Treatment Device Tariff. Since the Company has implemented a POU treatment program, a POU Tariff should be required for this water system. Therefore, Staff recommends that the attached Point-of-Use Treatment Device Tariff in Exhibit POU be approved in this proceeding.

EXHIBIT POU

Company: Verde Lee Water Company, Inc.

Decision No.: _____

Phone: 928-428-3190

Effective Date: _____

POINT-OF-USE TREATMENT DEVICE TARIFF

PURPOSE:

The purpose of this tariff is to enable **Verde Lee Water Company, Inc.** ("Company") to ensure its compliance with the requirements of the Arizona Department of Environmental Quality ("ADEQ") for Point-of-Use ("POU") treatment. POU treatment is to be installed on the customer's premises, maintained, and tested pursuant to the provision of the Arizona Administrative Code ("A.A.C.") R18-4-222 and ADEQ's Arizona Point-of-Use Compliance Program Guidance ("Guidance"). A POU treatment device will treat only the water intended for direct consumption, typically installed at a single tap such as the kitchen sink.

REQUIREMENTS:

The requirements to be in compliance with the Rules of the Arizona Corporation Commission ("Commission") and the ADEQ, specifically A.A.C. R14-2-407, R14-2-410, R18-4-222 and the Guidance that governs this tariff are as follows:

1. The Company shall purchase and install the POU treatment device.
2. Subject to the provisions of A.A.C. R18-4-222 and the Guidance, the installation of the POU treatment device will be a condition of service.
3. The installation of the POU treatment device will be arranged to be installed at a time convenient to the customer and the Company.
4. The customer must permit the Company or its agents to enter the home to maintain the system in good working order, including, but not limited to, periodic replacement of filters, water sampling, and replacement of the system from time to time.
5. The POU treatment devices shall be the property of the Company.
6. Subject to the provisions of A.A.C. R14-2-407 and 410, and in accordance with Paragraphs 1 and 4 of this tariff, the Company may terminate service or may deny service to a customer who fails to install a POU treatment device or to permit the servicing and testing of the POU treatment device as required by this tariff.
7. The Company shall give any customer who is required to install a POU treatment device written notice of said requirement. The customer shall be given sixty (60)

Company: Verde Lee Water Company, Inc.

Decision No.: _____

Phone: 928-428-3190

Effective Date: _____

- days from the time such written notice is received in which to comply with this notice. If A.A.C. R14-2-410.B.1. is **not** applicable and the customer can show good cause as to why the device cannot be installed within sixty (60) days, the Company may allow the customer an additional sixty (60) days to have the device installed.
8. Testing of the POU treatment device shall be in conformance with the requirements of A.A.C. R18-4-222 and the Guidance.
 9. Consistent with the provisions of A.C.C. R14-2-407.B.2 and 3, each customer shall be responsible for safeguarding all Company property installed on the customer's premises for the purpose of supplying clean water to that customer. Each customer shall exercise all reasonable care to prevent loss or damage to Company property, excluding ordinary wear and tear. The customer shall be responsible for loss of or damage to Company property on the customer's premises arising from neglect, carelessness, or misuse and shall reimburse the Company for the cost of necessary repairs or replacements.
 10. Pursuant to A.C.C. R14-2-407.B.5, each customer shall be responsible for notifying the Company of any failure identified in the Company's POU treatment device and system.

Attachment-AAC: Arizona Administrative Codes (4 pages)

Arizona Administrative Codes**R14-2-407. Provision of service**

- A. Utility responsibility.** Each utility shall be responsible for providing potable water to the customer's point of delivery.
- B. Customer responsibility**
1. Each customer shall be responsible for maintaining all facilities on the customer's side of the point of delivery in a safe and efficient manner and in accordance with the rules of the state Department of Health.
 2. Each customer shall be responsible for safeguarding all utility property installed in or on the customer's premises for the purpose of supplying water to that customer.
 3. Each customer shall exercise all reasonable care to prevent loss or damage to utility property, excluding ordinary wear and tear. The customer shall be responsible for loss of or damage to utility property on the customer's premises arising from neglect, carelessness, or misuse and shall reimburse the utility for the cost of necessary repairs or replacements.
 4. Each customer shall be responsible for payment for any equipment damage resulting from unauthorized breaking of seals, interfering, tampering or bypassing the utility meter.
 5. Each customer shall be responsible for notifying the utility of any failure identified in the utility's equipment.
 6. Water furnished by the utility shall be used only on the customer's premises and shall not be resold to any other person. During critical water conditions, as determined by the Commission, the customer shall use water only for those purposes specified by the Commission. Disregard for this rule shall be sufficient cause for refusal or discontinuance of service.
- C. Continuity of service.** Each utility shall make reasonable efforts to supply a satisfactory and continuous level of service. However, no utility shall be responsible for any damage or claim of damage attributable to any interruption or discontinuation of service resulting from:
1. Any cause against which the utility could not have reasonably foreseen or made provision for, i.e., force majeure
 2. Intentional service interruptions to make repairs or perform routine maintenance
 3. Curtailment.
- D. Service interruptions**
1. Each utility shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.
 2. Each utility shall make reasonable provisions to meet emergencies resulting from failure of service, and each utility shall issue instructions to its employees covering procedures to be followed in the event of emergency in order to prevent or mitigate interruption or impairment of service.
 3. In the event of a national emergency or local disaster resulting in disruption of normal service, the utility may, in the public interest, interrupt service to other customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.
 4. When a utility plans to interrupt service for more than 4 hours to perform necessary repairs or maintenance, the utility shall attempt to inform affected customers at least 24 hours in advance of the scheduled date and estimated duration of the service interruption. Such repairs shall be

completed in the shortest possible time to minimize the inconvenience to the customers of the utility.

5. The Commission shall be notified of interruptions in service affecting the entire system or any major division thereof. The interruption of service and cause shall be reported within 4 hours after the responsible representative of the utility becomes aware of said interruption by telephone to the Commission and followed by a written report to the Commission.
- E. Minimum delivery pressure.** Each utility shall maintain a minimum standard delivery pressure of 20 pounds per square inch gauge (PSIG) at the customer's meter or point of delivery.
- F. Construction standards.** Each utility shall construct all facilities in accordance with the guidelines established by the state Department of Health Services.

R14-2-410. Termination of service

- A. Nonpermissible reasons to disconnect service.** A utility may not disconnect service for any of the reasons stated below:
1. Delinquency in payment for services rendered to a prior customer at the premises where service is being provided, except in the instance where the prior customer continues to reside on the premises.
 2. Failure of the customer to pay for services or equipment which is not regulated by the Commission.
 3. Nonpayment of a bill related to another class of service.
 4. Failure to pay for a bill to correct a previous underbilling due to an inaccurate meter or meter failure if the customer agrees to pay over a reasonable period of time.
- B. Termination of service without notice**
1. Utility service may be disconnected without advance written notice under the following conditions:
 - a. The existence of an obvious hazard to the safety or health of the consumer or the general population.
 - b. The utility has evidence of meter tampering or fraud.
 - c. Unauthorized resale or use of utility services.
 - d. Failure of a customer to comply with the curtailment procedures imposed by a utility during supply shortages.
 2. The utility shall not be required to restore service until the conditions which resulted in the termination have been corrected to the satisfaction of the utility.
 3. Each utility shall maintain a record of all terminations of service without notice. This record shall be maintained for a minimum of 1 year and shall be available for inspection by the Commission.
- C. Termination of service with notice**
1. A utility may disconnect service to any customer for any reason stated below provided the utility has met the notice requirements established by the Commission:
 - a. Customer violation of any of the utility's tariffs filed with the Commission and/or violation of the Commission's rules and regulations.
 - b. Failure of the customer to pay a delinquent bill for utility service.
 - c. Failure to meet or maintain the utility's credit and deposit requirements.
 - d. Failure of the customer to provide the utility reasonable access to its equipment and property.
 - e. Customer breach of a written contract for service between the utility and customer.

- f. When necessary for the utility to comply with an order of any governmental agency having such jurisdiction.
2. Each utility shall maintain a record of all terminations of service with notice. This record shall be maintained for 1 year and be available for Commission inspection.

D. Termination notice requirements

1. No utility shall terminate service to any of its customers without providing advance written notice to the customer of the utility's intent to disconnect service, except under those conditions specified where advance written notice is not required.
2. Such advance written notice shall contain, at a minimum, the following information:
 - a. The name of the person whose service is to be terminated and the address where service is being rendered.
 - b. The Commission rule or regulation that was violated and explanation thereof or the amount of the bill which the customer has failed to pay in accordance with the payment policy of the utility, if applicable.
 - c. The date on or after which service may be terminated.
 - d. A statement advising the customer to contact the utility at a specific address or phone number for information regarding any deferred payment or other procedures which the utility may offer or to work out some other mutually agreeable solution to avoid termination of the customer's service.
 - e. A statement advising the customer that the utility's stated reason for the termination of services may be disputed by contacting the utility at a specific address or phone number, advising the utility of the dispute and making arrangements to discuss the cause for termination with a responsible employee of the utility in advance of the scheduled date of termination. The responsible employee shall be empowered to resolve the dispute and the utility shall retain the option to terminate service.

E. Timing of terminations with notice

1. Each utility shall be required to give at least 10 days advance written notice prior to the termination date.
2. Such notice shall be considered to be given to the customer when a copy thereof is left with the customer or posted first class in the United States mail, addressed to the customer's last known address.
3. If after the period of time allowed by the notice has elapsed and the delinquent account has not been paid nor arrangements made with the utility for the payment thereof or in the case of a violation of the utility's rules the customer has not satisfied the utility that such violation has ceased, the utility may then terminate service on or after the day specified in the notice without giving further notice.
4. Service may only be disconnected in conjunction with a personal visit to the premises by an authorized representative of the utility.
5. The utility shall have the right (but not the obligation) to remove any or all of its property installed on the customer's premises upon the termination of service.

F. Landlord/tenant rule. In situations where service is rendered at an address different from the mailing address of the bill or where the utility knows that a landlord/tenant relationship exists and that the landlord is the customer of the utility, and where the landlord as a customer would otherwise be subject to disconnection of service, the utility may not disconnect service until the following actions have been taken:

1. Where it is feasible to so provide service, the utility, after providing notice as required in these rules, shall offer the occupant the opportunity to subscribe for service in his or her own name. If the occupant then declines to so subscribe, the utility may disconnect service pursuant to the rules.
2. A utility shall not attempt to recover from a tenant or condition service to a tenant with the payment of any outstanding bills or other charges due upon the outstanding account of the landlord.

R18-4-222. Use of Point-of-Entry or Point-of-Use Treatment Devices

- A. A public water system may use a point-of-use treatment device to achieve compliance with a MCL, provided that the point-of-use treatment device meets the requirements of 42 U.S.C. 300g-1(b)(4)(E)(ii) (2001), and the requirements listed under subsections (B)(1) through (B)(6).
- B. A public water system may use a point-of-entry treatment device to achieve compliance with a MCL if the public water system meets all of the following requirements:
 1. The public water system develops a monitoring plan for the treatment device and obtains the Department's written approval of the monitoring plan before a point-of-entry treatment device is installed. The monitoring plan shall provide reasonable assurance that the treatment device provides health protection equivalent to that provided by central water treatment.
 2. The design of the point-of-entry treatment device is approved, in writing, by the Department.
 3. The public water system operates and maintains the point-of-entry treatment device.
 4. The microbiological safety of water that is treated by a point-of-entry treatment device is maintained at all times. The design and application of the treatment device shall consider the tendency for increase in heterotrophic bacteria concentrations in water treated with activated carbon. The Department may require frequent backwashing, post-contactor disinfection, or HPC monitoring to ensure that the microbiological safety of water is not compromised.
 5. The public water system installs a sufficient number of point-of-entry treatment devices to buildings connected to the public water system so that every person served by the public water system is protected. Every building connected to the public water system shall be subject to treatment and monitoring.
 6. The rights and responsibilities of persons served by the public water system convey with title upon the sale of property.
- C. A public water system that uses a point-of-entry treatment device or a point-of-use treatment device as a condition for receiving a variance or an exemption shall meet the requirements listed under subsection (B).

Arizona Point-of-Use Compliance Program Guidance

<http://www.azdeq.gov/environ/water/download/pointofuse.pdf>